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(Continued on the inside back cover)
Fostering Sustainable Development

The Sector Investment Program

Nwanze Okidegbe

The World Bank
Washington, D.C.
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BOX 1 LESSONS FROM AGRICULTURAL DEVELOPMENT PROJECTS ................................................................. 2
The World Bank is always searching for ways to improve the effectiveness of its development assistance and foster sustainable development. Recently reviews by the Task Force on Portfolio Management and the Economics Task Force have focused attention and stimulated debate on ways to increase the likelihood of success by improving the quality at entry of Bank-supported projects. In 1995 the Africa Region assembled a team to examine the experience of the broad sector approach to investment lending, or the Sector Investment Program (SIP). The team’s report focused on the practical steps that led to successful operations, and their likely replicability for operations elsewhere.

This paper adds to our understanding of SIPs as useful instruments for improving resource allocation and fostering sustainable development. It describes the rationale and analytical basis for SIPs, and the lessons learned through early implementation experience. It argues that SIPs can have a greater development impact than free-standing projects because they address in a holistic manner the underlying conditions that often impede the effectiveness of development assistance: inappropriate policy and institutional frameworks, the misallocation of public and donor resources, waste associated with duplication and fragmentation of donor-supported projects, and a lack of broad stakeholder participation and commitment. Finally, the paper makes a strong case that the World Bank and other donors should give greater consideration to SIPs as a way to improve the effectiveness of development assistance, especially in Africa and South Asia.

Alex F. McCalla, Director
Agriculture and Natural Resources Department
ABSTRACT

It is becoming increasingly apparent that countries which maintain coherent macroeconomic and sector policies, focus their public expenditures on core activities, and have thriving private sectors are more likely to experience rapid and sustained growth and development. A new instrument, the Sector Investment Program, is being developed by the World Bank and other donors to help countries rationalize their public expenditure programs and focus on the key activities that are truly priorities, affordable, and will further the long-term development objectives of the sector. Sector Investment Programs also help foster development by addressing in a holistic manner the underlying conditions that often impede the effectiveness of development assistance: inappropriate policy and institutional frameworks, the misallocation of public and donor resources, waste associated with duplication and fragmentation of donor-supported projects, and a lack of broad stakeholder participation and commitment. Finally, Sector Investment Programs help countries develop capacity to manage their own development.
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EXECUTIVE SUMMARY

Program-based approaches to providing development assistance, especially sector investment programs (SIPs), are receiving increased attention as donors and recipient countries search for effective instruments to foster sustainable development. Traditionally, donors have provided assistance primarily through free-standing investment projects. Unfortunately, the development impact of these projects has often been disappointing, especially in sub-Saharan Africa. This is because the underlying conditions constraining the effectiveness of development assistance—sector policy distortions, institutional weaknesses, the affordability of the public expenditure program, conflicting implementation arrangements of different donors, and inadequate institutional capacity—are rarely adequately addressed through conventional projects. There is an increasing awareness that while conventional projects do have merits, the program-based approach can better address the constraints to development and can therefore be more effective in fostering development, when implemented in countries with appropriate environments.

SIP Definition and Characteristics

A SIP is a long-term national program covering public expenditures—in whole or in part—in a sector. Unlike a “project,” it is not confined to a local geographical area nor is it restricted in time. SIPs have five key characteristics: (a) they are sector-wide in scope or coverage; (b) they are based on a careful assessment of public expenditures, particularly of the sector involved; (c) they are designed and implemented within a coherent policy framework that identifies strategic policy options and the implications of each for institutional change; (d) they are prepared and managed by the country, with government, local stakeholders, and nongovernmental organizations driving the process; and (e) donors finance time slices of the government’s program rather than individual stand-alone projects (this eliminates the need for multiple and often overlapping implementation units, and helps build long-term capacity within the country).

A SIP does not include private sector investments; the private sector or NGOs may however be involved in implementing the public expenditure program.

SIP Benefits and Experience

A SIP can benefit a country’s economy in several ways. First, it can foster an enabling economic environment for private sector investment by assisting in removing regulatory and statutory restraints on competition, and rationalizing the public sector’s role in the economy. Second, a SIP can provide a cohesive framework which ensures that the public sector expenditure program reflects not only sectoral priorities, but also the shared vision of the government and donors regarding investments in the sector. Third, a SIP can enhance the effectiveness of public sector management by replacing several separate projects in any given sector with a single sector operation. As a result, the public sector can focus its limited managerial capacity to achieving a coherent set of priorities of the national program with or without donor support. Fourth, a SIP can help in building country institutional capacity. By moving responsibility for service delivery
from the central government to district and local governments, SIPS help build capacity at the levels of government most in contact with beneficiaries, and thus improve the efficiency and effectiveness of service delivery.

Although the SIP approach is relatively new, it is generating information which can provide guidance on how best to design and implement SIPS. Among key issues this experience can illuminate are:

- The process of building consensus among and ensuring the broad participation of stakeholders; planning and developing the sector policy and institutional framework;
- Assessing the affordability of public sector investments and setting priorities;
- Involving donors in preparing SIPS and integrating ongoing donor-supported projects into the SIP framework;
- Creating common implementation arrangements;
- Reforming the public sector, restructuring institutions, and decentralizing power and resources; and
- Building local capacity and selectively using technical assistance.

**SIPS and Delivery of Development Assistance**

Experience to date shows that, under certain conditions, the SIP approach can be more effective than the conventional project approach in promoting sustainable development. A SIP, by establishing a coherent policy and institutional framework, rationalizing the public expenditure program, and eliminating the waste associated with the duplication and fragmentation of the activities of multiple donors, addresses the underlying conditions that can hinder the effectiveness of development resources. The SIP approach also makes it possible to exploit synergies that often arise from making complementary investments in related sectors, by looking at the public expenditure program as a whole. For example, investments in rural roads coupled with investments in agriculture will likely foster region-wide growth more quickly and powerfully than either alone. Likewise, expenditures on basic services to the poor (primary health care, education, nutrition)—often a significant proportion of the total government budget—can have a more significant impact on poverty when coordinated with investments in other sectors. Coordinating investments is more easily handled within the SIP approach than within the conventional project approach.

