The Sector-Wide Approach
organising principle for bilateral development cooperation

Version 2

Sector-Wide Approach support group

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1. Introduction

The sector-wide approach as an organising principle
The decision in 1999 to introduce the sector-wide approach as an organising principle for Dutch bilateral development cooperation policy has prompted many changes. Not only has it meant introducing different policy, it has also – and most importantly – entailed a change of mentality and a new way of working.

Over the past four years, much has been done to foster this process of change. New policies have been formulated and existing procedures adapted. Knowledge and experience has been exchanged on many levels. Seminars and workshops have been organised and training courses held. Temporary working groups have examined sub-themes. Aspects of personnel policy have been revised and new monitoring instruments introduced.

All this has taken place against a background of ongoing change. The Poverty Reduction Strategy Papers (PRSPs), for example, were phased in very soon after the launch of the sector-wide approach. The 21 DAC targets were replaced by the Millennium Development Goals (MDGs). The Dutch government revised its budgeting and accounting system in the ‘From Policy Budgets to Policy Accountability’ (VBTB) operation. Other donors are also showing a growing interest in the sector-wide or programme-based approach. Inter-donor cooperation is intensifying and has moved up the political agenda. It is also moving from information exchange through coordination to harmonisation.

The term ‘sector-wide approach’ is becoming increasingly established. This does not mean it is no longer being discussed, but the debate has moved in a new direction. Initially focused on underlying principles, it now concentrates on implementation issues and results. In other words, Dutch policy on the sector-wide approach has been evolving.

Policy on the sector-wide approach is evolving
Before 1999, the sector-wide approach had been applied on a sporadic basis, mainly in the health and education sectors. Even so, phasing it in as an organising principle for bilateral development cooperation has involved many changes. Experience has had to be acquired ‘on the job’. Some of the early catchphrases, such as ‘no more projects’, no longer apply. Others, like ‘think micro, act macro’, have been reaffirmed.

Dutch development cooperation policy as a whole is also evolving. The policy memorandum Mutual interests, mutual responsibilities (October 2003) discusses these changes while at the same time stressing the need for continuity. It reaffirms the sector-wide approach as the organising principle for Dutch bilateral development cooperation, thereby confirming its status as a working method. What this implies in practice will be detailed in this document.
At the same time, the number of sectors receiving Dutch aid will be limited to two or at most three per country. This has been translated into country-specific proposals in the annual plans for 2004. Extra attention will be given to the following policy themes:

- Basic education
- Reproductive health
- HIV/AIDS
- Environment
- Water

Other policy priorities mentioned in *Mutual interests, mutual responsibilities* which tie in with the sector-wide approach are partnership, good governance, civil society and the private sector. One key feature of the sector-wide approach is that it is not simply a technical or budget-related exercise. It is very much concerned with political issues such as access to public services, the ability to influence and participate in decision-making processes and transparent budgets and expenditure. The political dimension of the sector-wide approach – access to power and power-sharing – will therefore be given increasing attention.

In June 2000 the government published its first (and so far only) policy memorandum on the sector-wide approach. Since the policy had not yet been fully formulated, this memorandum was regarded as the first in a series. Frequently consulted and quoted, it has proved a valuable set of guidelines.

However, it is now time for a new version of the memorandum. Like the first, this new version summarises and consolidates what has been achieved so far. Wherever possible, it refers to existing documents.\(^1\) This version replaces its predecessor.

Although this document is intended for internal use, it can obviously also be shared with external partners. Readers should note that while it explains how the sector-wide approach fits into development cooperation policy as a whole (in relation to coherence, Poverty Reduction Strategy Papers, WTO, harmonisation, etc.), it does not go beyond a discussion of the sector-wide approach itself.

**Contents**
This document takes a look at some of the early concepts related to the sector-wide approach and elaborates them on the basis of experience gained since 2000. It also considers associated dilemmas and issues that have not yet been systematically or adequately addressed. Examples are given wherever possible.

\(^1\) For on-line documents a hyperlink is given.
The document discusses the background, definition and key elements of the sector-wide approach (chapter 2); the sector-wide approach in the context of Dutch development policy (chapter 3); the organisational implications of the sector-wide approach (chapter 4) and dilemmas and unresolved issues (chapter 5). Each section begins with a key message.
2. The sector-wide approach: background, definition and key elements

2.1 Background to the sector-wide approach

*Key message:* The sector-wide approach springs from the realisation that fragmented, project-based aid has too little impact and is insufficiently sustainable. The sector-wide approach is the organising principle for Dutch bilateral aid.

The sector-wide approach was sparked by a series of project evaluations and studies on the effectiveness of Dutch aid during the 1970s and 80s. These found that much of this aid had too little impact and was insufficiently sustainable. Many projects collapsed as soon as foreign experts left and funding dried up. The evaluations concluded that if aid was to have a lasting impact, the following conditions must be satisfied:

- the recipient country must practice ‘good governance’ and be pursuing a good macroeconomic and socioeconomic policy;
- ownership of and responsibility for policy and its implementation must lie with stakeholders in the recipient country;
- aid (including aid provided by other donors) must be coherently deployed and not spread too thinly;
- coordination of policies and aid management among donors and between donors and governments must be effective.

*Fundamental principles*

Many of the principles and assumptions on which Dutch development cooperation is currently based are outlined in *Shaping the 21st Century: the contribution of development cooperation*, which was published in 1996 by the Development Assistance Committee (DAC) of the OECD. It defines an approach in which development strategies are based on partnerships, led by the governments of recipient countries and co-authored by a range of stakeholders (civil society, the private sector and donors). *Shaping the 21st Century* is widely endorsed by the donor community.

