Sector Investment Programs in Africa
Issues and Experience

Stephen P. Jones
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Sector Investment Programs in Africa

Issues and Experience

Stephen P. Jones

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Library of Congress Cataloging-in-Publication Data

Jones, Stephen P., 1962-
   Sector investment programs in Africa : issues and experiences / Stephen P. Jones.
   p. cm. — (World Bank technical paper ; no. 374)
   Includes bibliographical references (p.).
HC800.Z9P834 1998
332.67754—dc21
97-28984
CIP
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Foreword

Sector Investment Programs (SIPs) play a prominent role in the management of development assistance and investment lending in Africa. They provide a vehicle for implementing the Broad Sector Approach to investment lending, which has been adopted by several major donors. If the approach is successful, it can solve a number of problems that have severely hampered much investment lending in Sub-Saharan Africa. SIPs may also help strengthen the management of public finances.

But the high expectations attached to SIPs may cause disappointment, especially since implementation experience is still very limited. SIPs require significant changes to both government and donor practice, and experience must be analyzed and disseminated as it accumulates.

This paper was commissioned by the United Kingdom Overseas Development Administration for the SPA Donors' Meeting in Paris in December 1996. Having benefited from exchanges of views with the World Bank, the study is being published as part of the World Bank Technical Paper Series.

Kevin Cleaver
Technical Director
Africa Region
Acknowledgments

The principal author of this study is Stephen Jones, Senior Economist, Oxford Policy Management. The other members of the Oxford Policy Management team were Jonathan Beynon, Alex Duncan, Roger Hay, Andrew Lawson, Martin Rimmer and Bevan Waide. The team was assisted by Hagai Bishanga, Jolly Kamwanga, Bridget Walker, and Denis Wood. The primary contact at the World Bank was Kevin Cleaver, to whom the team is especially grateful.

The Oxford Policy Management team wishes to express its gratitude for the excellent cooperation received from the Ministry of Health in Mozambique, the Ministries of Health and of Agriculture, Fisheries and Food in Zambia, and the Ministry of Works in Tanzania, as well as other government ministries, NGOs, and representatives of the private sector and donor agencies in each of the case study countries.

Particular encouragement and advice was provided by Mick Foster at ODA. Also at ODA, assistance was received from Dino Merotto, Jane Pepperall, David Smith, Sarah Todd and participants at a seminar where a draft version of this report was presented. At the World Bank in Washington, the team wish to thank Yaw Ansu, Mark Baird, Eugene Boostrom, Klaus Deininger, Steve Denning, Peter Harrold, Steen Jorgensen, Yitzhak Kamhi, Julie McLaughlin, Nwanze Okidegbe, Manuel Penalver-Quesada, Anandarup Ray, John Shilling, Ricardo Silveira, Bachir Souhlal, Lyn Squire, John Todd, and Stephen Weissman. In Brussels, the team thanks in particular the following staff of the Directorate General for Development (DGVIII) of the Commission of the European Communities: Maria Alves, Dominique Dellicour, Lieve Fransen, Brian Greey, Antonis Kastrissianakis, Jean-Louis Lacube, Paul Malin, Philip Mikos, Amos Tincani, and Uwe Werblow.

This is a revised version of a paper presented at the Seminar on Sector Investment Programs, SPA Donors' Meeting, Paris, December 16, 1996. This study was commissioned from Oxford Policy Management by the United Kingdom Overseas Development Administration (ODA). However, the views expressed in the study cannot be attributed to ODA or the World Bank.
Abstract

Sector Investment Programs (SIPs) represent an important initiative to address several weaknesses of development aid practice. They are one means of implementing an approach to development assistance that emphasizes agreement between donor and recipient on sector strategy, and the coordination of donor activities under the management of the recipient government. In practice, SIPS are often also a vehicle for radical institutional reforms involving major changes in the role of the state.

This study focuses on four experiences of policy and institutional reform: The Tanzania Integrated Roads project, the Zambia Health Reform Program, the Mozambique Health Sector Recovery Program and the Zambia Agricultural Sector Investment Program. It analyzes these experiences and makes recommendations to both governments and donors.
Executive Summary

Sector Investment Programs (SIPs) are an important initiative to address several weaknesses of development aid practice. They are one means of implementing an approach to development assistance that emphasizes agreement between donor and partner government on sector strategy, and the coordination of donor activities under the management of that government. A SIP is an integrated program comprising:

- a strategy for the sector;
- a government expenditure program;
- a management framework providing for common implementation procedures; and
- funding commitments from donors and recipients.

In practice, SIPs are often also a vehicle for radical institutional reforms involving major changes in the role of the state. The combination of innovative and sometimes experimental reforms, and the high level of recipient government management capacity that a SIP requires, as well as the high expectations attached to the approach, means that SIPs may involve significant risks. There has been skepticism expressed by both donors and recipient governments about whether SIPs can in fact achieve their objectives. This skepticism has been reinforced by what appears to some to be a mismatch between the objectives of national ownership which are central to the SIP concept, and what is perceived as the active promotion of the approach by the World Bank as a new approach to lending.

This review focuses on four experiences of policy and institutional reform that are either explicitly SIPs or have SIP-like features, although at least two of the programs predate the SIP concept, and only one has been explicitly designed from the start as a SIP. Some confusion has been generated in the debate over SIPs by a failure to distinguish between government programs that exhibit the features that a SIP should have, and a SIP seen as a particular model for an integrated process of World Bank loan preparation. The paper reviews the extent to which the programs exhibit the six features that define a genuine SIP: sector-wide in scope; based on a clear sector strategy; local stakeholders fully in charge; all main donors participating; common implementation arrangements; and the use of local capacity rather than technical assistance. The paper also examines whether key preconditions in terms of macroeconomic stability and institutional capacity were in place.

The review found that while macroeconomic preconditions were broadly met, institutional capacity remained weak in relation to what was required to achieve donor acceptance of common implementation arrangements. In one of the cases, it appeared that important strategy issues had not been fully resolved, which has presented later problems for the program.

In terms of the six features, progress was most limited in moving to common financial arrangements, although important progress had been made with establishing common review and reporting procedures. An important factor in the most successful cases was a high level of
commitment from a small group providing leadership within the lead sectoral ministry, supported by a group of key donors.

The main conclusion of the review is that while SIPs largely embody what is good aid practice, the scope for moving rapidly towards a full-scale SIP may be limited in many countries and sectors, and care should be taken to avoid premature attempts to implement SIPs where preconditions do not exist. To a significant degree, the objectives that SIPs are used to promote are logically and practically separable, and the case for linking them needs to be examined carefully in particular circumstances. Excessive expectations about how much local ownership can be achieved may need to be curbed, and there should be explicit recognition that any program in the context of high levels of aid dependence will involve compromise and negotiation. Even in favorable conditions the lead time to establish a SIP is likely to be long, but there are evident dangers in donor pressures to accelerate the process. Common implementation arrangements require a long process of capacity and confidence building.

An important point is that many of the key issues affecting the success of a SIP in improving sector performance require actions at a broader level than the sector. This is particularly important in relation to civil service pay and incentives that are critical for sustainable capacity building. Ministries of Finance and Planning need to be actively involved, and ideally should be leading many of the processes involved in developing a SIP.

In each of the cases examined, there appeared to be at best only partial linkages between the sector expenditure program and the broader medium- and long-term macroeconomic framework, although it is recognized that the review processes established provide an opportunity for adjusting expenditure programs over time. However, there is a need for the strategy discussions leading up to a SIP to focus explicitly on the role of the state and the implications for the prioritization of public expenditures, and for a stronger element of contingency planning. The role of donor of last resort that the World Bank expects often to play is especially important in this regard.

The main recommendations include the following.

a. The need for a selective and critical approach to the use of the SIP framework in any given situation, informed by broader sharing of experience, and recognizing the need for compromises and realism about what can be achieved.

b. A strengthening of the links between sector expenditure programs and the macroeconomic framework, including contingency planning and medium-term financial plans.
c. Establishing forms of conditionality to support SIPs that link the assistance provided to government performance (in meeting resource commitments to the sector and in adhering to the strategy and management framework agreed) in a flexible yet well-defined manner.

d. Recognition that the appropriate definition of a sector in a particular context depends on what are the most appropriate planning and expenditure management units for the government budget. In general, therefore, a sector should coincide with a ministerial program. Cross-cutting objectives (such as poverty alleviation or food security) should be taken into account in the relevant sector strategies, rather than being promoted through separate sector programs.

e. The need to strengthen mechanisms for measuring sector performance, focusing especially on the quality of service provision by government.

f. Strengthening the role and involvement of the central co-ordinating ministries (Finance and Planning), especially in encouraging greater accountability for public funds against sector performance, and in tackling problems of incentives within the civil service.

g. An emphasis on improving the management framework for technical assistance, rather than necessarily seeking to eliminate all such support.

h. The need for stakeholder consultation to be managed by government so as to inform public expenditure decisions (focusing on the role of the state and the prioritization of expenditures), and for a closer involvement at an earlier stage of those levels of government that will have responsibility for implementing the program.

i. Continuing donor initiatives (that may be independent of whether a SIP has in fact been adopted in a particular case) to co-ordinate and simplify their own procedures and activities.
1. **Introduction**

Both donors and recipients of development aid in Africa have recognized that it suffers from several common weaknesses. These include:

- a. projects or reform programs that are driven by donor agendas rather than national (or sector stakeholder) priorities, and over which recipient governments feel they have little control and to which they are not committed;

- b. the fungibility of much aid which ends up supporting activities other than those that donors intended;

- c. weak performance at the sector level despite individual project successes;

- d. weak public expenditure management, in particular in budgeting for the recurrent cost implications of donor-funded projects; and

- e. the fragmentation of government management of aid (and the strain on government’s financial and human resources) resulting from the proliferation of project implementation units, dependence on technical assistance (TA), and differing or inconsistent donor implementation and accounting procedures.