**Essential Preconditions for SIPS**

Despite their advantages, SIPS are not suitable for all countries at all times. SIPS work best where there is:

- A coherent policy and institutional framework (there are no major policy distortions, or at least there are measures in place to redress distortions).
- A sector strategy which clearly identifies the long-term vision for the sector.
• A commitment to rationalize public expenditures based on a public expenditure review which analyzes sectoral public expenditure patterns, and provides assurance that future expenditures will be sustainable and consistent with sector strategy.

• A clear understanding of institutional capacity to implement the program and address management weaknesses.

The SIP approach is no panacea. SIPS work only if governments and their development partners are truly committed to them and are fully aware of their implications and potential problems. Furthermore SIPS work only if the public investment program is of good quality and is affordable.
INTRODUCTION

Reducing poverty is a major objective of many governments, the World Bank, other international development organizations, and many nongovernmental organizations and local communities. More than 1.3 billion people, roughly 25 percent of the world’s people, survive on less than a dollar a day. With rapid population growth, the number of people living in poverty continues to rise. Effectively reducing poverty requires widely-shared economic growth and investment in people—through education, health, and nutrition programs.

Unfortunately many projects undertaken by the Bank and others to foster growth and reduce poverty have failed to achieve their desired impacts. The Bank’s Operations Evaluation Department (OED) indicates that only about 68 percent of the Bank’s projects which were completed between 1981 and 1989 were fully satisfactory in terms of three broad key criteria: impact on poverty reduction, natural resources management, and private sector development, efficacy in achieving its physical, policy and institutional objectives, and efficiency in attaining an economic rate of return of at least 10 percent1 (see Table 1).

Table 1 World Bank project performance by sector (selected sectors)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Closing year</th>
<th>1981-89</th>
<th>1990-94</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td></td>
<td>58</td>
<td>65</td>
</tr>
<tr>
<td>Human resources</td>
<td></td>
<td>74</td>
<td>85</td>
</tr>
<tr>
<td>Transport</td>
<td></td>
<td>73</td>
<td>76</td>
</tr>
<tr>
<td>Urban</td>
<td></td>
<td>80</td>
<td>75</td>
</tr>
<tr>
<td>Water and sanitation</td>
<td></td>
<td>71</td>
<td>60</td>
</tr>
<tr>
<td>Bankwide</td>
<td></td>
<td>68</td>
<td>69</td>
</tr>
</tbody>
</table>


On the basis of the OED review, the Bank has undertaken several studies to discover why the performance and sustainability of its projects was so poor. These studies show that projects failed for several key reasons, including: poor policy environments of recipient countries; a lack of beneficiary participation in project design and implementation, which resulted in an absence of commitment and ownership; an inclination to design projects which were excessively complicated; and the use of technical packages that were unsuitable. Compounding these problems was a tendency to implement the projects through independent project management

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1 OED did not assess the sustainability of these projects.
units created especially for this purpose (while such institutions facilitate project implementation in the short-term, they fail to build or sustain capacity for long-term project management). See Box 1 for the main conclusions of the OED study on agricultural projects.

**Box 1 Lessons from agricultural development projects**

- Donors and governments must give serious consideration to a country’s macroeconomic conditions. Sector investment programs cannot succeed in an economy with significant distortions, such as where there is high inflation or large budget deficits.

- The government must be fully committed to the project and willing and able provide its share of funding.

- Participation of beneficiaries at all stages project preparation, implementation and evaluation is essential. In the past, projects were often designed and implemented with little participation of beneficiaries. Yet success of projects relies heavily on their involvement.

- Sensitivity to gender issues is important. The role of women in agricultural production is well known. Any agricultural development project that ignores this, is bound to have minimal success.

- Environmental protection and resource management are crucial if agriculture growth is to be sustainable.

- Local institutions should provide the necessary support. Development or enhancement of local capacity is important for sustainability, and should be a project objective.

*Source: Operation Evaluation Department (1992).*

Starting in the early 1980s, the Bank and other donors started to design projects and programs which incorporated the lessons from experience. The Bank began to use the Structural Adjustment Programs (SAP) to address macroeconomic policy distortions in countries, which have supported many countries in their efforts to liberalize prices of inputs and outputs, reduce or eliminate unproductive public expenditures, and take other measures. In addition, the Bank began to make deliberate efforts to address broad policy issues within the design and implementation of a new generation of projects. This led to marginal improvements in project performance by the early-1990s, as shown in Table 1. The goal for the Bank is to achieve at least an 80 percent success rate of its overall portfolio by the year 2000. This goal will be difficult to achieve unless there are dramatic improvements in the performance of on-going projects.
While projects are performing somewhat better, their impact on the economy and on poverty remains disappointing, especially in sub-Saharan Africa.\textsuperscript{2} This suggests that countries need to tackle policies and public expenditures for a sector as a whole—rather than in the piecemeal fashion typical of the conventional free-standing project approach. In addition, countries need to be sure projects are truly affordable, considering both capital and recurrent expenditures, in the context of a total public expenditure program. These issues could be addressed effectively by supporting \textit{sector investment programs}, or SIPs.

Early experience with the SIP approach is encouraging. Since this approach is relatively new, many questions are being raised about its features and its effectiveness in fostering sustainable development. This paper will answer some of these questions. The paper also describes in detail the key characteristics of SIPs and the conditions under which they are most likely to be suitable, drawing on the lessons from the SIPs now under implementation.

The paper consists of five sections. Section two defines SIPs, describes their key characteristics, outlines their essential preconditions, and discusses implementation experience with them. Section three contrasts the SIP approach with the conventional project approach, and shows how SIPs can correct for shortcomings of past approaches. Section four discusses the potential preparation and implementation issues of SIPs. Section five presents the conclusions, and identifies questions to be addressed and areas of future investigations.

\section*{SECTOR INVESTMENT PROGRAMS}

\subsection*{Nature of Sector Investment Programs}

A SIP is a long-term national program covering public expenditures—in whole or in part—in a sector. Unlike a conventional project, it is not confined to a local geographical area nor is it restricted in time. It is based on coherent macroeconomic and sectoral policies, and an appropriate institutional frameworks. It focuses on priority activities resulting from a detailed public expenditure review and development of a sector strategy. A SIP does not include private sector investments; the private sector or NGOs may however be involved in implementing the public expenditure program. A SIP is prepared and managed by the country. Donors are invited to finance time slices of the program and provide implementation support.