*Aid architecture*

In recent years, the sector-wide approach has gained an established place in what is sometimes referred to as the ‘aid architecture’. Central to this architecture are the Millennium Development Goals (MDGs) and their targets and accompanying indicators, which together set a common agenda for the international community.
Many developing countries have translated these aggregated goals into national Poverty Reduction Strategies (PRSs) linked to ‘incentives’ (debt relief and supplementary donor funds). A good PRS should contain a sound poverty analysis. It should also set priorities, including making budgetary choices aimed at poverty reduction. These choices are frequently expressed in terms of priority sectors or themes. In the context of the PRS, the sector-wide approach operates at the sector level.

Many of the key aspects of the sector-wide approach – partnership and ownership, thinking micro and acting macro, broad participation, a focus on institution-building, donor harmonisation, and different aid modalities – also apply to PRSs. There is a clear link between the PRS and the sector-wide approach. Yet the sector-wide approach can be applied even in cases where there is no PRS, provided a national development policy is in place.

The ability to attain the Millennium Development Goals (MDGs) by means of PRSs and the sector-wide approach also depends on developments in world trade and in peace and security. Since these aspects are so crucial, they receive considerable attention in Dutch foreign policy, for instance through the creation of a unit in the ministry which deals with issues of policy coherence, and a stability fund. Yet while there is clearly an interface between these issues and the sector-wide approach, they will not be discussed any further in this document.

### 2.2 Definition of the sector-wide approach

**Key message:** The sector-wide approach is neither a dogma nor a blueprint. Rather it is a working method. It is an organising principle based on a reallocation of responsibilities and therefore involves fundamentally different roles for the various stakeholders compared with project aid.

**International definition of the sector-wide approach**

At international level, the sector-wide approach is defined as “a process in which funding for the sector, whether internal or from donors, supports a single policy and expenditure programme, under government leadership, and adopting common approaches across the sector. It is generally accompanied by efforts to strengthen government procedures for disbursement and accountability. A sector-wide approach should ideally involve broad stakeholder consultation in the design and implementation of a coherent sector programme at micro, meso and macro levels, and strong coordination among donors and between donors and government.” The Netherlands’ interpretation of the sector-wide approach ties in with this international definition and involves a commitment to long-term support for a particular sector.

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2 Or comparable national development plans.
It is important to understand that the sector-wide approach is neither a dogma nor a blueprint. Nor is it designed to provide developing countries with a blank cheque under the guise of ownership. Rather, it is a way of working, an organising principle. The sector-wide approach implies a partnership which involves the simultaneous deployment of different aid modalities. It is a means, not an end. Its ultimate goal is and remains poverty reduction. As a working method, the sector-wide approach covers many aspects. It represents a different way of thinking and, above all, acting. This applies not just to individual actors in developed and developing countries but also to the way in which aid in general is organised – matters which will be looked at in detail below.

**Definition of a sector**

Since the sector-wide approach deals with country-specific sectors and themes, the term ‘sector’ needs to be defined flexibly.

In Dutch policies a sector is defined as a *coherent set of activities at micro, meso and macro levels within clearly defined institutional and budgetary frameworks for which the government has formulated a specific policy*. This definition has been applied from the outset and is still valid. The Netherlands has taken the position that recipient countries need not necessarily nominate ‘classic’ sectors such as health or agriculture. They can also nominate subsectors or themes, provided these are clearly defined subsectors/themes for which policy has or will be formulated. Wherever possible, the sector-wide approach will also be applied to the new priority areas of Dutch aid policies (basic education, reproductive health, HIV/AIDS, environment and water). In most cases this is already happening.

2.3 **The sector-wide approach and poverty reduction**

*Key message: Poverty reduction via the sector-wide approach aims to influence processes that reduce and ultimately eradicate poverty.*

*Key objective: sustainable poverty reduction*

Sustainable poverty reduction remains the key objective of Dutch development cooperation policy. It is in this context that the sector-wide approach must be viewed and applied. Poverty has several, interrelated dimensions. The Netherlands endorses the DAC Poverty Reduction Guidelines, which identify five dimensions of poverty: economic, political (rights, participation, freedom), social (health, education, nutrition), sociocultural (status and dignity) and vulnerability. There are also two cross-cutting themes: the environment and gender equality.

Sustainable poverty reduction is about trying to improve the lives of the poor in all these areas. These processes can take place at micro, meso or macro level. It is therefore a matter of simultaneously promoting sustainable economic growth (pro-poor growth) and sustainable social development (providing basic social amenities, fostering social cohesion and reducing social and cultural exclusion),
empowering the poor and vulnerable, and protecting and improving the management of the natural
environment. The sector-wide approach tries to achieve this by influencing and supporting the sectoral
processes and institutions that reduce poverty rather than funding poverty projects that focus on specific
target groups.

**Cross-cutting themes (GAVIM)**

The sector-wide approach is not simply a question of recipient demand and donor supply. Dialogue on
policy and its implementation will always be necessary. The Netherlands conducts this dialogue with
poverty reduction as the main objective and the other GAVIM themes (good governance, women,
institutional development and the environment) as elements that must always be taken into account. As
a result, political aspects such as fighting corruption and strengthening democratic institutions and
human rights must also be addressed where necessary. This calls for sound analysis of such processes
and interventions — an area in which improvements are still needed. Policy dialogue can also refer to
existing international conventions and agreements such as the Rio Conventions (the Convention on
Desertification, the Framework Convention on Climate Change and the Convention on Biological
Diversity), the World Population Conference in Cairo, the Social Summit in Copenhagen, the World
Conference on Women in Beijing, the Habitat Conference in Istanbul, the Monterrey Summit and the
World Summit on Sustainable Development (WSSD), plus the Millennium Development Goals. The
relationship between the sector-wide approach and the GAVIM themes is outlined in a document published in 2000 which is still relevant.