Sector Investment Programs (SIPs) are one approach to solving these problems that the World Bank in particular has been active in promoting. SIPs are also a response to the transformation of the policy environment (macroeconomic policy reform, liberalization and privatization) that has resulted from structural adjustment in many African countries. While the objectives of structural adjustment were short- or medium-term, the purpose of a SIP is to use aid more effectively to encourage economic growth, investment and improved delivery of services, especially those traditionally provided by the public sector, and to switch from balance of payments to providing broader sector-wide assistance. SIPs are often seen as a vehicle for implementing complex institutional and policy problems for which adjustment lending is not an effective instrument.

Many donor agencies in addition to the World Bank are attempting to implement the sector approach as part of a general review of aid strategies. Skepticism about the effectiveness of aid to Africa, and general cutbacks in aid budgets, has also intensified the perceived need for new approaches, while creating favorable conditions for aid rationalization. The basic principles of SIPs are recognized as being nothing new, in that they incorporate what has long been regarded as good aid practice. However, the adoption of SIPs on the scale that has been envisaged by the World Bank would represent a genuine revolution.
The objectives of the sector approach are for government to coordinate the activities of donors in support of a common strategy, and to simplify aid management procedures. These objectives are almost universally accepted. However, doubts remain about the extent to which they can in fact be achieved, and how in practice SIPs might be implemented in different circumstances. There are several major concerns, expressed officially or unofficially by both donor and recipient representatives.

a. Premature attempts to establish SIPs may prove ineffective or even counter-productive because key preconditions are not met, for example, because of weak institutional capacity or lack of consensus (including between donors) on the priorities for reform.

b. SIPs may be prone to weaknesses at the design stage that commonly affect complex aid programmes implemented by donors anxious to disburse. These may include unrealistic assumptions or overestimation of the management capacity of the recipient government.

c. There is tension between the ideal of local ownership of both the content and process and what was termed by one donor representative a "massive and rapid" initiative from the World Bank to promote the SIP model. If, as a result, aid flows become perceived as conditional on adopting the SIP approach, recipient governments may do so without a strong commitment to, or understanding of, the concept. On the other hand, where recipient ownership is strong, there may be a danger of excessively ambitious programmes which fail to meet the expectations of those involved.

d. The approach may be unrealistic in the context of the often extreme aid dependence of many African countries, and the national foreign policy or export promotion goals that are perceived to affect donor priorities.

e. Some donors fear that SIPs may lead to their marginalization from policy debates and to an excessive strengthening of the World Bank's role. There is concern that common implementation arrangements may end up in practice as being World Bank arrangements, and scepticism that common implementation arrangements will in fact lead to cost savings, rather than to convergence on the requirements of the most demanding donor.

It is clearly too early to undertake a comprehensive evaluation of the SIP experiment, or even of the individual programs. However, a large number of such programs are currently envisaged or under preparation. The importance of the issues involved for both donors and recipients makes even tentative conclusions and further contributions to the debate about SIPs valuable. This review seeks to establish what lessons for the preparation and implementation of SIPs are beginning to
emerge from experience, and to assess the extent to which actual programs have adhered to SIP principles.

The review is based on short case studies of four programs that are considered as pioneering attempts to implement the sector approach, although some of them predate the SIP concept as such.

They are:

- Tanzania Integrated Roads Project (TIRP)
- Zambia Health Reform Program (ZHRP)
- Mozambique Health Sector Recovery Program (MHSRP)
- Zambia Agricultural Sector Investment Program (ZASIP)

The study also draws on a broader review of literature and interviews with representatives of donor agencies.

**Structure of the Study**

The study is structured as follows. Chapter 2 discusses some conceptual issues, including the definition of a SIP, the key features and preconditions for a SIP, and its relation to other forms of aid. Chapter 3 provides a brief summary of the main features of the four case studies. Chapter 4 examines to what extent these programs have adhered to the six principles presented by Harrold (1995). Chapter 5 and 6 review experience at the preparation and implementation stages. In the final two chapters, conclusions and recommendations are summarized, directed both at donor agencies and recipient governments.
2. The Concept of a Sector Investment Program

SIPs and the Sector Approach

Differing terminologies between donors have contributed to some confusion about what is meant by a SIP and how the concept relates to a number of other commonly used terms. The approach followed here is to treat a SIP as a particular operational instrument for implementing the sector approach, where the latter is understood as providing aid through the government budget to support a strategy deriving from a sector-wide analysis. The presentation in Harrold (1995) is taken as defining a SIP and identifying its key features. The four case studies assess actual program experience against this blueprint.

The implication of the sector approach is that "it is the sector itself that is the project, not the goods and services that the Bank [or any other donor] finances" (Harrold 1995, p. xiv). This means that donors will be contributing towards the cost of an integrated program with no distinction between current and capital expenditure, even if (at least on a transitional basis) particular expenditures are earmarked against particular donors and separate project identities are retained.

While the articulation of the sectoral approach by different donors is broadly similar, there are some differences of terminology and emphasis. These sometimes pertain to the relative importance given to sectoral level planning (seen as including aid through both government and non-government channels) and to common implementation arrangements. Several donors use concepts of sectors in this regard that may be "cross-institutional or thematic", as well as more conventional economic definitions.

For instance DANIDA (1996) emphasizes that the objective of "sector program support" is to overcome the shortcomings of isolated projects "by ensuring that specific support components are derived from a national policy and strategy framework, and thus to increase the probability of achieving sustainability" (p.14). The main element emphasized is national ownership of development efforts, which needs to go beyond central government to local government and civil society or community participation. Common implementation arrangements are not stressed as a particular objective, although donor coordination is emphasized.

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1 One problem is the term "investment", since it is an inherent feature of the approach that is supports sector expenditure as a whole, and avoids the pitfalls of an artificial emphasis on capital as opposed to current expenditure. Issues about what should be meant by a sector are covered subsequently.

2 It is recognized that in some respects, thinking in the World Bank has moved on since the study by Harrold (1995) was prepared, but the wide circulation of this document and its clarity of presentation make this an appropriate reference point.

3 For instance DANIDA (1996) identifies environment, indigenous people and local government as possible sectors for this approach providing that the appropriate institutional framework exists to make these coherent sets of activities (p. 9).
The European Commission uses the concept of a "Sectoral Development Program" as a multiannual operational program establishing the objectives to be achieved in the sector during a given period (say five years); the measures to be taken to this end; the financial, administrative and human resources necessary for implementation; and follow-up and evaluation instruments. This approach again emphasizes the need for a sectoral perspective on policy and capacity building.

SIDA (1995) places a somewhat stronger emphasis on common implementation arrangements, setting the objective that "Swedish funds should be transferred to the ministry of finance and be integrated in the regular budget process. Procurement of goods and services should normally be undertaken by national institutions" (p.6). SIDA draws a distinction between "sector support" (the traditional form of project and capacity building aid within the framework of a sector level agreement) and "sector program support". The latter should ideally focus on sector policies and the capacity of key institutions, be based on a coherent national policy and documents produced by the recipient government, be explicitly harmonized with support from other donors, be disbursed through the recipient government's budget, and should emphasize capacity building and coordination of technical assistance to avoid duplication.

**Features of a SIP**

A SIP attempts to bring all donor support to a sector (however defined) within a common management framework around a government expenditure program. The elements of a SIP are therefore:

- a strategy for the sector;
- a government expenditure program;
- a management framework which establishes a basis for common implementation procedures; and
- funding commitments from government and donors.

One approach is to define as a SIP any program of aid to a sector which has these characteristics. As a result, a number of government programs (most notably the Zambian health reforms) have been retrospectively designated SIPS by the World Bank. It is important to distinguish these cases from those (such as the Zambian ASIP) which have been explicitly designed from the start as SIPS, in the sense of involving an integrated set of activities around a World Bank loan (including systematic stakeholder consultation, preparation of a strategy document, and appraisal of the package comprising the strategy, expenditure plans and management framework). In this case, the preparation process for the sector program is identical to that for the World Bank loan that supports it. Failure to distinguish these two cases is a source of confusion in discussions about the strengths and weaknesses of SIPS, especially in relation to preconditions for a SIP. If the former approach is used, then a SIP is almost by definition desirable. However it does not follow from this that it is
necessarily desirable (or the most effective way in a particular case to overcome the underlying problems) to build such an integrated set of activities around a World Bank loan.

A further distinction is between the SIP considered as a management framework (and as a World Bank loan), and the often radical policy and institutional reforms with which SIPs are associated. It has been argued that the term should only be applied to the common implementation arrangements alone, to avoid this confusion. The financing role of the World Bank in a SIP is usually conceived as being the donor of last resort to fund the residual elements of the expenditure program that other donors have not picked up, through a medium-term, regularly disbursing loan or credit facility.

The World Bank has identified six "essential features" that define a genuine SIP (Harrold, 1995, pp. xi-xii):

- it is "sector-wide" in scope and covers both current and capital expenditures;
- it is based on a clear sector strategy and policy framework;
- local stakeholders (meaning government, direct beneficiaries and private sector representatives) are fully in charge;
- all main donors sign on to the approach and participate in its financing;
- implementation arrangements should to the extent possible be common to all donors; and
- local capacity, rather than long-term technical assistance, should be relied upon as much as possible.