The program-based approach is especially valuable for sectors that are key areas of government activity, such as health, education, roads, and agriculture. Distortions in these areas will tend to have large effects on the total economy, which if corrected can have major impacts on economic growth and poverty reduction.

\textsuperscript{2} Only 56 percent of projects completed in sub-Saharan Africa between 1990 and 1994 were judged satisfactory.
MAIN CHARACTERISTICS OF SIPS

SIPS have five key characteristics: (a) they are sector-wide in scope or coverage; (b) they are based on a careful assessment of public expenditures, particularly of the sector involved; (c) they are designed and implemented within a coherent policy framework that identifies strategic policy options and the implications of each for institutional change; (d) they are prepared and managed by the country, with government, local stakeholders, and nongovernmental organizations driving the process; and (e) donors finance time slices of the government’s program rather than individual stand-alone projects (this eliminates the need for multiple and often overlapping implementation units, and helps build long-term capacity within the country). Each of these characteristics is described in greater detail below.

Sector-wide in scope. A SIP includes all relevant policies, programs, and projects within a sector, or a subsector. While donors may wish to support specific projects, rather than a time-slice of a SIP, they should base their investment decisions on the strategy for the whole sector.

Analysis of public expenditures. An analysis of the overall program of public expenditures is necessary for three main reasons. First, in most countries the obstacle to growth is not the overall level of spending, but the effectiveness and efficiency of the public expenditure program, including both capital and recurrent expenditures. Often, additional external resources will have little beneficial impact unless the scope and the effectiveness of the sectoral public expenditure program are improved. Rationalizing public expenditures may enable the public sector to expand its activities with no increase in resources. Second, the operation and maintenance costs of investments undertaken through international assistance will inevitably have to be met from the government’s own budgetary resources. The effectiveness and sustainability of investments will be greatly improved if, in the medium-term, these expenditures are included in the budget. Third, given that resources are fungible, a review of public expenditures outside the sector of focus is desirable to ensure that government money does not finance wasteful projects in unrelated sectors.

Policy framework and institutional arrangements. Sound macroeconomic and sector policies are indispensable preconditions for the initiation of a SIP. Supportive macroeconomic frameworks involve acceptable levels of budgetary and balance of payment deficits, moderate inflation, positive real interest rates, and low distortions in the market for foreign exchange. Sector policies should minimize distortions in input and output markets. (Where macroeconomic and sectoral policies are not supportive, SIPS are not likely to be effective and a structural adjustment program should first be considered.) Also essential is a well-defined sector strategy.

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3 This section draws heavily from Harrold, P. and Associates, 1995.
4 There is no universally accepted definition of a sector. It is often loosely defined within an operational context. In agriculture, for example, a sector is sometimes defined functionally to include crops, fisheries, livestock and forestry. In health it is usually defined administratively to include activities covered by Ministry of Health. In this paper, a sector is defined functionally for agriculture and administratively for health, education and rural roads.
that identifies the priority activities to be undertaken by the public sector (including the allocation of funds between recurrent charges and investment). Key elements of such a strategy are (a) a definition of the roles of the public and private sectors; and (b) an analysis of government institutions operating in the sector, including recommendations for restructuring if this would improve the institutional framework.

**Local stakeholders drive the process.** Governments prepare SIPs using considerable inputs from the private sector and nongovernmental organizations in the broad process of consensus-building. Since no degree of outside persuasion or intervention can substitute for genuine commitment to carry through with the often politically difficult agenda involved with SIPs, governments—rather than donors—must drive the process. During the process of consensus-building, the role of donors should be limited to providing international experience and technical advice where requested, or to act as neutral intermediaries between different local interest groups. Experience with SIPs in Kenya, Zambia, and Mozambique shows that the commitment to program objectives that emerges from the process of consultation and consensus-building provides a powerful motivation for private stakeholders to hold government to its promises and to monitor progress towards achieving greater efficiency in the allocation of public resources.

**All donors participate.** A SIP is not likely to be viable unless all the major donors participate in supporting it. This often requires major changes in the way donors manage their investment programs in countries. First, donors should promote the building of long-term local capacity (long-term technical assistance should aim at strengthening or complementing local capacity and be based on a country’s demand). Second, donors should streamline and forge common implementation arrangements (joint supervision, common reporting and financial management system, and, to the extent possible, common procurement methods). Third, all participating donors should integrate their ongoing projects into the SIP framework and work towards pooling their funds and integrating them into the government budget. The goal therefore is to build sound and transparent accounting procedures and administrative rules that would convince individual donors to integrate their funds into the government budget over time. Fourth, in exchange for their participation, donors often require assurance that the agreed public expenditure program is fully funded. The donor with greatest capacity should serve as the “lender of last resort.” The World Bank is generally expected to serve in this capacity.

Involving local stakeholders and gaining the commitments of donors requires patience. Often it will not be possible to achieve these goals immediately. In some circumstances, it may be appropriate to phase in the SIP as donors and government gain experience with it.

**Essential Preconditions for SIPs**

SIPs are not suitable for all countries at all times. SIPs work best in countries with (a) a coherent policy framework that identifies and addresses key macroeconomic and sectoral policy issues (there are no major policy distortions or at least measures are in place to redress existing
distortions); (b) an institutional framework that is based on a detailed institutional assessment of key institutions in the sector and supported by institutional reforms and or rationalization; (c) at least a sectoral public expenditure review that identifies ways to improve efficiency and impact of the public expenditure program, ensure the effectiveness and sustainability of future public investments in the sector, and ensure that development assistance does not support wasteful activities, at least in the sector; and (d) government commitment to the SIP. If these four conditions are not present, other types of investment instruments should be considered instead.

What should be done in countries which do not possess the preconditions for successful operation of a SIP, as is the case in a number of African countries? It may not be appropriate or advisable to wait until a country is ready for a SIP before providing development assistance. In such cases, sector adjustment loans and targeted pilot investment schemes should be considered. Donors can provide support for institution building or reform if needed. Donors can work with stakeholders to build consensus about appropriate future directions. Donors should also take care to avoid perpetuating conditions which hinder development, such as a distorted policy environment. If the policy environment hinders the success of SIPs, then it is likely to hinder that of free-standing projects too.