The following questions often arise when the sector-wide approach is applied: (1) how can donor wishes
and requirements concerning good governance, gender, institutional development and the environment be
reconciled with the principles of partnership and ownership? and (2) should all these themes be given
equal weighting? There are no clear-cut answers to these questions, so a case-by-case professional
assessment is needed of what is feasible. Obviously, if a government is, say, highly committed to a
specific sector policy which will clearly have an adverse effect on women or the environment, then a
policy dialogue must be conducted.

**2.4 Key elements of the sector-wide approach**

The sector-wide approach is not an end in itself but an organising principle, a process-based method of
operating and cooperating. Its aim is to increase the impact of aid by improving its quality and
effectiveness. The key elements of this working method are a micro-macro (planning) perspective, an

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5 GAVIM and the Sector-wide approach, August 2000
http://bznet/content.asp?key=406301&pad=464141
emphasis on partnership with, and ownership by, the recipient country, a multi-actor approach, institutional development, donor harmonisation and a multiannual perspective.

2.4.1 Macro-micro perspective

Key message: Think micro, act macro.

Context
Experience has shown that fundamental and structural solutions to poverty can only be found through a broad-based approach which ties in with the policy of the recipient country. Many of the causes of poverty have their origins in administrative inefficiency, such as deficient sector policy-making and implementation, weak institutions, inefficient financial institutions, inappropriate macroeconomic policy, and corruption. Project-based bilateral cooperation did not take sufficient account of these factors and therefore did not produce sustainable outcomes. Too often, it did little more than create temporary ‘islands of happiness in an ocean of misery’. The sector-wide approach takes more account of the context-specific processes that generate and perpetuate poverty and which therefore play a decisive role in the development of the countries concerned.

How to act
The rule of thumb is: continue to think micro but act macro

In practical terms, this means:

- linking up to national poverty strategies such as the PRSs. Support for sector policy through the sector-wide approach must form part of a national poverty strategy which integrates poverty goals into the macroeconomic framework;
- helping to improve the quality of PRS processes. This includes encouraging input from governments, NGOs and the private sector in the design, adjustment and monitoring of a national poverty strategy. It also means drawing the various poverty dimensions (gender, environment, etc.) into the dialogue with the national (and sometimes local and regional) governments of recipient countries;
- supporting solutions to cross-sector and cross-cutting problems. Coordination between PRSs and the sector-wide approach is often inadequate. The success of the sector-wide approach often depends on factors outside the sector. For example, if public finances are not properly managed and/or civil service reform is not tackled, many sectors will never make genuine progress;
- supporting the development and implementation of a sector policy based on sound poverty analysis. Poverty analyses at micro level must be the starting point and yardstick for all dialogue and negotiation with ministries on sector policy and its implementation;
- strengthening institutional capacity within the sector at all levels: macro, meso and micro. It also means strengthening all aspects – practical, financial and manpower-related – from policy formulation to implementation and monitoring. This support is not restricted to government but
extends to all the organisations that are active throughout the sector. The problem often lies not so much in funding or planning. It is all about putting good plans into effect. That is when the real problems come to light:

- striving for coherence at all levels. In theory, interventions can be applied at any level (micro, meso, macro). But they must be coordinated with, and based on, sector policy;
- encouraging the use of monitoring instruments at sector and micro level. A wide range of instruments is available.

When the sector-wide approach was first introduced, it was often mistakenly thought that the door was now closed to project aid and that the aim was to switch to on-budget support in a sector or even general budget support at the earliest opportunity. This is certainly possible, and in fact desirable, in countries whose governance inspires sufficient confidence, but that is not always the case. Yet where there are clear prospects for structural improvement in a country, the Netherlands will do its best to assist processes at macro level which foster such change. One good option is to provide joint donor support for a country’s sectoral and poverty policies, flanked by programmes to improve public sector management.

**Reality checks**

In practice it is often difficult for donors to monitor what is happening at micro level. After all, their main discussion partners are national governments, many of which are themselves ill-informed due to inadequate monitoring structures or an unwillingness to listen to or appreciate the diversity of their poor populations.

The progressive withdrawal of technical assistance has also made it harder for donors to directly see the impact of policy on a day-to-day basis. Carrying out reality checks (such as applying monitoring instruments at micro level, commissioning research and evaluations and conducting regular field visits), preferably with other donors and the partner government, can reduce the risk of abstract pronouncements and unsubstantiated decisions.