**The Preconditions for SIPs**

The key preconditions identified by Harrold (1995) for a SIP relate first, to the macroeconomic framework and second, to government capacity.

Macroeconomic conditions must be broadly stable (in terms of the level of inflation, budgetary and balance of payments conditions, and avoidance of severe exchange or interest rate distortions). There needs also to be a broadly adequate intersectoral allocation of expenditures (and adequate revenue effort) to achieve development objectives, ideally as the result of a Public Expenditure Review (PER).

These preconditions are both stringent (in relation to past experience) and potentially difficult to verify objectively, especially since they may hold temporarily but not persist. Concern that there may be temptations to embark on SIPs prematurely arise from the danger of "fads" about which Harrold (1995) warns, and internal donor pressures such as the World Bank's "approval culture"
that is criticized in the Wapenhans Report (World Bank, 1992, p.iii). There are two main dangers from embarking on a SIP prematurely. First, it may set up and then disappoint expectations raised among government, stakeholders and donors. Second, it may use time and resources on attempting to establish administrative arrangements and processes that cannot yet be realized. Third, it may divert attention away from the government budget into open-ended arguments about policy that might be both time-consuming and inconclusive.

The preconditions set out in Harrold (1995) should be thought of as the preconditions for disbursement to begin from a loan or credit supporting a SIP as lender of last resort, rather than as the preconditions for preparation of a SIP as a Bank loan to begin (much less for a government to begin moving towards a coherent sector expenditure program). The typical case for most countries and most sectors is that these preconditions are only partially fulfilled. A key operational question will therefore be how donors and government should then proceed, including at what point (if at all) a formal SIP preparation process should begin. In general terms, the main preconditions for starting moves towards a SIP objective are commitments from both government and donors (both at the policy and the capacity building level) that hold out some prospect of success, and macroeconomic stability.

Several other observations can be made about preconditions. First, establishing a SIP for particular sectors presupposes that there are other sectors where the preconditions are not met, or that only partial success in moving to a common financial pool can be expected. If this were not the case, then it might be argued that general budgetary support to Treasury without a specific sector focus would be a more appropriate form of aid. Second, if the macroeconomic and sector strategy preconditions set out above do not hold, the rationale for continuing to provide project aid to government should be questioned, since the failure of these conditions implies at least some level of fungibility, although fungibility is never complete.

In each of the case studies, the conditions of liberalization and macroeconomic stability identified by Harrold (1995) were broadly in place by the time of appraisal. The main possible exception is the Zambia Agricultural Sector Investment Program (ZASIP), where significant macroeconomic and governance problems led to the suspension of program aid shortly after implementation, although the sector programs for both health and agriculture have been designed to be protected from disruption at the macroeconomic level. In relation to the fiscal framework, the issue is less clear. In both Zambia and Tanzania, major problems relating to the control of public expenditure have occurred during the life of the programs as discussed more fully below in relation to implementation.

In all the cases, leadership from government was regarded as strong but as described below focused on a small group of key individuals, which entails potential risks for the future in the absence of a fully effective civil service to provide stability. Significant problems relating to strategy occurred only with regard to ZASIP.
The major problem areas relate to institutional capacity. It was recognized in each of the cases that government financial and contract management capacity was weak, and capacity strengthening was an explicit objective during preparation. However, in no case did donors consider that sufficient progress had been made to rely from an early stage on government financial procedures. The failure to complete reform of the Zambian Ministry of Agriculture, Fisheries and Food was a particular cause of donor dissatisfaction in relation to ZASIP.

The most fundamental point may be that in none of the cases had a thoroughgoing civil service reform occurred that fully addressed issues of incentives and pay. It was often emphasized that the key issue for capacity building is not technical training (especially since considerable resources have been spent on this already and most staff are highly trained), but rather improving incentives, accountability and access to resources for staff. As emphasized in the MHSRP case study, the financial implications of addressing the central problem of low pay may have significant implications for the future role of the state.

Sector Investment Programs, Adjustment and Conditionality

It is important to distinguish between SIPs and sector adjustment programs. Sector adjustment programs use quick disbursing loans, credits or grants (usually in two or three large tranches) to support a program of sectoral policy reforms. They provide general balance of payments support (or budget support in terms of the use of counterpart funds) which is not usually linked to particular imports or government purchases. Disbursement is conditional on implementing certain specified policy measures or institutional reforms affecting the sector. Such forms of policy based lending have been a major instrument used by the World Bank in support of economic reform (partially replacing more general economy-wide structural adjustment programs). However, the conflict between short-term balance of payments support objectives and the medium- to long-term nature of the measures required means that this instrument will be inappropriate for deeper policy and institutional reforms once the simplest policy weaknesses have been addressed. The macro-economic and policy preconditions for a SIP imply that the main objectives of structural adjustment have been achieved at the macroeconomic level (and arguably at the sector level too).\footnote{While current World Bank lending instruments have been adapted to the lender of last resort role, there are recognized to be potential operational problems, especially relating to restrictions on financing recurrent costs.}

By contrast, the lending operations (SILs) supporting SIPs are traditional project loans in form. While the ideal SIP would involve payment into a common pool,\footnote{While current World Bank lending instruments have been adapted to the lender of last resort role, there are recognized to be potential operational problems, especially relating to restrictions on financing recurrent costs.} in practice SILs are designed to disburse regularly (for instance quarterly) over five years against (nominally) specific items of government expenditure within the agreed expenditure program. The lender of last resort role has three main implications. First, these items will be those not picked up by other donors (and hence possibly lower priority or at least less fashionable elements of the program). Second, there must be
flexibility built in to adjust both what is nominally financed from year to year, and the level of financing, to take account of the activities of other donors. Third, there needs to be agreement on what is included in or excluded from the expenditure program, its size, and how it is rolled forward or modified.

An important issue is what the sector approach implies for policy conditionality. The high level of donor co-ordination and the structuring around a single expenditure program might suggest that the adoption of SIPs will strengthen donor leverage over policy. However, if as Harrold (1995, p. 20) states "the sector approach puts the entire sector support on the line", the credibility of donor threats to cut off all sector support, even if related to major failures to meet conditionality, will be limited, although donors will retain the option of returning to earmarked assistance if agreements are not respected.
3. Overview of the Case Studies

As noted, the case studies prepared as background for this paper are limited in both scope and depth. Sources were restricted largely to interviews with donor and government representatives, and a review of documentation. The limited number of cases (four) makes it difficult to determine the extent to which observed divergences in experience might systematically reflect either the characteristics of particular sectors or countries. The case studies are selected from those programs that have made most progress, and are therefore not representative of experience of all SIP preparation attempts. Only ZASIP has been explicitly designed from the start as a SIP, rather than the concept being applied retrospectively to an ongoing program.

All conclusions drawn from the case studies are therefore presented to stimulate debate rather than being regarded as definitive. In several cases there were divergences in views among stakeholders about important issues. These have usually been reported without attempting to evaluate which view is correct.

While the four programs exhibited similarities in their objectives and approaches, they also varied in many respects in terms of the preparation process, the extent to which they embodied all the features of a SIP, and how successful they have been so far in achieving their objectives. The main characteristics of the programs are summarized below.

*Tanzania Integrated Roads Project (TIRP)*

The first phase of TIRP (whose genesis was in the late 1980s, becoming effective in 1991) predates the SIP concept. However, this experience was influential in stimulating the development. Harrold (1995) stresses the importance of a Sectoral Institutional Assessment (SIA) in appraising capacity, as well as in examining broader issues about institutional arrangements for the sector. Three main elements of government capacity are identified as:

- willingness and ability of the government to take a leadership role in the process;
- adequate capacity in project management; and
- "reasonably well-developed and articulated strategies for the sector" (Harrold, 1995, p.22).

of the SIP concept and the design of similar programs for the roads sector in other countries. The key features are:

- agreement between donors and government on priorities for road rehabilitation within a single planning framework;
- the establishment of a Roads Fund to provide a mechanism for funding road maintenance, and a Central Roads Board to provide for stakeholder involvement;
• capacity building measures aimed at strengthening the Ministry of Works and regional engineers' offices to improve contract management, accounting, planning, budgeting and monitoring;
• parallel funding in the sense that donors maintain individual but co-ordinated projects for specific regions or roads schemes with only limited common procedures, based on direct contracting by donors; and
• the administration of the IDA credit (and also funds from AFDC) through Ministry of Works procedures.

The TIRP has been markedly successful in the following respects:

• supporting the rehabilitation of much of Tanzania's road network, with a significant positive economic and social impact;
• establishing the principle of contracting out road building and maintenance to the private sector (supporting expansion of the construction industry), rather than having this work undertaken by government directly; and
• establishing what is at least potentially a sustainable system for funding the recurrent costs of the road network.

The main problem areas have been:

• dissatisfaction from the World Bank with contract management by the Ministry of Works, which is threatening the existing institutional arrangements and the prospects of further moves to common implementation arrangements involving other donors; and
• the recent inability of government, because of macroeconomic difficulties, to maintain the Road Fund at the level agreed under the IRP.

Zambia Health Reform Program (ZHRP)

This appears to be the program that comes closest to the SIP ideal in most respects, although the key features of the reform program itself predate and may be seen as quite independent of the SIP concept. It has developed from radical government reform initiatives for the health sector developed from 1991, with a group of donors being closely involved in supporting this process. The program is backed by the World Bank's Zambia Health Sector Support Project, which became effective in 1995, providing lender of last resort support to the Ministry of Health's expenditure program. The important features are:

• the establishment of a basket arrangement for funding health services at district level, though to date this handles less than 10 percent of aid to the sector; and
initiatives from government to bring aid within a common framework of objectives and procedures, although separate project identities largely remain.