EVALUATION OF SIPs

The SIP is a program, not a project. Therefore sole reliance on precise economic rates of return (ERR) calculations—standard for evaluating conventional projects—may not be fully adequate for evaluating SIPs. Additional tools for evaluating SIPs include (a) the program’s fiscal impact; and (b) the counterfactual private sector supply response. First, the evaluation should measure the program’s impact on the budget and explain what forms of cost recovery have been considered, and include an assessment of the sustainability of the program and a specific estimate of the marginal cost of funds where possible. Second, the evaluation should carefully assess whether the private sector could have provided goods and services more cost-effectively than the SIP. This is critical to ensure that the private sector is not crowded out and that the activities that are being financed are truly public goods or address externalities that justify public sector intervention (see Devarajan, et. al., 1995, for details on how to carry out the analyses).

As with conventional projects, “key performance indicators” are useful tools in evaluating projects. However, unlike with projects, for which the indicators measure project specific performance, with SIPs, key performance indicators are developed to measure the impact of the program on the whole sector. The key indicators track major changes in the aggregate economic situation (macroeconomic and microeconomic variables), and provide evidence regarding sector performance. They establish, the extent to which growth of output can be attributed to better policies, efficiency gains in the administration of the public expenditure program, or improved delivery of public goods and services. The key indicators would be used to measure changes in household incomes and welfare, and track the effectiveness of public expenditures in reducing poverty among project beneficiaries.
In addition, SIPs have built-in mechanisms that allow local stakeholders and donors to evaluate the program’s performance each year, so that they can make any changes deemed necessary. These annual evaluations are most effective if carried out before the budget process is completed, so that the final decisions arising from the evaluations are incorporated into the annual budget.

THE SIP PREPARATION AND IMPLEMENTATION EXPERIENCE

Although the SIP approach is relatively new, it is already generating considerable information, which can provide guidance on how best to design and implement SIPs. Among key issues this experience can illuminate are: (a) the process of building consensus among and ensuring the broad participation of stakeholders; (b) planning and developing the sector policy and institutional framework; (c) assessing the affordability public sector investments and setting priorities; (d) involving donors in preparing SIPs and integrating ongoing donor-supported projects into the SIP framework; (e) handling of common implementation arrangements; (f) reforming the public sector, restructuring institutions, and decentralizing power and resources; and (g) building local capacity and selectively using technical assistance.

Building consensus and ensuring the broad participation of stakeholders—the public sector, the private sector, nongovernmental organizations, academic institutions and civil society—in the preparation of a SIP is essential to achieve ownership and commitment. The process is however often time consuming and difficult, because the stakeholders often have very different interests. One means for achieving consensus—employed in the preparation of the Zambia agriculture SIP—is to hold workshops and consultations regularly and frequently regarding all aspects of program design. In Zambia, independent facilitators were employed early in the preparation process to help in winning the confidence of the diverse groups of the stakeholders and assist them in forging a consensus. The workshops covered different subjects and were held in different parts of the country to ensure the greatest possible participation of stakeholders. These workshops offered excellent opportunities to learn about stakeholders concerns and to gather their input for use in developing both the content and design of the public expenditure program. In addition, task forces comprised of stakeholders were given responsibility for either the actual preparation of the SIP or the review of the work of consultants. The experience in Zambia—as well as in Tanzania and Mozambique—shows that strong leadership and commitment of key stakeholders (who are drawn from the public and private sectors, communities, and academic institutions) are important to ensure the broad participation of stakeholders with many different interests.

The priority public sector investments supported under SIPs are not likely to have the desired impact unless they are affordable. The first step in ascertaining the affordability of a SIP is to carry out a public expenditure review to determine the total resources available to a sector on a long-term basis and to see whether the allocation of public expenditures is consistent with the sector strategy. Once the resource envelope is determined (based on the projected public
revenue stream from internal and external sources), getting the stakeholders to agree on a public sector expenditure program that addresses the country's priorities in the sector can be very difficult. Different stakeholders have different priorities, and they will work to have them included in the public sector investment program. Reconciling the different and often competing desires can be arduous. However, the issue has been handled effectively in a number of SIPs, which provides guidance on how to proceed. First the ministry of finance must indicate total resources available to a sector, on a year-to-year basis, for the period that is covered by the SIP. Second, a team comprised of local stakeholders writes a “concept paper,” which is debated, and adopted by the key stakeholders once it adequately reflects their concerns. The concept paper offers well-defined guidelines, and provides a point of reference and broad principles for all stakeholders to follow in selecting the activities to be supported. The concept paper also makes explicit that the total cost of activities cannot exceed the resources available as indicated by the ministry of finance. The concept paper serves as a powerful instrument for resisting political and special interest pressure groups, which could otherwise push for greater spending than sound principles suggest. Donors can play useful roles by providing advice upon request, to ensure that the final program is realistic.

Even with careful design and good revenue projections, there is sometimes inadequate counterpart funding of local capital and recurrent costs, due to unforeseen shortfalls in government revenues. It is easier to handle this within a SIP framework than under the conventional project approach. Under the Zambia road program, for example, the Road Board is responsible for providing financing for road maintenance. It also participates in the planning of road works and ensures that approved expenditures do not exceed the revenues available; and that the overall road program is affordable. The joint annual review of work plans and budgets embodied in SIPs permits governments to better prioritize the public expenditure program and identify funds for the coming year, including from lenders of last resort if necessary. The joint annual review also facilitates the integration of the annual programs into the budget process. This holistic approach to public sector management improves the efficiency of public sector investments.

The involvement of donors in preparing the SIP is essential to ensure donor support. During the design and preparation of the SIP, the government or local stakeholders can ask donors for feedback on proposed concepts, elements, and design of the SIP. For example, the government initiated the process of preparing of the Tanzania Integrated Road Program (in which sixteen donors participated), by convening a transport sector donor’s conference. This was followed by periodic structured meetings with donors chaired by the Ministry of Works, Communications and Transport. Before preparing the Zambia Health SIP, the government signed a memorandum of understanding with key donors. After the government presented its National Health Policies and Strategies to the donors in a workshop, the donors wrote a joint donor statement stating their commitment to process. During the preparation, issues that were of concern to donors, such as gender, accountability, and vulnerable groups, were identified and addressed.
Another issue which often arises during preparation is how to integrate ongoing donor-supported projects into the SIP framework. For the Zambia Agriculture SIP, the government prepared a paper on this issue and discussed it with donors. As a result, donors agreed to restructure their projects to fit into the SIP framework over a period of two to three years. The donors and the government now meet periodically to address implementation issues. SIPs contain mechanisms to allow local stakeholders and donors to meet annually to review and agree on the next year’s public investments in the sector before work plans and the budget are finalized.