**Decentralisation**

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6 In the definition currently applied by the Netherlands, donor support is designated as ‘on-budget’ if it is in line with (a) parliament’s mandate to adopt or amend the state budget and monitor its implementation and (b) the government’s responsibility to draft the budget and adequately direct spending. ‘On-budget’ support lies in with the recipient country’s existing legislation and procedures, and donor funds are transferred to a consolidated account in the name of the recipient government. Typical forms of donor support which satisfy these criteria are general budget support and sectoral budget support, provided they involve no effective earmarking of funds. Other forms of donor support, such as basket financing, pooled funding and project financing, restrict parliament’s ability to exercise its mandate and government’s ability to carry out its responsibilities and are therefore designated as ‘off-budget’ support.
It is important to note that issues related to decentralisation frequently take centre stage in the micro-macro thinking prescribed by the sector-wide approach. This is because progress within a sector ultimately depends on achieving positive effects at micro level. Effective service delivery by the local government, civil society and the private sector is essential, and not just in the health and education sectors. Obviously, decentralisation is also a cross-sector issue. In fact, strengthening the decentralisation of government services in general is a core area of support in some of the Netherlands’ partner countries. Where possible, the sector-wide approach is applied here too as a working method, in which case it becomes a cross-cutting activity in support of ‘conventional’ sectors. The issue of decentralisation is being given increasing attention. The European Centre for Development Policy Management (ECDPM) recently studied the relationship between the sector-wide approach and decentralisation in five countries.\(^7\)

2.4.2 Partnership and ownership

**Key message:** Partnership, ownership and public support increase the effectiveness and sustainability of poverty reduction. Yet even when these are in place, the real problem is often the lack of implementing capacity.

**Partnership**

When the sector-wide approach was first introduced, the main emphasis was on ownership. Yet while the term ‘ownership’ adequately conveyed the direction in which development cooperation was then moving, the concept proved difficult to implement unambiguously. The concept of ‘partnership’, which has now come into use, reflects the present focus on achieving the right balance between commitment and responsibility on the part of all actors, including donors. Ownership, by contrast, focuses mainly on the responsibilities of recipient countries.

Partnership is based on the added value generated through cooperation between different actors. In a partnership, these actors combine their respective skills, knowledge and other resources to attain a goal which is endorsed by all the parties but which cannot be attained by any one of them alone.

The following basic principles apply to partnerships in the context of international development cooperation:

1. representatives from the three key sectors – government, civil society and the private sector – must be involved throughout, from policy to implementation;

\(^7\) ECDPM; Relating Sector-Wide Approaches and Decentralisation - Towards Greater Policy Coherence: a preliminary synthesis of issues. March 2003. This document is based on a review which was conducted in Benin, Bolivia, Burkina Faso, Tanzania and Uganda between April and November 2002.
II. each partner must be committed to common goals and processes, and must be accountable for the results;

III. partnership must be based on local needs and on a participatory and transparent assessment of the costs and benefits of participation.

**Implementing problems**

Over the past few years, the Netherlands has tried to put the international consensus concerning ownership into practice (in other words, to encourage developing countries to take responsibility for their own development). This has not always been easy. In the imperfect context of weak local institutional capacity for policy formulation and implementation, and the conflicting interests of the rich and poor, the concept of ownership must be applied with care. Weak financial management capacity is an issue of particular concern to donors.

In countries where donor support forms a substantial share of the national budget, there is a genuine risk that PRSPs and SWAs come to be regarded as vehicles for donors ‘ganging up’ on recipient governments in order to dictate their own agendas and priorities. Conversely, in countries where aid makes up only a small percentage of the national budget, ownership by national governments will not automatically lead to effective poverty reduction or to the attainment of the MDGs.\(^8\)

**Questions**

A number of questions arose. For example, does the fact that developing countries are responsible for their own development mean that aid can no longer be made conditional? Or is the relationship really based on partnership, on a two-way commitment in which each partner has certain rights and obligations? Precisely who do we mean when we speak of the ‘recipient country’? At what level should ownership be defined and how do we reconcile the different views and interests of the various ‘owners’? Should we simply apply measures at the highest aggregate level and ignore underlying political tensions and dynamics? Is it just a matter of intentions and plans, or should there be a greater focus on action taken and results achieved?

When answering these questions, it is important to remember that the effectiveness and sustainability of poverty reduction are paramount. Partnership, ownership and broad public support are key prerequisites, according to many evaluations and studies. Sometimes this implies that short-term effectiveness must be sacrificed to long-term impact. There are no golden rules to apply here, although some operational guidelines exist.

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\(^8\) There are admittedly some exceptions. The international community is currently ‘on track’ as regards the first of the MDGs (halving global poverty by 2015). This is almost entirely down to large countries such as China and India. However, it is ‘off track’ as regards the other MDGs (source: World Development Report 2004).
**Rules of thumb:**

- always tie in with the objectives of the agreed sector policy;\(^9\)
- analyse the interests of the main stakeholders and the existing institutional capacity before deciding on levels of intervention and aid modalities;
- take account of existing capacity to formulate and implement policy;
- make partnership explicit and operationalise the concept in each support activity: who owns what and what does this imply?;
- if there is commitment, focus attention on implementation and implementing capacity. Concentrate on attaining the results pledged by the owner and on removing any obstacles;
- reserve the right to discontinue support if a partner fails to deliver. Follow this through if necessary (adopt a businesslike relationship). Partnership and mutual responsibilities mean being able to take your own decisions but also making sure you can live up to your responsibilities.

2.4.3 **Multi-actor roles**

**Key message:** The sector-wide approach is not simply a question of government-to-government-cooperation but involves donors in a complex political interplay consisting of many different stakeholders and political interests. The challenge is to acknowledge the various actors, identify the motives underlying their involvement, and make explicit your own role as donor organisation.

**A multiplicity of stakeholders**

The introduction of the sector-wide approach entailed a major shift of emphasis towards government to government support. In bilateral aid relationships, ownership by the recipient country has been interpreted as follows: the government of the recipient country is committed to the formulated policy and can be held accountable for its implementation. However, it is gradually also being recognised that the government is not the only partner within the sector-wide approach. After all, policy has to be formulated in consultation with a variety of actors both within and outside government and preferably in the context of participative policy-making processes. Empowerment (of and by disadvantaged groups) and social inclusivity go hand in hand and require a strategy based on coalitions and the provision of strategic support for a range of processes and partners.