The program has been successful in:

- securing donor and government support for implementing a far-reaching institutional and policy reform program that has decentralized decision-making, strengthened accountability, and clarified priorities for the state's provision of health services, despite continuing macroeconomic difficulties; and
- creating an effective framework for government to coordinate donors, while making progress towards common implementation arrangements.

The major challenges may be viewed as the result of the successes of the program:

- the need to extend policy coordination to other government agencies to improve health outcomes;
- the need to ensure that the level of provision remains sustainable in the longer term; and
- the fact that radically new institutional arrangements are still in the process of being established, posing continuing challenges for management and, in particular, for financial control.

*Mozambique Health Sector Recovery Program (MHSRP)*

The MHSRP has many similarities to the ZHSRP in terms of its objectives and approach, but it is at an earlier stage of implementation, preparation having been assisted by the restructuring of an existing World Bank program. It is also, at least in its current stages, rather less radical than the Zambian program in terms of the institutional reforms envisaged. The background was the near-complete collapse of government health services outside the major urban centers during the civil war, and the involvement of a large number of agencies providing emergency health care and relief. The challenge for MHSRP has been to re-establish services to provide nationwide coverage while bringing donor operations within a common framework.

The main achievements have been:

- the development of a plan for rehabilitating health facilities and service provision, around a sector policy worked out by government in close co-operation with key donors; and
- establishing a framework for donor co-operation and for common implementation procedures, including, for example, a common technical assistance pool.
The main issues for the future success of the program are:

- the high degree of dependence on donor funding that continues to raise doubts about the sustainability of service provision, especially given the particularly acute problems of pay and incentives for health staff; and
- whether initial implementation problems can be overcome in the context of current institutional capacity.

Zambia Agricultural Sector Investment Program (ZASIP)

ZASIP is, in some respects, the most ambitious of the programs, and is the only one that has been explicitly designed as a SIP from the start with a strong emphasis on stakeholder consultation and involvement. The IDA loan supporting the program became effective in December 1995, though no new resources have yet been committed by other donors. The main achievements to date have been:

- developing a framework for integrating donor projects within the government budget covering the whole range of the ministry's activities;
- establishing a decentralized process of activity-based planning and budgeting involving a broad range of stakeholders; and
- progress in some aspects of developing common implementation procedures.

Problems have been encountered at the following levels (with the 1996 election clearly being a significant factor):

- slow progress in implementing organizational reforms that donors have seen as a precondition for the success of the program; and
- perceptions by donors that government actions are not fully consistent with what they consider to be key elements of sector policy, reflecting continued ambiguity about the appropriate role of the state.
4. Six Basic Features of Sector Investment Programs

This section reviews the extent to which the case study SIPs have exhibited the features set out by Harrold (1995). It also discusses broader issues around each of the principles these features embody.

i. *A SIP should be sector-wide in scope, covering all relevant policies, programs and projects within the sector*

Harrold (1995, p.8) defines the appropriate scope for a SIP as covering "all expenditure programs and policies in an area where fragmentation of planning and implementation would seriously reduce efficiency or output," stressing that the appropriate coverage needs to be decided pragmatically, and that it may be possible to build up progressively from sub-sector programs to achieve sector-wide coverage. As examples, he argues that it was appropriate in Tanzania to devise three separate programs to cover distinct expenditure areas of the transport sector, but that it would not in general be appropriate to devise an education sector program that covered only primary and secondary education. The key issues are first whether the coverage of the strategy is appropriate, and second whether the coverage of government and donor expenditure included in the program is such as to prevent intersectoral fungibility.

In each of the case studies, the program was regarded as having effectively achieved full coverage of government expenditure in the sector identified (in the sense of being included within the framework). In each case (except TIRP) this coincided with a ministry budget. The appropriate coverage and sector definition does not seem to have been problematic. One point raised in relation to the health programs in Zambia and Mozambique was that these have been focused on rehabilitating infrastructure and improving health services. In both cases, while this was regarded by donors as appropriate as a starting point, improving health outcomes requires cooperation across a range of institutions to address environmental, social and educational factors which are the main determinants of health outcomes. Donors and government saw this as something that needed to be strengthened in future sector planning.

As implied by Harrold, it is necessary to balance the objective of avoiding fragmentation in planning and expenditure management against that of ensuring that the program is institutionally and politically feasible. In general, the more ministries and other institutions (including non-statutory bodies and donors) need to be coordinated, and the broader the range of issues that need to be addressed by the sector strategy, the more difficult it will be to manage the process. The appropriate coverage of a SIP is therefore closely linked to the structure of the government budget and the allocation of expenditure responsibilities between ministries, other public agencies, and different levels of government. If the budget is not itself organized around coherent sets of activities, then SIPs are likely to face practical difficulties.
An important objective of much public sector reform in Africa, which has been incorporated in all the SIPs examined for this study, is the decentralization of decision-making, supported by mechanisms to strengthen accountability. To the extent that this implies that genuine choices about the level and composition of public expenditure are made at the district or provincial level, this could bring back the problem of fungibility.  

It is therefore likely to be a precondition for a sector program to be fully effective that the government budget (and the ministerial structure) is based around what are the genuinely appropriate planning and expenditure management units. Once this has been done, a sector program becomes, in effect, a ministerial program. In the absence of this precondition, potentially difficult problems of inter-ministerial coordination will be faced.

This suggests that one should be wary of attempts to treat as potential candidates for SIPs what are really cross-cutting issues inherently involving many different expenditure areas. Common examples may include environmental protection, rural development, food security, poverty alleviation, gender, or private sector support. Donors commonly use the sector terminology to refer to their own coordinated programs to support their objectives in these areas. The principles of public finance that are inherent in the SIP concept can be applied at all levels (including for example the expenditure programs of a ministry charged with specific environmental protection duties). However, such issues will usually be treated best as objectives to be addressed in each sectoral strategy rather than as candidates in their own right. While it may make sense for a donor agency with limited and quite specific objectives to organize its programs around sector definitions, of this type, it is not necessary (or normally desirable) for the recipient government to use the same sectoral classification.

There is a danger, however, that a sectoral focus may squeeze out important cross-sectoral perspectives, especially in the absence of strong and effective government policy commitments in these areas. These perspectives must be taken into account in the development of a sector strategy, but may not necessarily be covered within the coordinated expenditure program of the SIP. This applies particularly to what are sometimes termed "out of sector conditions". For example, a precondition for the success of agricultural policy reform in generating private investments and growth will often be investment in rural road infrastructure and maintenance. This does not mean that road investment should form part of an agricultural sector investment program or be administered within the Ministry of Agriculture budget. It does, however, require arrangements to ensure the roads sector strategy is closely coordinated with the agriculture sector strategy.

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6 For instance, the decentralization inherent in Ethiopia's new federal constitution is seen as posing difficulties for the design of sector programs.
The probable and potential SIPs that the World Bank envisages almost all fall into one of the following categories.  

- health: usually concentrating on health service provision, but in some cases with a broader scope, for instance covering nutrition or population;  
- education: several of these programs are restricted to particular sub-sectors, including primary, primary and secondary, vocational, or tertiary;  
- agriculture: in several cases this is more explicitly restricted to agricultural services;  
- water;  
- transport: usually focusing on roads;  
- energy: usually focusing on electricity; and  
- environment.

Sector strategies also need to identify and take account of the role played by private investment and service providers, and to include adequate consultation and information exchange mechanisms, as part of the definition of the role of the state in the sector. Some donors are channeling an increasing share of aid through NGOs or other routes rather than the government budget. An example is USAID's assistance to the health sector in Mozambique, which therefore falls outside the sector program. This trend mainly derives from donor dissatisfaction with the effectiveness or efficiency of government programs in reaching what are usually regarded as the ultimate beneficiaries of development aid, the poor. This reflects either disagreement between donors and government on objectives, or a judgment about what the role of the state should be in meeting a particular objective. Non-government aid is also used by donors as a way of strengthening "civil society" with other political and social, as well as economic, objectives in mind.

One benefit of the sector approach may be that the process of policy dialogue, capacity strengthening, and expenditure commitment from government should overcome some of the concerns that have led donors to bypass the government budget. Two points may be made here.

a. First, non-government assistance needs to be co-ordinated with a sector program in those cases where it affects government expenditure either directly or indirectly. An example is where donors are funding service provision through NGOs that would otherwise increase demands on services financed by government. In the health and education sectors, in particular, private (for-profit and charitable) service providers both operate in parallel with the state systems and are actual or potential providers of services financed by government.

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7 The main exceptions in the list in Harrold (1995, Table 5) are the Tanzania Urban infrastructure and Tanzania Human Resources programs. The latter has subsequently been abandoned and has been replaced by separate health and education programs.
b. Second, government must be able to regulate the activities of foreign agencies at least to ensure a broad agreement on goals and instruments, and, where necessary to provide an adequate framework for developing purchaser-provider relations. Ideally, the process of consultation and strategy development should provide a framework within which all donor and NGO activities may fit, while allowing for a variety of approaches and learning from experience. Clearly, however, it is desirable for there to be at least broad agreement at the strategy level where these agencies might play an important complementary role to government (for instance, in some aspects of health service provision).

ii. A coherent sector policy framework

Harrold (1995, pp. 8-10) notes that the definition of the sector policy framework is the starting point for the preparation of a SIP and emphasizes the potential risks involved in attempting to proceed with a SIP without at least "a very clear set of principles for development of the sector upon which the elaboration of detailed sector programs can be based".