Limited local capacity is considered to be one of the main bottlenecks to effective implementation of development assistance programs, particularly in Africa. In the past, expatriate technical assistance was often used to address this issue, but with disappointing results. With conventional projects, each donor is primarily concerned with the short-term needs of its projects, so pays little or no attention to building long-term capacity for the entire sector. While there are differences of opinion among donors on the role of technical assistance and its ability to build capacity, under SIPs, expatriate technical assistance can be used only to complement local capacity, and is based on demand. In Pakistan, local capacity was strengthened by establishing a multi-donor support unit (MSU) which plays two complementary roles. First, it is the sole source of external technical assistance to the program. In this capacity it provides technical support to government sectoral agencies in identifying key issues, preparing budgets and creating monitoring systems. In addition, it provides training programs to the departments. Second, the MSU acts as a focal point for dialogue between donors and implementing agencies. For the agriculture SIP in Zambia, the government established, with the assistance of donors, a “capacity-building fund” which finances technical assistance on the basis of demand. The government is using the resources of the fund to hire local experts (consultants and institutions) to provide implementation support. When required expertise is not locally available, the government uses the fund to hire expatriate technical assistance, on short-term basis.

Common implementation arrangements among donors are essential for effective implementation of development assistance. Under the conventional project approach, every donor has its own implementation system for financial management and accounting, disbursement, procurement and reporting. This arrangement puts considerable strain on the limited capacity of recipient countries. It also results in duplication of efforts and is neither cost-effective nor sustainable. SIPs seek to develop common implementation arrangements for donors. Under the Bangladesh Health SIP, co-financing—in the form of a trust fund—was arranged through the Population and Health Consortium which handled the disbursement of most of the participating donors’ funds. The Population and Health Consortium disburses funds using World Bank procedures, and the government needs only report disbursement and procurement activity to the Bank, who then reports to the donors. There is a common, consolidated financial reporting system, and centralized accounting both in Bangladesh and at the Bank. For the Zambia agriculture SIP, the Ministry of Finance allows the Ministry of Agriculture, Food and Fisheries (MAFF) to use “self-accounting.” Under this arrangement, a Financial Management
Unit (a transformed accounting unit of MAFF) was established to integrate development assistance of donors in the government budgeting process.\(^5\)

All donors accept the Sector Performance Analysis, which is prepared by an independent body, as the annual progress report for the SIP. However, harmonizing procurement methods of donors still remains a problem. A number of donors require that their aid is used to procure goods and services from their own countries. This makes it difficult to develop a common procurement arrangement. Consultations are underway among donors to address this issue.

**Programming and monitoring of activities.** Monitoring of program performance is important for three reasons. First, since SIPs normally demand important institutional and policy-changes at the sectoral level, policy-monitoring is desirable not only for donors to make sure the program is “on track” but also for government to ascertain that the policy actions are indeed having the desired consequences. Timely availability of monitoring results not only allows the managers to take corrective actions at relatively little cost but builds public support for the program by providing it with information about its positive impacts.

**SIPS VERSUS CONVENTIONAL PROJECTS IN FOSTERING SUSTAINABLE DEVELOPMENT**

**INTRODUCTION**

SIPs can be more effective instruments for delivering development assistance than conventional projects for several reasons (Table 2 compares and contrasts the features of SIPs and conventional projects). First, they address in a holistic manner, the policy, institutional, and public expenditure frameworks of the sector, and so provide a cohesive framework for financing development projects. Second, the SIP approach is well-suited to capture synergies arising from investments in complementary sectors, which can accelerate growth beyond what could be achieved through either alone. For example, investments in rural roads complement those in agriculture by assuring that farmers can deliver their increased output to markets. Similarly, investments in education increases the likelihood that farmers will learn about new technologies, and adopt them. Third, by empowering local stakeholders to take the lead in designing and implementing projects, SIPs assure better targeting of poverty programs.

This section attempts to demonstrate that the features of SIPs makes them more effective instruments for delivering development assistance than conventional projects in both the productive and social sectors. It should be noted that very few SIPs have been in operation long enough to provide data for testing. This paper, therefore, will attempt only to establish a relationship and not causality and why SIPs would be more effective than conventional projects.

\(^5\) The capacity of the financial management unit is still being strengthened. While some donors are channeling their resources through the financial management unit, others are waiting until the unit has attained international standards.
Table 2 Comparison between conventional projects and sector investment programs

<table>
<thead>
<tr>
<th>Features</th>
<th>Conventional Project</th>
<th>Sector investment program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coverage</td>
<td>Free standing investment usually localized in a given geographical area or activity.</td>
<td>Sector-wide in scope, usually covering all the country’s public expenditures program in the sector.</td>
</tr>
<tr>
<td>Precondition</td>
<td>Economic rate of return above opportunity cost of capital.</td>
<td>Coherent strategy for sector development, including policies, institutional arrangements and affordability.</td>
</tr>
<tr>
<td>What is financed?</td>
<td>Discrete investments. Where there are capital costs and recurrent costs, the project finances capital costs.</td>
<td>Time slice of sectoral public expenditure program, including both capital and recurrent costs.</td>
</tr>
<tr>
<td>Time horizon</td>
<td>5-7 years</td>
<td>About 10-20 years, but the first time slice is for 4 to 5 years; with the possibility of renewal.</td>
</tr>
<tr>
<td>Implementing agency</td>
<td>Project management unit in line ministries with each donor adopting its own implementation arrangement.</td>
<td>Line ministry, complemented by local institutions; common implementation arrangement among donors is advocated.</td>
</tr>
<tr>
<td>Monitoring arrangements and indicators</td>
<td>Project level success indicators.</td>
<td>Overall sector performance plus progress in sub-program implementation.</td>
</tr>
<tr>
<td>Donor coordination</td>
<td>Optional</td>
<td>Essential</td>
</tr>
</tbody>
</table>

