Improving The Impact of Development Assistance: Sector Investment Programs

Introduction

The program-based approach to providing development assistance, especially sector investment programs (SIPs), has recently attracted attention in the development community, especially in Africa. The key elements of the approach, and the rationale for its adoption are often not well understood. This note discusses key issues important to the design, implementation, and monitoring of SIPs. It describes the evolution of the program-based approach, defines SIPs, and explains how SIPs improve on conventional approaches. It discusses the situations in which SIPs are most likely to be successful, and describes some early experiences with their design and implementation.

The Evolution Of The Program-Based Approach

Investment projects

Historically, lending to developing countries has been predominantly through free-standing investment projects, which were intended to alleviate a shortage of human or physical capital assumed to be preventing less developed economies from achieving their full productive capacity. While many conventional investment projects do meet their objectives, a significant proportion do not. Studies reveal that conventional projects fail for several key reasons, including: (a) poor policy environments of recipient countries; (b) a lack of beneficiary participation in project design and implementation, which resulted in a absence of commitment and ownership; (c) a failure to fully assess the cost of projects (considering both capital and recurrent expenditures), in the context of a total public expenditure program; and (d) an inclination to design projects which were excessively centralized and state-oriented. An additional problem is a tendency to implement the projects through independent project management units created especially for this purpose: these facilitate project implementation in the short-term, but fail to build or sustain capacity for long-term project management.1

Sector adjustment programs

For many countries, a first response to address needed policy reforms is to initiate a sector adjustment program. Sector adjustment programs are valuable for “stroke of the pen reforms” (for example, elimination of export tariffs), which can be implemented in a short time period. However, they are less suitable for reforms which require broad public consensus and major institutional and regulatory changes.

Sector investment programs

By combining policy reforms with key sectoral investments, sector investment programs address the factors that have contributed to poor project performance in the past. They focus on national programs rather than individual projects. They address needed policy, institutional, and regulatory reforms. They are based on a careful assessment of the overall public expenditure program, and provide a means of selecting and funding priority investments.

1 For example, in Zambia before initiation of the Agriculture Sector Investment Program, there were 180 known donor-funded projects, each with its own administrative arrangement.
They are prepared and managed by government and stakeholders, and are implemented through existing national institutions. Finally, they provide a framework for coordinating donor activities.

SIPs are based on five key principles:

- They are designed and implemented within a coherent policy framework that identifies policy options and the implications of each for institutional change and medium-term resource needs;
- They are sector-wide in scope or coverage;
- They are based on a careful assessment and prioritization of public expenditures;
- They are prepared and managed by the country with government, local stakeholders, and nongovernmental organizations driving the process;
- Donors finance slices of the government’s program rather than individual stand-alone projects.

SIPs are generally implemented over a medium-term time horizon (10-15 years, although donors’ immediate commitments may still be shorter-term). In line with the broad scope of the operation—both in terms of participants and activities—careful monitoring of the program is critical. Monitoring focuses on both progress in sub-program implementation and overall sector performance, and success or failure of the program is explicitly measured in terms of overall sector development.

Essential preconditions for SIPs. SIPs are not suitable for all countries at all times. SIPs are beneficial only if governments are truly committed to them and are fully aware of their implications and potential problems. SIPs are likely to work best where there are the following: (a) no major policy distortions, (or at least there are measures in place to redress distortions); (b) a sector strategy which articulates a long-term vision and identifies priorities; (c) a commitment to rationalize public expenditures based on past public expenditure patterns, and identifies future priority expenditures that will be sustainable and consistent with the sector strategy; and (d) a clear understanding of institutional capacities to implement the program and measures to address institutional weaknesses.

Preparation And Implementation Of A Sector-Wide Program

Currently, there are about 10 Bank-supported SIPs under implementation and more than 40 under preparation. Experience with them identifies the elements that need to be considered in the preparation and implementation of SIPs.