The sector policy framework must provide three types of strategic guidance for government and donors:

a. first, as stressed by Harrold, it must define the respective roles of the public and private sectors;

b. second, it must correctly identify key policy measures (both within and outside the sector) that are required to achieve overall sector objectives; and

c. third, it must provide a basis for the prioritization of public expenditures in the sector, so that the desired expenditure programme that is generated can be adjusted in a coherent way to fit the resource envelope;

These conditions point to the need for a strong analytical and data base to underpin the strategy, and for a process of stakeholder consultation to inform its development. While the strategy must provide clear guidance for government and donors, it must also be regularly and formally reviewed and amended in the light of experience (especially where at the formulation stage the analytical and data base is weak).

In MHSRP and ZHRP, the establishment by government of strategies for the sector (with a significant degree of donor consultation) was regarded by both government and donors as critical for allowing the later development of other elements of the SIP framework. Similarly, key policy issues were addressed at an early stage of TIRP. ZASIP also followed the implementation of major
sectoral reforms, based on principles set out several years earlier by government. However, in this case the development of the strategy was more explicitly part of a SIP preparation process.

Particularly in relation to the Mozambique Health program, the point was made by some donor representatives that the government product might be regarded as falling short of a strategy. It was essentially a prioritized list of facilities for rehabilitation, with some major strategic issues not being addressed. A similar point might be made about TIRP. However, it would be wrong to see this as necessarily being a weakness of these programs. In these cases, the previous performance of the state in the sector was so poor that key short- and medium-term priorities (the horizon over which expenditure was being planned) were fairly easy to identify at the start of the programs. Success in achieving these initial objectives has meant that, especially in the health programs, new and broader policy issues (around which it may be harder to achieve consensus) now need to be faced. The test will be whether this can be done successfully within the SIP framework.

Among the case study programs, the problems deriving from sector policy issues have been greatest for ZASIP. The case study suggests that there were two main problem areas. First, government occasionally undertook specific actions that appeared to donors not to be consistent with the strategy as they understood it. Second, the decentralized planning process that the program established generated bids from districts for funds that donors did not regard as consistent with the role defined for government in the sector. These problems (which are currently being addressed through the annual review process, and have by no means derailed the program) suggest that the issue of the role of the state in the sector and what this in fact meant in terms of particular ministry activities had not so far been resolved through the policy development process. Several factors might have contributed to this. These could include ambiguity in the government's strategy documents, incomplete understanding in the ministry of the implications of reform, or failure by donors to express their priorities to government sufficiently clearly.

A further desirable characteristic of a SIP is flexibility to permit sector policies to be adapted in response to new information or emerging problems. The annual review arrangements and performance indicators established around each of the programs provides an opportunity for doing this, though it may be too early in implementation for this flexibility to have been tested.

### iii. Local stakeholders must be in charge of the program

Local commitment to both the strategy and the management framework is of central importance to the objectives of SIPS. Doubts about the authenticity of local ownership of a given program are often expressed by donors. The fact that the SIP concept has been strongly promoted by the World Bank contributes to this skepticism. The concepts of leadership and ownership are also problematic in several respects as will be discussed below.
Several significant points emerge from the case studies:

a. In all four cases, there was general agreement that the process was led by government in important respects, but that this leadership was focused on a small group of individuals within the key sector ministry. It was also noted that some features of how the preparation process is managed, such as the scale and mode of operation of the appraisal team, might compromise perceptions of ownership.

b. Only ZASIP was based on wide-ranging consultation with sector stakeholder groups at the stage of strategy development and SIP preparation. It was noted that as a result, public discussion of the program had been much greater than for earlier agricultural reform measures. In the other cases, close involvement by a broader range of stakeholders has followed a strong lead from government and donors. In TIRP, formal involvement of private sector stakeholders has been built in to the management of the program, though they were apparently not closely involved in its design. In the two health programs, while government did not seek a strong involvement from non-government health service providers in the design of the program, there has subsequently been a broadening of policy dialogue around longer-term issues. To a significant degree, ministry staff deliberately restricted consultation to accelerate progress.

c. What appears to have been a common problem is that while all four programs envisaged a substantial decentralization of decision-making, the involvement of district level officials in the development of the program was limited. For both the health programs and for ZASIP, this appeared to have led to problems during implementation. However, it is difficult to assess the extent to which it has been lack of consultation or understanding, rather than general institutional weaknesses in local government, that is at the root of these problems.

d. The involvement of the central coordinating ministries responsible for aid management and expenditure control (usually Planning and Finance) has been less than desirable. The initiative for SIPs has not come from these ministries. However, in Zambia, the Mid-Term Plan and Forward Budget are explicitly using the two sector programs as models.

In discussions of ownership and stakeholder consultation, two issues need to be distinguished. The first is making the provision of services and investments by government more sensitive to the needs of clients of the services. This may be seen as a general objective for policy reform, reflected in particular in the decentralization of decision-making. Achieving this objective implies developing performance monitoring systems for services and strengthening accountability to users.
The second is the political sustainability of the program. Exactly what is required to achieve political sustainability will depend on local political conditions and the nature of the sector under consideration - in particular how interest groups (both inside and outside government) stand to gain or lose from the program. The leadership of a committed core of government staff may be necessary in many circumstances but will not be sufficient for political sustainability. This leadership may exacerbate divisions within the lead government institution, and commitment to (and understanding of) the program may be weak outside this core. Some discussions of ownership tend to emphasize the central importance of the process by which policy is developed (such as through broad consultation and with limited use of technical assistance). However, it was emphasized in interviews for some of the case studies that ownership will ultimately be determined less by whether the program is prepared and implemented by government alone with minimal donor involvement, and more by whether or not the program succeeds.

The requirements of these two objectives may coincide, but need not, and may even conflict especially where the beneficiaries of government programs are poor or politically marginalized. The possible conflict between these objectives may have implications for how stakeholder consultation is organized, especially in the competitive and relatively unstable political environment of countries with newly established multi-party systems. There is a danger of broad strategy consultations (for instance, in agriculture and especially where insufficient progress has been made in defining the resource envelope for the sector) leading to inappropriate compromises, fudging on issues of priorities, and a loss of focus in the strategy documents.

Probably the key point is that government should take the lead in organizing the process of consultation, though donors may support it. If donors do not have confidence in the ability or willingness of government to protect the interests of stakeholders as they perceive them, including potentially vulnerable or marginalized groups, then it is unlikely that the conditions for a successful SIP exist. In order to provide the basis for a SIP, consultations need to be tightly structured around expenditure priorities within a framework which already defines quite clearly the role of the state. If the consultation process is insufficiently structured, it may fail to generate useful results and may lead to frustration from participants. If there is not sufficient consensus on broader issues about the state's role, then a SIP may be premature, and a more open-ended policy dialogue may be required. Alternatively, as in the two health programs, government must take the initiative even if consensus does not exist.

Stakeholder consultation aimed at influencing the design of the program needs to be distinguished from public relations - that is, explaining and selling the government's program to stakeholders. An effective public relations strategy would seem to be potentially valuable in securing political acceptance of the program, but this does not seem to have been a feature of the case studies.
Most major donors, and particularly the World Bank, have strong and well-articulated institutional views on policy for key sectors. In agriculture, for instance, the World Bank has moved over the last decade to endorsing a much more far-reaching strategy of liberalization and privatization in agriculture than during earlier periods. Since the government's strategy must be acceptable to donors, and given the high level of aid dependence of most African countries (and the limited resources for policy analysis that they control), "ownership" must be an elusive ideal. In practice, negotiation and compromise between interests will be required.

iv. All donors "sign on" - ideally in a process led by government

"Signing on" to the process requires that all major donors endorse the sector strategy for all their new activities, and begin a process of phasing out or adapting projects that are not consistent with it, while moving towards common implementation arrangements so far as this is practical. From the government side, this requires a commitment not to accept aid outside the SIP framework. An important distinction is that between coordination between donors, and the management of donors by government.

Donor coordination is important at both the policy and the administrative level. First, the objectives and visions of the sector of different donors may not be mutually consistent. Second, donors have multiple and inconsistent reporting, accounting, and procurement systems, which either impose an onerous administrative burden on governments or else bypass government procedures entirely to establish independent project units. Third, poor coordination is likely to lead to projects being financially unsustainable as recurrent cost implications are not adequately budgeted.

All the case study programs include the main donors within the broad framework of the SIP, in the sense that their activities are explicitly incorporated in the government expenditure program and there is participation in the annual review and other management processes. In all except ZASIP, new funding in support of the SIP has been provided by donors through this framework. The main exception relates to non-government aid, such as USAID’s support to the health sector in Mozambique. As discussed below, participation in common implementation arrangements is limited in significant respects.

Several points were emphasized by the case studies.

a. The importance of one or more donors playing a lead or focal role was noted. The most clear-cut example is ZHRP, where it is argued that what was termed as the "UN family" of agencies (World Bank, UNICEF, WHO) played an important role in publicly endorsing the government's strategy at an early stage.
b. Staff continuity and individual relationships on both the government and donor side may also be an important factor in determining success.

c. It was repeatedly stressed that coordination between donors is a demanding task for those involved, especially during the preparation stages, before formal management arrangements have been established. If progress is slow, then there will be growing pressure for donors to break ranks and initiate new projects.

d. The motive for donor participation in the process may be the fear of being left out of a chance to influence policy as much as positive enthusiasm for the objectives of the process. In some cases (for instance MHSRP) some donors have felt marginalized at important stages of the process.

e. ZHRP is the program where effective government management of donors appears to have gone furthest, and where the government seems to be making most progress, for instance in developing guidelines for new donors and through the annual review process.

v. Common implementation arrangements

This is noted by Harrold (p. 15) as being the aspect of SIPs in Africa where the practice is currently furthest from the ideal. This principle implies the ultimate objective of establishing a common pool or basket of funding and the phasing out of separate projects other than perhaps as accounting devices. While donors generally accept that this is a desirable long-term objective, they usually note that there are significant legal and administrative constraints on the capacity of many donors to participate in common arrangements in the short term. Some donors have also raised doubts whether the benefits of common arrangements will in fact outweigh the costs in all cases.