**Contrasts between SIPS and Conventional Projects**

**Policy Framework.** Empirical evidence presented in the literature shows that the adoption of appropriate macroeconomic and sectoral policies facilitate economic growth. Policies that foster sustainable development are those that eliminate or minimize distortions, encourage the efficient use of the assets owned by the poor, expand access of the poor to the factors of production, and reduce the burden of taxation on productive activities. Thus, the Bank and other donors have taken measures to address policy issues that affect the success of their conventional projects. However, most of these policy measures are project-specific. Policies
which are outside the boundaries of a project, but which none-the-less affect its performance, are likely to remain unchanged. It is difficult to have a holistic overview of the sectoral policy framework within the context of the free-standing project approach. SIPs, on the other hand, take a programmatic approach to addressing policy issues. Furthermore, SIPs require governments to enact and maintain a sound and coherent macroeconomic and sectoral policy framework. SIPs therefore have greater potential than free-standing projects to bring about the conditions that favor sustainable development.

**Sectoral Context.** A SIP provides a framework within which all donors in the sector operate. Ideally, donors finance time-slices of the government's sector program. However, if for operational reasons, donors choose to finance individual projects, at least the projects are firmly anchored in the sectoral strategy. Furthermore, a SIP can enhance the effectiveness of public sector management by replacing several separate projects in any given sector with a single sector operation. This allows the public sector to focus its limited managerial capacity on achieving the true public priorities. In addition, SIPs can lead to a reduction in public sector expenditures through efficiency gains arising from improved coordination of donor activities and the rationalization of public sector management emerging from the program. The SIP approach contrasts with the conventional approach to investment lending. Under the conventional approach, each donor designed its own projects, without regard to a broader strategy. This often led to duplication and fragmentation of projects, and to marginal performance.

**The Public Expenditure Program.** The Bank and many other donors routinely carry out public expenditure reviews before embarking on projects. One reason is to be sure that the projects they support are affordable and can be sustained. This is an important and welcome change from the past. Still, a project that appears affordable when analyzed as an individual operation may not be when reviewed in a sectoral context. In addition, not all projects which generate an acceptable economic rate of return (often defined as 10 percent) will be among the core priority activities in a sector. It is not surprising that many free-standing projects, particularly in Africa, receive insufficient counterpart funding and are not sustained. The SIP approach offers promise of overcoming this problem. A SIP requires an analysis of the public expenditure program and the development of coherent sectoral strategic vision that is shared by both the government and the donors regarding investments in the sector. A SIP provides countries and donors with a coherent framework for allocating resources to core public sector investments. It assures that the sectoral investment program is within the resource envelope, is affordable, and is sustainable. Furthermore, it eliminates the artificial dichotomy between recurrent and capital expenditures and minimizes the potential for duplications and waste in public sector investments. More importantly, since public spending is focused on true priorities, SIPs move the public sector investment portfolio closer to the efficiency frontier. By definition, this leads to higher social and economic rates of returns, better commitment to success by both government and donors, and greater development impact, than a typical conventional project.

**Local Institution Building.** The important role of local institutions in fostering sustainable development is often overlooked in the conventional project approach. Frequently, institutional weaknesses are addressed through supply-driven expatriate technical assistance
without identifying and addressing the beneficiaries' long-term needs and desires. Under SIPs, stakeholders are required to drive the preparation and implementation processes. Therefore the SIP approach may be more effective than a conventional project approach in furthering sustainable development. In addition, SIPs encourage local stakeholders to work within their indigenous institutional frameworks, and to draw upon local knowledge. The question is not whether technical assistance is effective in complementing local capacity when needed. Rather, it is whether technical assistance assists in building local capacity for people to design and implement their own poverty programs. In addition, SIPs can help in building institutional capacity in the country. By moving responsibility for service delivery from the central government to district and local governments, SIPs help build capacity at the levels of government that are most in contact with beneficiaries, and thus promise to enhance the efficiency and effectiveness of service delivery. Furthermore, it engages independent local institutions to conduct an annual analyses of the program's impact on intended beneficiaries. The resulting analyses, which are routinely made available to all donors and local stakeholders, provide key information on the effectiveness of the program, which the government and stakeholders can use to fine-tune the program during implementation.

**Performance Monitoring within SIPs and Conventional Projects.** New generations of Bank-supported projects now contain performance indicators as primary features. Most of these projects have monitoring and evaluation cells, through which their performance can be periodically assessed. While these recent improvements are important in evaluating the development impact of free-standing projects, the end result is often distorted. The reason is the difficulty of accurately pinpointing the contributions of a given project in a sectoral context where there are many other factors at play. One of the great advantages of SIPs is that they provide a framework to clearly specify and monitor the desired outcomes each year. This enables policy-makers to compute and compare, in a disaggregated manner, the impact of sectoral policies and investments. Under a SIP, it is possible to track the impact of major changes in the aggregate economic situation, such as inflation, exchange rates, and pricing policies, on the performance of a sector. In addition, a SIP enables analysts to track sector performance and to analyze the extent to which growth of output and changes in other key performance indicators may be directly or indirectly due to key sectoral and aggregate policies. Furthermore, a SIP makes it possible to monitor, in a programmatic way, the cost to government of alleviating poverty through different interventions and to gain a better understanding of who benefits from public spending, important information that is difficult to capture through the conventional project approach. Thus, it can be argued that SIPs offer policy-makers a better tool for evaluating the impact of development assistance.

**Handling of Pilot Schemes.** Clearly, many poverty reduction initiatives would be handled more effectively through piloting and learning from experience. However, many pilot schemes are designed and implemented by external experts who may not have a sound understanding of the unique issues facing the local people. In addition, pilots often fail to include benchmarks that trigger expansion. As a result, many pilot initiatives are left as small-scale, geographically-restricted operations, even when they show promise of generating real development impact.
Under SIPs, pilot schemes contain trigger points. In addition, they are monitored, evaluated, and adjusted regularly. Pilots under SIPs therefore fulfill the objectives of pilots—learning and mainstreaming based on experience.