Experience has shown that this takes time and that donors often need to know and understand more about processes of change. In many cases, such understanding could lead to greater investment in supporting or engaging ‘agents of change’ both within and beyond government.

\(^9\) Often, a sector policy has not yet been formulated (see chapter 3 of this document). This is not necessarily a problem. It can often take some time to define a sector policy which is acceptable to all
Political realities

The sector-wide approach is linked to an all-embracing national policy for which the PRSP provides the overall framework. PRSPs and sector policies are often designed mainly on the basis of a dialogue between donors and technocratic administrators and civil servants. Yet these western-style administrative systems often conceal other social and political realities, something donors have not always fully appreciated. In a multi-actor approach, it is therefore important for donors to recognise and acknowledge opposing political interests and influences in order to make an effective contribution.

The role of civil society is also far from straightforward. In most countries, civil society covers a broad spectrum of interests linked to very different roles and ambitions. Unfortunately, donors are still failing to fully analyse these interests. Yet it is crucial in the context of the sector-wide approach to at least distinguish between representatives who regard themselves primarily as implementers and those who are lobbying for political reform. Both have a role to play in processes of change, but choosing who to work with and how can differ widely.

Strategic cooperation with the Dutch cofinancing organisations (MFO’s) can provide added value in such situations. Over the years, these organisations have built up long-term networks of partners in many countries. This generates knowledge and experience which can boost the effectiveness of aid. The Dutch government is partnering constructively with cofinancing organisations in Bolivia, Vietnam and Uganda.

2.4.4 Good governance, institutional development and capacity building

**Key message:** Development is about reform and social transformation. Good governance is a precondition for sustainable poverty reduction and will therefore be given increasing attention over the coming years, not just at sector level but above all at cross-sectoral level. Institutional development involves rewriting the formal and informal rules that define social relations and thus places a strong emphasis on political and cultural factors. Capacity building has to contribute to this social transformation and therefore goes beyond the mere transfer of knowledge and skills.

Good governance

the stakeholders. In that case, support should concentrate on helping to bring about sector policy. The other operational guidelines listed above will still apply, however.

10 The International Training and Research Centre (INTRAC) in the UK is one of the few organisations to have developed a process for systematically mapping these different interests.

11 See also an attempt to analyse the roles of civil society in SWAps in a report commissioned by NORAD. Stein-Erik Kruse; SWAps and Civil Society: The Roles of Civil Society in Sector Programmes, NORAD, Oslo, December 2002.
Good governance occupies a key role in the policy memorandum *Mutual interests, mutual responsibilities*. Attention for good governance is therefore growing. This calls for a dialogue on human rights, democratic principles, anti-corruption measures and a good business and investment climate, among other things. Many aspects of good governance are cross-sectoral in nature and must therefore be analysed and discussed at the macro level. However, issues such as human rights, democratic principles and corruption also manifest themselves at sectoral level and this requires explicit attention.

**Institutional development**

Development is above all a process of social innovation and change. Poor governance, corrupt political elites and poor coordination between formal, generally western-style institutions and their informal local counterparts more often cause problems in developing countries than lack of funding or a shortage of technical know-how.

Institutions determine individual and collective behaviour and are often seen as defining the ‘rules of play’. In more political terms, they are also mechanisms for regulating power, often with the aim of maintaining the status quo in line with the prevailing norms and values. The essence of institutional reform in the context of social transformation is to ensure that regulatory and decision-making processes do not systematically exclude certain groups. Defining development in terms of institutional reform involves a greater emphasis on the influence of politics and culture.

**Capacity building**

The term ‘capacity building’ began to gain prominence with international development organisations during the 1990s. It now no longer refers exclusively to strengthening organisational capacity but also covers measures to develop the capacity of society as a whole. Capacity building and institutional development are thus two sides of the same coin. In the context of the sector-wide approach, donor organisations must consider how best to support local (organisational) capacity within a sector and how these sector plans relate to cross-sectoral programmes such as decentralisation processes, public sector reforms, public information campaigns and training programmes (such as leadership courses for women). Capacity building/institutional development also involves making contributions to these cross-sectoral programmes, many of which are enabling programmes designed to promote inclusive institutions, better governance and social confidence, accountability and participation.

There is a limit to the extent to which capacity can be imparted or taught. In recent years, donors have come to realise that there is little point in developing capacity through the injection of technical

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12 Section 4.2 of *Mutual interests, mutual responsibilities* contains a clear definition of the term ‘good governance’.
13 The Human Rights and Peacebuilding Department (DMV) at the Ministry of Foreign Affairs is drafting a policy memorandum/manual on good governance.
14 Jean Bossuyt: Mainstreaming Institutional Development: why is it important and how can it be done?; ECDPM, October 2001.
assistance from outside unless it is geared to deepening locally applicable and relevant knowledge. Evaluations have shown that technical assistance solely geared to the transfer of knowledge has little lasting impact. After all, capacity building is not merely a question of transaction but of transformation rooted in local knowledge and capacities. Capacity building is thus primarily an endogenous process, yet one that can also be externally facilitated.

However, this does not mean that we must unquestioningly preserve local capacities and knowledge that are clearly rooted in traditions which are in need of reform. For example, some educational curricula may advocate stereotypical gender-based and ethnic roles. Capacity building based on this type of local knowledge affords little prospect of social transformation.