The main areas for which common arrangements are sought include planning and budgeting; accounting, audit and financial control; performance monitoring and progress reporting; procurement and contract administration; and the terms and conditions governing both local and expatriate consultants. Instruments for achieving these include producing guidelines to govern donor activities, the operation of common financial pools or baskets, and unified management arrangements (for example, for Technical Assistance).

The case studies found that significant progress had been made in some aspects. Particular examples are as follows.

a. In all four cases a timetable for regular annual meetings has been established as a focus for reporting and consultation with donors. This has reduced the burden caused by multiple donor missions with separate reporting requirements, and provided an
opportunity for systematic review of strategy objectives and expenditure programs, and
to identify and address emerging problems.

b. Systems for international pharmaceutical procurement by government have been
established in Mozambique and Zambia, where previously this was entirely conducted
by donors.

c. The most significant common funding arrangement yet developed is the Zambian health
district basket. This accounts currently for 10 percent or less of donor support to the
sector, and to date only three donors have participated, although at least two more are
expected shortly to make commitments. It has also operated with a relatively high
degree of donor supervision. The Financial and Administrative Management System
(FAMS) being developed provides a framework for extending the district basket
arrangement.

More generally, a start has been made in rationalizing donor projects and bringing them into a
common management framework. In MHSRP and the two Zambian programs, 150 or more donor
projects in the sector existed at the start of the process. The issues for TIRP were considerably
simpler, given the smaller number of projects and their technical similarity. It was difficult within
the restrictions of the case study to ascertain the extent to which project practice has changed. In
each case, some reduction in the number of projects has been achieved. There were also instances
where government and donors had prevented new projects that were not regarded as consistent with
the SIP approach from proceeding. However, separate project identities remain, and will continue
at least over the medium term based on current funding commitments.

In TIRP and MHSRP, the approach to decentralization has involved twinning or similar
arrangements between regions or provinces and donors. While to date this experience appears
satisfactory in general, it entails a risk that differences in donor approaches might undermine the
establishment of common arrangements.

Specific examples of problems encountered in trying to establish common arrangements include
what are perceived by government as burdensome procurement arrangements (particularly relating
to the World Bank) in Mozambique and Tanzania, and the inability of UNICEF in Mozambique to
bring its procurement arrangements within the government framework.

One especially important issue relates to common arrangements for employing and remunerating
staff. In the two health programs it was noted that there was a division within the sector ministry
between a core of staff working directly on the reform program and paid some form of salary
supplementation, and other ministry staff who were outside this arrangement. Under ZASIP, sitting
allowances were paid to ministry staff participating in consultations, while under TIRP it is
understood that donors operating at the regional level do provide salary supplementation in various forms.

In summary, progress towards common financial and procurement arrangements will be very slow, and is likely to require one donor to take a lead in using and helping to strengthen government systems so as to build confidence. The key requirement will be to establish a track record of proven capacity that can encourage progressively increased reliance by donors on government systems. Since it cannot necessarily be assumed that common arrangements will in all cases be more efficient, proposed arrangements should be examined carefully. A further point is that the design of aid arrangements should most logically be common across all ministries, rather than being addressed at the sector level. Emphasizing external verification may be a way around the potential conflict between the objectives of establishing common arrangements (where donors may insist on expatriate staffing), and of relying on a government managed system.

vi. Minimize the use of long-term foreign technical assistance, especially in management roles

This principle is generally recognized as a cause of contention between the World Bank and often governments on one hand, and some donors. The main findings from the case studies were as follows.

a. All the programs have a goal of reducing and more important, improving the management of TA. The key principles were that TA staff should not be used in line positions, and that all provision of TA should be in response to government requests. The most significant progress appeared to be in developing guidelines for TA for the Zambian health sector, and the common TA pool managed by UNDP for the Mozambique health sector.

b. In no case was strategy preparation regarded as having been reliant on the use of long-term expatriate TA. Local consultants were, however, used extensively. The one possible exception was ZASIP where earlier strategy documents had been prepared with assistance from USAID. There were however major TA inputs into management system development, which included the operation of financial arrangements.

c. In several cases it was noted that the use of TA was not integrated into a broader human resource strategy for the sector.

d. Only in one case (ZASIP) does TA policy appear to have caused particular difficulties between government and donors. In this case there was a perception from government that donors were trying to impose TA that the ministry did not feel was required. The underlying issue here was probably donor doubts about government strategy.
Four distinct objections to the use of TA need to be distinguished. The first is that excessive involvement of TA may compromise local ownership. As noted previously, the extent to which ownership should be seen as deriving from the process by which a program is developed is debatable. The main point however is that TA should as far as possible operate under government control and under common rules, and donors should avoid pressuring governments to accept TA in order to influence policy decisions.

Second, Harrold (1995) advances the argument that "excessive use of expatriate personnel can undermine existing institutional capacity by creating separate monitoring and reporting channels to donor capitals". It would seem, however, that this concern should relate to the need for common implementation arrangements which would reduce this need, rather than the role of TA as such.

The other problems are in a sense more fundamental. The third is that the presence of TA (whether expatriate or local) in line positions paid at rates far in excess of most government staff may be disruptive to morale and working relationships (and may mean government delays tackling the problem of appropriate incentives for staff), regardless of who controls it and how it is managed. The fourth is whether the high cost of most expatriate technical assistance is justified by the results achieved. Again, however, the approach to resolving these problems within the SIP framework should be based on control by government and clear accounting procedures, possibly with external verification.

Two additional points can be made. First, as noted above a heavy reliance on expatriate personnel in what are effectively management positions may be a prerequisite in the short-term for establishing common implementation arrangements, especially in the field of financial control. Second, two preconditions for minimizing TA are that sufficient incentives exist to attract, retain and motivate high quality staff within government, and that a pool of such staff exists locally.

These observations tend to suggest that where TA is perceived as a problem, this is usually as a symptom of other deeper problems relating to disagreement at the strategy level, or to the poor institutional environment for effective government management of the sector.
5. The Preparation Process for Sector Investment Programs

The four key tasks for the preparation process are:

a. development of a strategy to identify key priorities and define in operational terms the role of the state in the sector;

b. formulation of a medium-term budget, integrating government and donor contributions within an agreed resource envelope, and establishing the size and modalities of new donor support required, including the loan supporting the role of lender of last resort;

c. designing management systems (covering government and donors) to implement the strategy and the move to whatever common management arrangements are regarded as feasible; and

d. assessing and, if necessary, establishing the capacity to implement reforms envisaged by the strategy, and the new management arrangements.

Of the four case study programs, only ZASIP was explicitly regarded as a SIP from the start of the preparation process that led to the program. In the two health programs, the initiative came from sector reforms developed by government. TIRP preparation long predated the articulation of the concept of a SIP. Particularly in MHSRP, the restructuring of an existing World Bank operation that had encountered difficulties provided a vehicle for beginning and helping to finance the process that led to the SIP.

The major lesson is that even in relatively favorable conditions, the period of time between the first steps towards establishing the SIP, and effectiveness of the Bank operation supporting the program should not be expected to take less than three or four years, depending mainly on the extent to which agreement on key policy issues has been reached in advance. For instance, in ZHRP, the initial phase of preparation was regarded as being slow, despite the strong commitment from within the Ministry of Health. While milestones were usually set during the preparation process, in all cases the preparation stage appears to have taken longer than initially expected.

Issues relating to stakeholder consultation processes have been discussed above. The involvement of donors in the consultation process is important. A clear statement from donors at an early stage may assist government in determining the room for maneuver that it has, but runs the risk of compromising ownership. In relation to ZASIP, some participants felt that donors were not sufficiently willing to involve themselves in the process for this reason, with results that have caused some later problems for the program. It is clear, however, from the other programs that the
most effective approach is through a focal donor or small group of donors, with a strong knowledge of the sector, interacting closely with government and enjoying the trust of other donors.

The process of preparation has depended on financial support from donors, but has not been reliant on long-term TA. MHSRP and ZHRP have been driven and managed by what are effectively program implementation units, involving financing of selected posts and individuals. Given the urgent problems resulting from the need to retain and motivate key staff, and the fact that the scope for developing long-term solutions to these problems at the sector ministry level is limited, this approach is probably unavoidable in many cases, and as noted by Noman (1996) it is an improvement on having programs managed outside the government framework. However, this risks bypassing and weakening other parts of the ministry whose support and involvement will be necessary, may create internal management problems, and does not address the longer-term capacity development problem.

Appropriate minimum standards of technical and financial management depend on how much progress is sought in establishing common implementation arrangements. The experience has been that progress in this form of capacity strengthening has been significant but slow, and appears to have been rather more dependent on external support and TA than has been strategy development. To the extent that general issues of civil service employment have not been addressed, questions must remain about the achievements of past capacity development efforts. While the problems encountered under TIRP II are the most serious in this regard, donors are still quite skeptical about the reliability of the systems established in other programs as well, especially in relation to decentralization. A common concern has been lack of integration between capacity building initiatives and the lead ministry's human resource development plans.