**SIPs and Basic Social Services**

Poverty and its causes are multi-dimensional and cannot be adequately tackled through economic growth alone. The provision of basic social services such as primary health care, nutrition, infrastructure (rural roads, water and sanitation), and primary education is important to reduce poverty. In many countries in Africa and Latin America, the provision of social services has received limited attention in the fight against poverty. The result is the high incidence of infant mortality, poor nutrition and low primary school enrollment. In fact, progress in reducing poverty has been greatest in countries that implemented measures to increase economic growth while providing basic social services (Binswanger and Landell-Mills, 1995). SIPs in health, education and infrastructure (especially roads) can be useful in providing social services to the poor and complement SIPs in productive sectors, such as agriculture.

**Health and Nutrition SIPs.** In Sierra Leone, Mozambique and Zambia there are health SIPs under implementation. Through these SIPs, governments have redirected public expenditures in health services from research in teaching hospitals to preventive care and rural clinics, which is much more in accordance with beneficiaries needs. As a result the poor now have far greater access to health services, particularly in the rural areas. SIPs are also addressing undernutrition and malnutrition, problems which are pervasive among the poor. Since health SIPs are designed and implemented by stakeholders to address their priority health issues, they are more likely to be effective in delivering services than other types of projects.

**Education SIPs.** The importance of education in reducing poverty is well established. Educated mothers are more likely to have and raise healthier children, and meet their nutritional needs. Educated farmers are more likely to adopt new technologies and obtain higher returns from investments on their land. The features of SIPs make them good instruments to address the educational needs of the poor. Although most of the SIPs in education are still under preparation, their designs are already reorienting public expenditure to primary education, with greater emphasis on education for girls, which will likely have a greater impact on agricultural production and food security than the current pattern of expenditure.

**Road SIPs.** The poor typically have less access to public infrastructure than the well-off. The importance of rural infrastructure, especially rural roads, in reducing poverty cannot be overemphasized. Not only do rural roads improve the poor’s access to markets which promotes agricultural growth, they also increase their access to social services such as health clinics and primary education. In Ghana, Mozambique, Tanzania and Zambia where road SIPs are either under preparation or implementation, the services to the poor have improved. The SIPs have introduced road funds to ensure that the roads, once constructed, are regularly maintained.
SIPs have also maintained the principle of connectivity among villages, by building structures between drainage and river points, which enhances access to roads during the rainy season. The result is an uninterrupted and sustainable service to the poor. More importantly, because the local stakeholders take responsibility in determining the location of the access roads, the roads are more likely to be built in areas with high agricultural potential, thereby complementing productive investments in the rural areas.

POTENTIAL PREPARATION AND IMPLEMENTATION ISSUES.

While the early preparation and implementation experience of SIPs are encouraging, there are potential issues that could impair their effectiveness if not quickly addressed. Five potential obstacles deserve immediate attention. They are (a) cost of preparation; (b) poor implementation arrangements among donors; (c) absence of residual lender financing; (d) difficulty in building and sustaining consensus among stakeholders; and (e) inadequate country institutional capacity.

Preparation Costs. There is a perception that the cost of preparing SIPs is very high compared with that of preparing conventional projects. For example, the Zambia Agriculture SIP cost US$1.2 million to prepare, in contrast to the US$150,000-US$200,000 used to prepare a conventional project. However, the Zambia ASIP covers six activities that would otherwise be carried out as separate projects (forestry, coffee, research and extension, marketing fisheries and rural finance). In addition, it involved expenses of about US$500,000 for a public expenditure review and institutional assessment, which are normally provided as part of the non-lending services of the Bank. A review of selected agricultural services project in southern Africa shows that these projects cost an average of about US$500,000 to prepare (Table 3).

Excluding the costs of the non-lending services, and considering the number of projects it replaced, the costs of preparing the Zambia ASIP was actually quite low. Furthermore, donors expenses for preparing individual projects fell significantly—the ASIP replaced more than 100 donor-funded projects. As a result of their promise, donors are now contributing to the preparation of SIPs, reducing the Bank’s financial burden.

It is expected that the costs of preparing the second time slice of a SIP will be much lower than for the first, since preparation will build on the earlier work. Thus, the costs of preparing SIPs may not differ significantly from those of preparing conventional projects. However, even if SIPs do cost more to prepare, they also generate larger benefits, justifying their higher costs.

Implementation Arrangements. Governments, with the support of the local stakeholders, have the primary responsibility for implementing SIPs. Donors, as partners, provide implementation support—which can be critical for the smooth implementation of SIPs. SIPs should contain mechanisms to facilitate rapid response to deal with implementation issues and constraints as they arise. It can be helpful if donors are in the field and available to resolve issues with SIP management teams. In addition, SIPs should have mechanisms to facilitate coordination of investments in complementary sectors, such as agriculture and infrastructure.
Common implementation arrangements among donors would facilitate implementation and reduce the burden on the country’s limited staff and financial resources. Efforts are being made to adopt common reporting and auditing standards, including joint supervision arrangements under some on-going SIPs. However, the lending policies and procedures of many donors make it difficult to adopt common arrangements for all. The policies of some donors prevent them from pooling their resources with those of the government to finance agreed programs. Bilateral donors are required to use their aid to procure goods and services from their home countries. Finally, international financial institutions have procurement guidelines and methods that are sometimes rigid. Unless these issues are addressed, it can be difficult to fully realize the potential offered by SIPs. Therefore it is advisable to form a group within the auspices of an international forum such as the Special Program for Africa (SPA) to review and recommend ways of harmonizing donors’ implementation arrangements.

Table 3 Costs of preparing and implementing SIPs (selected projects)

<table>
<thead>
<tr>
<th>Preparations cost (US$)</th>
<th>Implementation cost (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zambia ASIP</td>
<td>1.2 million&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>Kenya National Agricultural Resources Project</td>
<td>621,000</td>
</tr>
<tr>
<td>Malawi Agricultural Services Project</td>
<td>656,000</td>
</tr>
<tr>
<td>Tanzania Agricultural Research Project</td>
<td>540,000</td>
</tr>
<tr>
<td>Zimbabwe Agricultural Services and Management Project</td>
<td>437,000&lt;sup&gt;d&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

Notes:

a/ Costs are actual and include contributions from Trust Funds.
b/ Costs include about US$500,000 for an institutional assessment of the Ministry of Agriculture and a public expenditure review.
c/ Zambia is in the first year of implementation. The data reflects the actual cost of the first year of implementation as of December 31, 1996.
d/ The Zimbabwe project is still under preparation.