**Institutional analysis**

Institutional analyses are useful as long as they are carried out in cooperation with the relevant stakeholders and with due regard for prevailing political interests. It therefore follows that *institutional analysis must above all address the question of whose interests are and whose are not represented by the existing institutions and what is the scope for reform.*

If institutional analyses are conducted by national actors, they can yield long-term insights and encourage capacity building. In the context of the sector-wide approach, an analysis carried out with the relevant implementing organisations can itself produce striking results, such as the creation of ownership and greater commitment. One key prerequisite, however, is that during the early stages of cooperation a careful assessment is made of the various players and the balance of power between them; in other words, of the institutional dynamics. This can reveal that the problem lies not so much in a lack of capacity as in the absence of shared goals and priorities. Once again, this clearly shows that there is no such thing as a neutral field of play and that the political dimension must always be taken into consideration. Reform processes are by their nature political and slow-moving, and rarely make for harmonious relations.

**Conflicts and HIV/AIDS**

Social transformation assumes another dimension in conflict situations. If traditional frameworks are destroyed and the future becomes uncertain, the goal of social transformation will sometimes seem unattainable for larger groups of marginalised people. At this stage in particular, it is appropriate for the international community to step in. The key question is whether it has the political will to acknowledge the potentially disastrous impact of the existing situation in terms of negative fall-out for local capacity, political change, peace and stability.\(^{15}\)

\(^{15}\) At the same time, one commentary on a previous version of this document wondered whether the multiplicity of new ‘responses’ and initiatives (including the global funds) might not in fact overburden, bypass or even damage existing systems rather than resolve problems.
The current HIV/AIDS epidemic, which has so far claimed 25 million lives and infected a further 40 million people, 95% of them in developing countries, is undermining social transformation, including the scope for capacity building and institutional development. Once again the question is whether governments, donors and international organisations have the political will needed to turn the tide.

2.4.5 Donor coordination and harmonisation

Key message: Effective coordination and harmonisation between donors and between donors and recipient governments is essential to the success of the sector-wide approach.

Without effective coordination and harmonisation between donors and between donors and recipient governments, the sector-wide approach is doomed to failure.\(^{16}\) Coordination in this context refers to coordinating policy in the framework of a Poverty Reduction Strategy or sector programme. Harmonisation relates to harmonising operational guidelines, procedures and working methods (both between donors and between donors and recipient governments) to reduce transaction costs.

Harmonisation: an interim assessment

Harmonisation focuses on national procedures and systems, where adequate, and on support to improve these systems, where necessary. Experience in recent years has shown that harmonisation works best in countries whose governments support it and are taking active steps to achieve it.

Harmonisation has been given increasing attention in recent years and is now high on the agenda. Dutch embassies in countries with which the Netherlands has a bilateral aid relationship spend much of their time and energy working to bring about various forms of harmonisation.

- At international level, the Netherlands is contributing to stocktaking exercises and to the establishment of ‘good practices’ and codes of conduct to promote harmonisation at country level (within the EU, with its Utstein partners, the World Bank, the OECD/DAC and the SPA). These efforts have had varied success.
- Some countries (Uganda, Tanzania, Vietnam) have achieved a high degree of harmonisation, with less likeminded donors also taking part. In other countries, however, harmonisation is still limited to sector programmes in which donors agree among themselves on a number of procedures.

The Netherlands believes that by signing the final declaration of the High Level Forum on Harmonisation in February 2003,\(^{17}\) enough donors have committed themselves to the harmonisation agenda to enable

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\(^{16}\) In ‘Logical Framework Analysis’ terms, donor coordination and harmonisation are ‘killing assumptions’; in other words, they are crucial to the whole operation. This is reflected in the growing attention for these issues both at national and international levels.

\(^{17}\) Rome Declaration on Harmonisation, 25 February 2003
http://bznet/content.asp?key=473136&pad=464141
real progress to be made. Good reference material is now also available (OECD/DAC’s Good Practice papers)\(^\text{18}\) to support harmonisation. Studies\(^\text{19}\) have shown that existing Dutch rules and regulations are flexible enough to achieve far-reaching harmonisation. Where problems do occur (for example due to differing interpretations of existing rules and regulations or the introduction of new ones,\(^\text{20}\)) these difficulties can be addressed in The Hague.

**Ongoing harmonisation: an area of rapid change**

The Netherlands is taking steps towards further harmonisation, both within the ministry and in the partner countries:

- The Financial and Economic Affairs Department (FEZ) has appointed a harmonisation coordinator to oversee the harmonisation of procedures and regulations at the ministry head office in The Hague. This will involve work at international level as well as within the ministry itself. Many excellent initiatives are now under way, not all of which can be mentioned in this document. However, it is important to be aware of them and to find out about them from the harmonisation coordinator. Examples include the initiatives in Zambia and Vietnam described below.

- Embassies can promote the development of country-specific harmonisation plans setting out concrete priorities and proposals endorsed by the government and at least a core group of donors. This will often be a lengthy process centring on support for government reforms and strengthening institutions;

- We also need to re-examine some of the donor practices we have until recently accepted without question. Harmonisation involves making better use of our own limited capacity and that of recipient countries by organising joint donor missions and policy dialogues, by arranging joint training and workshops, by sharing expertise, reports, analyses and technical assistance capacity and by concluding agreements for mutual representation on consultation and coordination platforms. Forms of ‘silent partnership’ can serve as examples;

- Finally, it is important to keep up the pressure by monitoring progress and calling each other to account.

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**The ‘Harmonisation in Practice’ initiative in Zambia**

This initiative is an interesting pilot launched by the Directors-General for Development Cooperation of a number of like-minded countries. The aim is to make tangible headway in promoting harmonisation in close cooperation with the Zambian authorities.