In each case, some attention was paid during preparation to the strengthening of data systems and the establishment of sector-wide performance monitoring arrangements. This seems to have proceeded furthest for ZASIP, which contains explicit support to agricultural statistics. A benchmark survey and independent local monitoring (with some external support from the World Bank) were also established. However, while there has been some progress, in general the data systems available for monitoring sector performance, and more specifically the links between sector performance and the government expenditure program that donors are supporting, remain weak. One problem is that the links between government actions (especially at the level of service provision) and measurable sector outcomes may be weak in the short-term, at least for the health and agriculture sectors because of the role of out of sector conditions. In this case, it would seem that a priority for performance measurement should focus on user feedback from those receiving services. This implies the use of a broader range of indicators and techniques than those traditionally applied by national statistical systems.

In general, progress in restructuring and rationalizing ongoing projects during the preparation phase has been limited. TIRP (where the issues of donor coordination were probably significantly
simpler than in the other cases) is to some extent an exception. This reflects the need for a long-term perspective in pursuing the ideal of common implementation arrangements. However, the adoption of the SIP preparation framework has assisted this process, and in particular has blocked some new initiatives from donors that would not have been consistent with it.

The integration of the programs reviewed here within a medium-term framework for public expenditure at the design stage has been limited. For example, while a medium-term financial framework for the government budget was being produced in parallel with ZASIP and ZHRP preparation, there were insufficient linkages between the processes. Preparation has generally included agreement by government on the level of expenditure to the sector (in the form of a minimum percentage of total expenditure, or a minimum growth rate). Explicit sensitivity analysis or risk assessments relating to the medium-term financial framework do not appear to have been a feature of the case study programs. Judgments on what might be regarded as prudent medium- or longer-term assumptions about the level of aid, or the development of alternative scenarios, do not appear to have been a feature of the programs.

The extent to which a strengthened medium-term financial framework should be seen as a requirement during preparation depends on how much flexibility is built in to the programs in terms of the annual review process, and how easily expenditures can be adjusted in the light of fiscal developments during implementation. The problems that have been encountered recently at the macroeconomic level in Tanzania and Zambia, and the concerns expressed in all the cases about the long-term financial sustainability of the role envisaged for the state, suggest that greater emphasis should be placed on this issue during preparation.

The programs have successfully established joint appraisal processes. These have provided the basis for joint annual review meetings that have been one of the main achievements of the programs.
6. Implementation Issues

As has been emphasized, the period of implementation for all the programs except TIRP has been too short for definitive conclusions to be drawn. However, several issues appear to be emerging that have implications for SIP design.

First, the period between first appraisal and loan effectiveness has been quite long (fifteen to twenty-nine months). Noman (1996) notes that limited familiarity with World Bank procurement arrangements may be one cause for this delay. He also notes that disbursement of World Bank loans has been behind schedule in the two Zambian cases, but this should not necessarily be seen as a problem if the reason is that other donors have provided support on more favorable terms so that the lender of last resort is not required.

Second, in the case of TIRP II, some quite major implementation problems have arisen that are seen as calling into question some of the assumptions made at the design stage. Some participants harbor doubts about whether what may be regarded as quite experimental management arrangements (relating to decentralization in particular) will in fact be successful in the other programs, especially if direct donor support and supervision are reduced.

Third, the current macroeconomic problems and the related difficulties with adjustment programs in Tanzania and Zambia pose an important test of the robustness of the approach. Under ZHRP, it appears that government financial commitment to the program has to date been maintained. In general, however, it appears that the design of programs may not yet have paid sufficient attention to how donors and government will be able to react to macroeconomic and political shocks.

Fourth, the fact that institutional capacity remains weak in certain respects has been accommodated by scaling down the expectations of the speed and extent to which aid projects will come within common government management arrangements. In relation to ZASIP, Noman (1996) points out that government, although judged to be leading the program, has had difficulty in managing the implementation process and, in particular, in identifying a critical path of key activities to take the process forward.

Finally, even where implementation problems like these exist, the formal annual processes of review do appear to provide an opportunity for adjustments to be made and weaknesses to be remedied. Although doubts have been expressed that the data available through monitoring systems are yet adequate to assess progress, these coordinated review processes have been regarded as highly positive by most participants in all the programs, although in some cases it was argued that more frequent consultation was required. This is particularly the case where (most notably in ZHRP) government has most clearly been able to take the lead in the process.
7. Conclusions

General Conclusions

Large elements of the sector approach embodied in SIPs are good practice in terms both of public administration in the recipient country, and of aid management. There are cases where the preparation of programs on the SIP model is an achievable way of implementing the sector approach. The case studies show this, but these examples had particularly favorable circumstances - not least the widespread recognition of crisis in the sector, and general agreement on what needed to be done at least as a first step.

The greatest dangers probably arise where the SIP preparation process is treated as an instrument to simultaneously achieve several quite distinct and challenging objectives, relating both to the content and process of reform:

- developing agreement on a detailed sector strategy where this has not previously existed;
- broadening the process of policy discussion to include a range of sector stakeholders who have previously been excluded;
- effecting radical institutional reforms, for example introducing forms of effective decentralization which are not well tested in the country, or widespread contracting out of services previously directly provided by government;
- strengthening currently weak administrative and financial capacity within government;
- redesigning government and donor financial and management systems;
- strengthening co-operation between donors with conflicting perceptions, interests, and objectives; and
- sharply reducing the role of TA within government.

There is a risk that in such a case the process may either collapse under the burden it places on government and donors, or proceed indefinitely without genuine commitment. There are real dangers that what are universally recognized as weak administrations will be overwhelmed by the burden of SIP preparation. Since a successful SIP presupposes a strong and effective lead institution, there is a limit to the extent to which the creation of that capacity can be expected to take place during SIP preparation.

A general conclusion of this study is that all the preconditions for a SIP will rarely be satisfied in current African conditions. The key point however is that it may not be desirable or necessary to proceed simultaneously on all fronts to support an integrated process. The objectives and principles of a SIP are to a significant degree logically separable, and there is a danger of debates about whether a particular program is or is not a SIP being semantic rather than substantive. The
questions then are: what is gained by linking them in the SIP concept, and under what conditions would be appropriate to pursue “partial SIPs” which fulfill only some of these principles. Broader lessons of aid experience, such as the need to minimize design complexity (through avoiding unnecessary interlinkages between preconditions and implementation elements), need to be taken into account. The problems encountered in the past with integrated rural development projects is a case in point.

There is also a danger of unrealistic expectations about what can be achieved in terms of local ownership. These may undermine the credibility of the process. The reality of aid dependence, limited government capacity, and differences between the political and economic objectives of donors and recipient governments, mean that there will almost always be a need for compromise and negotiations. In pressing for particular forms of stakeholder consultation, donors must also be aware that they risk compromising government ownership.

One question commonly posed is whether SIPs and the sector approach generally are more appropriate for some sectors than others. The argument here suggests that this question is to some extent misconceived, since a sector should be defined for the purpose of a SIP according to what constitutes the correct planning and expenditure units for the government budget. The same principles should apply to all sectors for which significant quantities of aid are provided. The more useful question is therefore in what policy areas the sector approach is likely to be the most straightforward to implement.

The case studies do not provide sufficient variety of experience for clear conclusions to be drawn about this. However, some hypotheses can be advanced.

a. Agreement on strategy is likely to be easier to reach, the more general the consensus that the sector is in crisis, and the narrower the range of institutions involved. This is because interests vested in the status quo are likely to be weaker, and agreement on the next steps and the political will to take them are likely to be easier to obtain.

b. The fewer donors involved in the sector, the more tractable will be the problems of coordination and of establishing common implementation arrangements.

c. There are a number of policy areas where agreement between donors and governments is likely to be especially contentious. Extension usually accounts for a significant proportion both of government expenditures in agriculture and of employment in ministries or government.

Few governments are likely to feel they are in a position to reject donor assistance in the terms Harrold (1995, p.13) suggests they should be prepared to do. This may be less a matter of lack of government will-power than a recognition of potential consequences for trade and aid in other sectors.
agencies. Another area of contention may be tertiary education. In the health sector, policy agreement is likely to be harder to reach as the agenda moves beyond rehabilitation of basic infrastructure and services to more fundamental issues affecting health outcomes.

A further point is that a SIP, to be effective, requires actions that go beyond the sectoral level. In particular, it requires that a framework exists for dealing with problems of civil service pay and incentives. The lead in pushing for more efficient implementation arrangements and for greater accountability for public funds should probably come from the central ministries responsible for aid management and the budget. The sector ministry's principal responsibility should be at the level of strategy, service improvement and implementation arrangements, although central initiatives to improve management and accountability need to be supported at the sector level as well.

**Issues for SIP Preparation**

The preparation process can be expected to take several years even in favorable circumstances. The process might be accelerated if Ministries of Finance and Planning are persuaded of the value of the approach in achieving their own objectives. They may then take the lead in encouraging or requiring other ministries to adopt it, and in tackling issues such as defining the budget envelope, ensuring inter-ministry coordination in strategy and implementation, setting performance targets, improving financial management procedures, and civil service reform that cannot be properly addressed at the sectoral level. Another factor that will accelerate preparation is strong commitment from within the sector ministry to a particular reform program around which the SIP can be built.

The starting point is never a clean slate. The landscape will consist of a mixture of projects at various stages of commitment and implementation, sectoral and economy-wide adjustment operations and other forms of program support. Policy reform may be significant but will usually be seen as incomplete by donors. There will be major weaknesses in capacity, resulting less from lack of technical training than from problems of accountability, incentives and resources. The challenge is for donors and government to find a path that progressively improves the situation.