Participation and consensus building. A key element of SIPs is that they involve all major stakeholders (public and private sector, potential beneficiaries, non-governmental organizations, universities, civil society) in program design. The process of preparing SIPs includes workshops and regular consultations to build consensus around a set of key issues, and to ensure government commitment and local ownership of the program. Building consensus can take considerable time, and SIPs often take longer to prepare than conventional projects. However, the systems of communication and cooperation that are established during preparation will be useful during implementation and will help ensure that the program is truly sustainable.

Sector strategy and institutional framework. While a country’s macroeconomic policies should be reasonably sound before the initiation of a SIP, there may still be some sector policy issues to resolve within the context of SIPs. SIPs must therefore be based on a realistic analysis of a sector’s policy issues, its current and potential role in the economy, key constraints and options for addressing them. This will allow stakeholders to address the key elements of the program, including the relative roles of the public and the private sector in providing services. For example, governments may finance services, but contract out delivery to private providers or nongovernmental organizations rather than delivering them through a bureaucracy of its own.

Public sector reform and capacity building. One of the objectives of a SIP is to build local capacity to provide goods and services. If at the start of the program, government agencies lack capacity to efficiently provide essential services, then public sector reform—including restructuring of government institutions—is a necessary part of a SIP. This
activity is often difficult. Many of the SIPs approved thus far have experienced significant delays in disbursement and implementation due to failure to complete the restructuring of public institutions within the agreed time-frame. This suggests that during preparation, more attention should be devoted to developing a detailed outline of the steps involved in implementing the restructuring program; obtaining assurances that the program is compatible with existing government regulations; and ensuring that the necessary finances (for example, severance payments) for the program are available.

It is also essential that the government demonstrate its willingness and ability to address the topic effectively through upfront actions. Lack of action may reduce stakeholders’ enthusiasm and confidence in the approach, and may discourage donors from transferring partial control of their operations to a not yet functioning government structure.

Review of public expenditures. SIPs finance priority activities whose selection must be based on an analysis of the overall public expenditure program. In most countries the obstacle to growth is not the overall level of government spending, but the efficiency of the public expenditure program. Rationalizing public expenditures may enable the public sector to expand its activities using the same resources. The operation and maintenance costs of any investments undertaken through external 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.

Donor participation. 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 respond to donor concerns. Fourth, in exchange for their participation, donors often require assurance that the agreed public expenditure program is fully funded. To ensure that the program remains fully funded, a donor should be designated to serve as the “donor of last resort,” and provide financing for whatever expenditures are not covered by other commitments.

Implementation arrangements. Smooth implementation of SIPs requires extensive dialogue and a continuous flow of information among the stakeholders, particularly on procurement, flow of funds, and auditing. It also demands procedures that allow quick change in the program in response to issues and obstacles as they arise. Consequently, most SIPs which are now under implementation undergo an annual “joint government/donor review” during which the government presents to donors implementation results of the past year, the work plan for the next year, and an analysis of sector performance. The latter focuses on progress in implementing policy changes, overall program performance, and the outcomes and the impact of specific sub-programs.

Programming and monitoring of activities. It is important to develop and agree on indicators with which to monitor the performance of the program. This 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 affects. 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. Second, information on the cost of publicly provided services and who benefits from them helps to refine the program approach and to compare the costs and benefits (however imperfectly quantified) of specific public programs within and across sectors. Third, results from monitoring provides governments and stakeholders with information they need to modify the
Establishing a network through which countries and donors can exchange experiences and share best-practices would go far to ensure that sector-wide approaches truly fulfill their potential.

**Conclusion and Next Steps**

The program approach is an important new way of providing development assistance, which promises to improve the development impact of government and donor resources under particular circumstances. 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 misallocation of donor and national resources. 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.

This brief review of important experience and issues shows that, despite broad agreement on principles, considerable work needs to be done to fit the general approach outlined here to the specific needs of particular sectors and individual countries.