Donor of Last Resort. Once the government and donors agree on the overall size and components of the public expenditure program, every effort should be made to ensure that it is fully funded. This is essential for the success of SIPs. If donors finance only the individual components that suit them at any given time, leaving the others unfunded, then the integrity of the whole program is put at risk. Managers of unfunded components may seek to make separate arrangements with existing or new donors, thereby recreating the very fragmentation and
duplication which SIPs promise to eliminate. Thus there is a need for one or more donors of last resort, who provide financing for expenditures which would otherwise be uncovered. In most cases, the World Bank is asked to play this role.

Implementation experience of several on-going SIPs, such as the Zambia Health SIP, reveals that the World Bank is not yet well-equipped to be donor of last resort. The World Bank is currently exploring ways to adjust its internal regulations to allow it to better fulfill this role. One option under consideration is to treat financing of the SIP as a line of credit, as is done for sub-projects under financial intermediation loans. In this case, Bank financing for SIP sub-programs would be reviewed and approved on an annual basis.

**Building and Sustaining Consensus Among Stakeholders.** Broad participation among stakeholders is essential for commitment and ownership, and therefore sustainability of investments and activities. Participation must continue beyond program preparation, and also include implementation. The early experience of SIPs shows that it is difficult to sustain the interest of all the stakeholders, particularly the private sector, unless appropriate incentives are provided. Linked to this, is the issue of sustaining donor participation through coordination of donor activities. While governments are expected to take the lead, many governments of developing countries have not fully made the transition to giving rather than taking instructions from donors. At the same time, while most donors agree in principle that governments should lead the process, they are still reluctant to follow. The issue of donor coordination would be better handled within the auspices of donors fora such as the Special Program for Africa (SPA) or Consultative Group (CG) meetings. Sustaining participation among local stakeholders would be better handled on a country-to-country basis through experimentation. Resolving these issues will take time, but unless they are addressed, implementing and sustaining SIPs will be more difficult.

**Institutional Reform and Capacity Building.** In a number of countries, especially in Africa, the provision of government services is inefficient. To improve efficiency often requires institutional reform. Reforming or building institutions is almost always difficult and time consuming. Most on-going SIPs include components for institution-building, but the implementation of these components has often experienced significant delays. This can undermine the ability of governments to lead the preparation and implementation of SIPs, and reduce the confidence of both donors and local stakeholders in the approach. It is thus highly advisable to complete an assessment of institutional capacity and to have in place an appropriate institutional framework before embarking on a SIP. It is suggested that during preparation, more attention be paid to developing a detailed action plan for institutional reform that is achievable and which can be closely monitored and periodically updated. While capacity is being strengthened, it is prudent to limit the coverage of the SIP to public expenditure programs carried out within the administrative boundaries of a line ministry. As capacity to deal with complex institutional issues grows, the public expenditure programs of more than one ministry can be supported under one SIP.
CONCLUSION

THE SIP: A PROMISING TOOL

The SIP is an instrument which offers to dramatically improve sustainable development impact of government and donor resources. SIPs address the underlying conditions which have hindered project performance in the past: poor policy frameworks, weak institutional capacity, a lack of stakeholder participation and commitment, and a misapplication of donor and national resources. SIPs thus overcome many of the limitations of the conventional project approach to development assistance. However, the SIP approach is still new and its progress needs to be continually assessed. This is why SIPs contain mechanisms to ensure periodic monitoring and evaluation, and are sufficiently flexible in design to allow for periodic adjustments.

The SIP can be a more powerful tool in addressing poverty than the conventional project. Empirical evidence shows that there is a close correlation between agricultural growth and rural poverty reduction. The SIPs have greater potential for accelerating growth by (a) putting in place and maintaining appropriate policy framework; (b) rationalizing public expenditure programs and identifying priorities for investment both within and between sectors; and (c) encouraging broad participation of key stakeholders, including the private sector, in program formulation, implementation and evaluation. In addition to economic growth, sustained poverty reduction requires targeted programs. The effectiveness and sustainability of poverty programs depends on the capacity of local institutions which administer them. SIPs are superior to conventional projects in building the capacity of local institutions and stakeholders to design and implement programs and deliver services.

Of course, poverty and its causes are multi-dimensional and cannot be adequately resolved through economic growth alone. The provision of basic services such as primary health care, education, nutrition, infrastructure (rural roads) and rural finance are fundamental to reduce poverty. In fact, experience shows that progress in reducing poverty has been greatest in countries that implemented measures that increased economic growth while providing basic social services. Although it is still too early to draw definitive conclusions, the preliminary implementation experience of SIPs in health, education and infrastructure strongly suggests that they are more effective in delivering of basic services to the poor than conventional projects.

IMPLICATIONS FOR DEVELOPMENT ASSISTANCE AND POVERTY REDUCTION STRATEGIES

The overarching objective of the Bank and other development agencies has been and continues to be poverty reduction. However, the Bank has in the past generally used the conventional project approach to achieve the goal of poverty reduction. The result has not been unqualified success. Projects often failed to bring about policy and institutional reforms, did not encourage broad participation of local stakeholders, and did not do enough to build local capacity. SIPs correct these shortcomings. The features of SIPs allow them to incorporate the Bank's lessons from the past while permitting room for continuing experimentation. SIPs
therefore merit consideration as an effective means for fostering sustainable growth, especially in Africa and South Asia.

Despite their potential, SIPs are not suitable for all countries at all times. SIPs work best where a country has: (a) a coherent policy and institutional framework (there are no major policy distortions, or at least there are measures in place to redress distortions); (b) a sector strategy which clearly identifies the long-term vision for the sector; (c) a completed sectoral public expenditure review which analyzes sectoral public expenditure patterns, and provides assurance that future expenditures will be sustainable and consistent with sector strategy; and (d) an institutional assessment—assessing capacity to implement the program and identifying actions needed to strengthen capacity. The SIP approach is no panacea. SIPs work only if governments are truly committed to them and are fully aware of their implications and potential problems. Furthermore SIPs work only if the public investment program is of good quality and is affordable.

**Suggested Further Studies**

SIPs are under implementation or preparation in more than fifteen countries in Africa and South Asia. During the next few years, they will generate considerable data. It is recommended that follow-up country specific studies on SIPs be carried out to assess their impact on poverty.
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