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\(^\text{20}\) Such as silent partnerships [http://bznet/content.asp?key=461072&pad=464141](http://bznet/content.asp?key=461072&pad=464141)
General lessons in harmonisation from Vietnam

A group of like-minded donors in Vietnam launched two comparative studies: one on transaction costs and the other on aid procedures. These costly and complex studies led to a series of recommendations. Unfortunately they proved difficult to implement, mainly because requests from the field to adapt procedures met with resistance from the various head offices.

Lesson 1: Adapting existing procedures requires commitment from head offices, which need to extend the necessary mandate to the missions. This problem rarely arises for countries where delegation is the norm (the Netherlands, UK).

Too strong an emphasis on harmonisation as an end in itself and on the need to await the green light from head offices undermines the ultimate goal of harmonisation (to improve the effectiveness of aid). In Vietnam, donors therefore opted for a progressive approach based on developing new activities rather than rewriting existing procedural guidelines.

Lesson 2: Existing procedures generally provide enough scope for cooperation to satisfy even the most demanding of donors. In Vietnam, this is being done in the context of the PRSP process and through a Vietnamese government decree regulating the appropriation of ODA.

Harmonisation by like-minded countries exercises a strong ‘pull’ on outsiders.

Lesson 3. It is important not to be exclusive but to admit others if they can find a way of participating in one or more projects run by the group. Acceptance of the PRSP process and of the MDGs as a framework for aid is the element which binds the group and provides the starting point for all joint activities; newcomers must therefore endorse these principles.

Donor coordination and harmonisation via LENPA

At the end of 2001 representatives of a number of donor organisations (CIDA, KfW, NORAD, DFID and DGIS) established a Learning Network on Programme-based Approaches (LENPA) to exchange information on all aspects of PRSPs and SWApS (jointly referred to as Programme-Based Approaches, PBAs). A conference is organised each year. In 2002 it was hosted by CIDA, with ‘Accountability and Risk Management’ as the central topic. The Netherlands held the position of LENPA coordinator in 2003. In November 2003 GTZ and KfW organised a conference focusing on improving the effectiveness of PBA implementation. Delegates discussed the allocation of tasks and roles between central and line ministries, decentralisation issues and the role of non-governmental organisations. Japan will organise a conference on PBAs in Asia in May 2004, assisted by CIDA. In early 2005, a conference will be organised by USAID, which will have issues of capacity development as its central theme.

2.4.6 Multiannual perspective

Key message: Structural cooperation as envisaged by the sector-wide approach calls for long-term commitment. However, this is sometimes difficult to sustain in the face of uncertainty concerning political and economic developments on both the donor and recipient side.
Genuine structural cooperation as envisaged by the sector-wide approach requires long-term planning and action. This principle is widely endorsed.\textsuperscript{21} Yet it is currently one of the thorniest aspects of the sector-wide approach, since each long-term commitment requires above all a long-term political commitment linked to the guarantee of a multiannual budget.

\textit{Political uncertainty}

This political commitment must come not just from the recipient governments but also from the donors themselves. Political commitment on the donor side is regularly put to the test. The sector-wide approach cannot be viewed in separation from the political environment in which aid is given. Continuity on both the donor and the recipient side is a must. This is not always easy to achieve, however. Moreover, as has become apparent, in a climate of national economic recession or zero growth, the Dutch development budget is just as exposed to cutbacks as any other policy area.

Relationships between partners are subject to both ‘highs’ and ‘lows’. Donors are responsible for some of these ‘lows’.\textsuperscript{22} Long-term commitment to the sector-wide approach will remain vulnerable to internal political and economic changes. This can unfortunately no longer be ignored. The availability of development funds (and their allocation among the various aid channels – bilateral, multilateral and non-governmental) will continue to be subject to uncertainty. This makes it especially difficult for missions to operate. How far can they commit themselves? How reliable are the multiannual budgets at budget holder level? What criteria are applied when reviewing country and sector choices? What political arguments play a role? How are budgets allocated?

Development is a long-term process. Decisions on extending bilateral development relationships with countries or support to sectors should be based on detailed analyses of prevailing trends. Yet at the same time, it must be recognised that cutbacks will sometimes be inevitable.

\textsuperscript{21} And thanks to the multiannual perspective adopted in the ‘From Policy Budgets to Policy Accountability’ (VBTB) system, it has been incorporated in the relevant planning instruments for Dutch development cooperation.

\textsuperscript{22} The following bitter comment was made on a previous version of this document: ‘No sooner have you got a successful SWAp up and running in your sector than the money dries up.’
3 The sector-wide approach in the context of Dutch development cooperation policy

3.1 Phases in the sector-wide approach

Key message: To reflect the process-oriented character of the sector-wide approach, a specific distinction is made between two phases: ‘formulation of sector policy’ and ‘implementation of sector policy’.

Process-oriented character

Even after the recipient country has chosen a sector it can still take some time for an adequate policy to be formulated, discussed with the relevant stakeholders (government, civil society, the private sector and donors) and adopted. This is not necessarily a problem. After all, these are complex processes which require detailed analysis and consultation and in which the choices ultimately made must be widely endorsed.

As regards quality, the key question is to what extent the sector policy:

- is relevant to the national and international development goals;
- is based on a multiannual plan and a long-term outlook;
- is consistent and feasible in terms of relevant information and experience;
- is based on clearly defined targets and indicators.

The Netherlands assesses policy (the above four questions) against the following key criteria: relevance to poverty reduction and adequate attention for the cross-cutting GVIM themes.