The main dangers of embarking prematurely on SIP preparation are raising expectations that cannot be met, and diverting time and resources to processes that might yield little result. Specific risks include:

a. a long period when other worthwhile public investments are not planned or implemented;

b. the diversion of scarce local planning staff;

c. the expenditure of political capital; and
d. impatience from donor agencies under pressure to disburse.

However, a SIP preparation process can provide a focus and resources to fund strategy and capacity development. The key here is not to try to do too much too quickly. Donors can in principle assist strategy preparation by government, capacity building, and the development of management arrangements, either explicitly within a SIP preparation framework or outside it. Particular donors or donor groups can play an important role in facilitating each of these processes. This will be easiest in cases where a donor has a long-running involvement in a sector but is not burdened by commitments to long-established projects that do not fit well into the SIP framework. The need to keep at least all key donors informed, and to avoid suspicions that particular donors are playing too prominent a role in the process, requires continuous and time-consuming attention to consultation. There also needs to be a strong process of appraisal and critical review by donors, in particular focused on ensuring that excessively ambitious or complicated programs are not launched.

Involvement of local stakeholders outside government in the preparation process is in principle desirable, but may prove difficult to sustain, and may not generate outputs that are particularly useful. Stakeholder consultation on the design of the program needs to be distinguished at least conceptually from the design of client consultation in relation to particular services or from public relations or information strategies. The purpose of consultation, its extent and its timing need careful judgement, as it can rapidly become unmanageable.

There are two main issues that need to be addressed in defining the sector expenditure program. The first is the broad allocation of expenditures between sectors and expected macro expenditure trends, to provide the resource envelope for the sector, based on assumptions by government about what is a prudent estimate of the sustainable level of aid. The second is the prioritization of expenditures within the sector, to provide a basis for developing plans for how sector expenditure should be adjusted to deal with contingencies.

**Issues for SIP Implementation**

The main conclusions are as follows.

a. Duration preparation and probably for several years into implementation, the majority of donor projects will retain their separate identities and it is likely that progress towards achieving common implementation arrangements (especially at the financial level) will be slow. The areas where progress can certainly be achieved are at the level of performance monitoring and progress reporting, and the establishment of regular common review processes. The principal determinant of the speed of adoption of common financial arrangements will be the capacity of government to demonstrate to
donors that what is developed is as reliable and, at least, no more burdensome than existing donor arrangements.

b. Monitoring and evaluation of sector impact may in some cases be almost impossible because data systems are currently so poor. The priority should be on developing feedback from users and other direct measures of service efficiency and effectiveness. More generally, procedures for assessing the performance of public expenditure against strategic objectives need to be strengthened both as part of sector programmes, and to increase sector ministry accountability to Treasury for the use of public funds.

c. A key question relates to what should happen when a SIP goes off course. This might happen for various reasons: macroeconomic shocks; changes in regime or policy at the sector level; breakdown of the financial or management system; or failure of donors to provide expected resources. How the donor of last resort role is exercised becomes critically important in this regard, particularly in relation to the incentives provided to government to honour its commitments under the program. It is important to be able to distinguish these reasons, and to have contingency plans to deal with each of them. Prioritization can provide a basis for cutting back on or expanding activities depending on what happens to resources available, while avoiding ratcheting up expenditure levels in good times, or cutting in an inefficient way in bad times. Significant changes in donor practices are required to accommodate the role implied by thoroughgoing adoption of the SIP concept.
8. Recommendations

Recommendations are addressed to both recipient governments and aid donors.

*Role and Preconditions for SIPs*

- While it may be appropriate to seek to apply the objectives of the sector approach progressively to development aid that goes through the government budget, there should be selectivity about the countries and sectors in which SIPs (understood as the combined attempt to establish a strategy and a management framework) are pursued. Donors in particular need to be able to resist pressures to accelerate the preparation process, especially where underlying agreement on key issues relating to the role of the state has not been reached. Donors must therefore be prepared to support processes of policy dialogue and capacity building, and avoid moving too quickly to trying to establish ambitious common implementation arrangements.

- Donors and recipients should foster exchange of information on best practice, issues and emerging lessons for implementing the sector approach. Direct exchange of experience between governments should be particularly encouraged. However, donors should be wary of creating an environment where governments perceive it to be necessary to pay lip service to the SIP concept in order to receive aid, without necessarily having a genuine commitment to it.

- Both donors and governments should recognize that adopting the sector approach will inevitably require compromises on both sides, and there should be sensitivity to the legitimate concerns of those involved, and the avoidance of unrealistic expectations that may undermine the credibility of the approach.

*Conditionality for SIPs*

- Achieving the objectives of SIPs implies the following agreements between the recipient government and donors.

  a. Government must commit to some minimum level of expenditure to the sector (or at least to an expenditure formula that defines that minimum, for instance as a share of total government expenditure), so as to reduce intersectoral fungibility.

  b. Government should commit not to seek donor funding that has budgetary implications outside the agreed sectoral program framework.
c. Donor support to the sector program (at least for ongoing commitments) should at least in the short-term not be jeopardized by failure to meet macroeconomic conditionalities, so long as government is able to honor its financing commitments under the SIP. Conditions affecting SIP disbursement should in general be restricted to the sector level.

d. Possible conflicts with macroeconomic balance and IMF conditions that might require adjusting government support to the sector could be avoided by having contingency plans (based on objectively verifiable indicators) for adjusting government expenditure in accordance with overall macroeconomic performance and resource availability.

e. There should be a credible link between performance (in terms of meeting expenditure commitments, institutional and policy reform, and adequate accounting) and the level of aid provided. This requires that there should be sufficient flexibility so that disbursements can be progressively increased or reduced, rather than all support being switched on or off. Close cooperation between donors will be needed to ensure a consistent approach. The role of the donor of last resort should be particularly clearly defined.

Coverage and Management Arrangements

- Both donors and governments should recognize the need to define sector coverage in terms of what is appropriate from a public finance management perspective. Generally, this will coincide with the expenditure plans of a government ministry, or another coherent sub-unit of the budget.

- The central coordinating Ministries of Finance and Planning should play a key role in encouraging donors to move to common arrangements, while encouraging consistency of approach across sectors. While this should not rule out initiatives at the sector level, these must be undertaken in close coordination with the central ministries. Both government and donors should avoid temptations to short-circuit existing budget procedures in order to accelerate SIP preparation.

- The case for common implementation arrangements needs to be examined critically and where possible subject to cost-benefit analysis of some form, rather than working to an assumption that common arrangements will be desirable.

- Government and donors should not underestimate the costs and potential difficulties in donor management and coordination, both within country and between agency headquarters and country.
• Technical assistance should as far as possible be provided through common arrangements, in response to explicit government requests, and following guidelines determined by government in consultation with donors.

**Strategy Preparation and Stakeholder Consultation**

• Donors should be prepared to support policy dialogue and research to inform it, involving stakeholders where appropriate, either within or outside a SIP framework. There should be efforts especially from donors to ensure that cross-sector perspectives are taken into account.

• The emphasis in strategy preparation must be to provide clear operational guidelines on the role of the state, and a basis for prioritization of public expenditure. The process of broader stakeholder consultation (at least once the broad outlines of strategy have been established) needs to be structured within a framework set by government that focuses attention explicitly on these issues.

• Levels of government that will be responsible for implementation should be involved in the design process from an early stage. This particularly applies to local governments being expected to take on major new responsibilities.

**Capacity Building**

• Donors should emphasize and support processes of civil service reform aimed at improving accountability and incentives including establishing better systems of performance monitoring and client feedback for services provided by the state. This may partly be dealt with at the sectoral ministry level, but will generally require government-wide measures.

• Donors and government should strengthen medium-term public expenditure planning, around an agreed resource envelope and range of scenarios to cope with alternative aid and macroeconomic conditions.

• Capacity building should not be led by or over-emphasize training (especially of a long-term technical nature), although it should be coordinated with human resource development plans. Rather, it should begin from a sector institution assessment and concentrate on the key issues of incentives, accountability, and resource access and control. However, the radical nature of the institutional reforms that are occurring does require the development of new skills within government.
• Donors and government should accord particular importance to building up information systems to improve capacity to monitor sector performance and the impact of the SIP.

• Programs should be designed in anticipation of problems and failures occurring as new systems are established.

**Restructuring Existing Projects**

• The drive towards common procedures for donors under government control should closely involve and preferably be led by the central ministries charged with coordination, rather than by sectoral ministries.

• Once a SIP is envisaged, even if formal preparation has not yet begun, donors should embark on new projects only if these are explicitly designed to be consistent with the future adoption of a SIP.

• Both donors and government should seek to reduce the number of donors operating in each sector. At the same time, donors should encourage consolidation into a smaller number of projects, elimination of duplication, scrapping of those projects that are inconsistent with what is expected to be the broad thrust of policy, again regardless of the formal status of a SIP.

**Appraisal Process and Donor Procedures**

• Donors and government should recognize the important benefits of continuity at staff level in relations between donors and government, and explicitly aim to maintain it.

• The sector institutional assessment should be accorded a central role in the appraisal process, focusing particularly on issues related to civil service reform.

• Donors should recognize the limitations of existing lending instruments and project procedures (including the criteria used for assessing the impact of national aid programs) for achieving the objectives of SIPs, and seek to develop more appropriate ones.

• Moves towards facilitating the use of common implementation arrangements, through, for example, further reducing tied aid, should be encouraged by international initiatives such as the Special Program of Assistance for Africa (SPA).
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