In the project-based approach, projects can be either in the preparation or implementation phase. The same applies to sector policy in the sector-wide approach. The key elements of the sector-wide approach can be applied even if a sector has not yet been defined and a sector policy has not yet been formulated. In policy terms, however, the sector-wide approach in that particular sector will still only be in the preparatory phase. During this stage, the Netherlands will concentrate on supporting the process of formulating a sector policy (including defining roles and responsibilities for government and non-governmental stakeholders). This does not mean that the Netherlands cannot finance activities the sector. It can finance activities (institution building projects, pilot projects, preparatory studies, activities and sectors).

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23 This can sometimes also be a thematic ‘sector’; see section 2.2
24 See also the Operational Procedures Manual (HBBZ) appendix 12.2.6.10.1 Guidelines for rating activities and sectors http://bznet/hbbz/Content.asp?Key=461820&Pad=454237
workshops or ongoing projects if it is clear that they will fit into the sector policy, etc.) to support the formulation of the policy.\textsuperscript{26}

Two phases
To reflect the process-oriented character of the sector-wide approach, a specific distinction will be made between two phases.\textsuperscript{26} These phases are: ‘sector-wide approach with sector policy in preparation’ and ‘sector-wide approach with sector policy in implementation’. The latter can be further subdivided into the phases ‘implementation without Sectoral Budget Support (SBS)’ and ‘implementation with SBS’. ‘Sector-wide approach with sector policy in implementation’ means that both the sector and sector policy have been defined and adopted. This is the only criterion used, but it is crucial.\textsuperscript{27} Obviously the missions are best placed to decide which phase a sector is in.

Multiannual perspective
To operationalise the use of the two phases in practice, the missions will be asked to ascribe a phase to each sector (giving reasons) in the context of the sector rating exercise. A new initiative to draw up country-specific multiannual policy frameworks (‘Planning for Results’) was launched during the final quarter of 2003. This will help to define the strategy required in each sector for a changeover from one phase to another and/or to achieve the maximum outcome/impact in the implementation phase.

Sector policy is in the implementation phase in 50% of sectors
In April 2003 the Netherlands was active in 69 sectors in the ‘19+3 countries’ (i.e. the countries with which it had a long-term bilateral development relationship). An initial analysis shows that sector policy has reached the implementation phase in roughly half these sectors.\textsuperscript{28} In other words, there are many sectors for which a sector policy has not yet been formulated. Even if every effort is made to drive the process forward and participation is achieved, this could still take a considerable time. It is also impossible to specify how long such processes should take. However, if they last so long as to raise doubts about whether the recipient country is genuinely committed to arriving at and implementing a clear-cut sector policy, it should be asked whether there is any point in continuing.

3.2 The sector-wide approach: aid modalities

\textsuperscript{25} In other words, even though the sector-wide approach is still being prepared, its principles and priorities will still be applied.
\textsuperscript{26} The first version of the memorandum on the sector-wide approach contains a detailed description of the phasing of the sector-wide approach. However, this was never operationalised.
\textsuperscript{27} This is why a parallel has been drawn with the project approach. Donors will only finance a project once its content has been agreed by all the stakeholders.
**Key message:** On-budget where possible, off-budget where necessary.

The Netherlands is trying to increase the ratio of programme aid to project aid. Project funding is not excluded, but individual projects will be financed only if they directly support the sector policy and provided the proportion of projects is gradually reduced. The rule of thumb will thus continue to be ‘macro where possible, micro where necessary’. The aim is for bilateral aid in the partner countries to eventually take the form of budget support (and more specifically on-budget support). This is the ultimate goal. However, there is no country-specific deadline for attaining this goal. It simply reflects the desire that governments themselves should assume full responsibility for implementing the tasks assigned to them.

Before this final goal is attained, however, a mix of aid instruments can be deployed through various channels (government, local and international NGOs, universities, the World Bank and UN agencies) to support a range of actors who can reinforce each other’s efforts. Complementarity and added value must be the watchwords.

As delegated budget holders, the missions are relatively free to decide on the most appropriate ‘aid mix’ and channels for each country at a given time.\(^{29}\) This can vary from year to year. In some years, for example, less may be spent on macro aid and more on sector support or vice versa.\(^{30}\) In principle, the choice of aid also provides scope to finance groundbreaking projects, innovative activities or projects to strengthen the countervailing power of civil society organisations. Attention for innovative processes (some of which can only thrive outside the context of ‘mainstream’ activities) will remain an important part of the sector-wide approach.

### 3.3 The sector-wide approach and the NGO and multilateral channel

**Key message:** The nature of country-specific cooperation with the Dutch NGO channel is still being discussed. The multilateral channel is taking positive steps to support the sector-wide approach.

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\(^{28}\) Litjens, Paul, Sluijter, Valerie, Specker, Herman; Hoe staat het met SB? een kort overzicht van de stand van zaken over het proces van sectorale benadering in de 19+3 landen; 16 April 2003. [http://bznet/content.asp?key=476655&pad=464141](http://bznet/content.asp?key=476655&pad=464141)

\(^{29}\) Obviously in accordance with regulations. The aid modalities applied by the Netherlands have been specifically defined (see for example the AIM code manual, the Operational Procedures Manual (HBBZ), the memorandum on the relationship between macro and sectoral programme aid, the memorandum on the sector-wide approach and management aspects) and the missions work on the basis of approved annual plans for which they are accountable.

\(^{30}\) This applies, for example, to Uganda, where a share of general budget support is earmarked for a specific sector (‘notional earmarking’). If macroeconomic developments fall behind but the sector is on track, the earmarked funds (which are allocated in advance based on the financing needs of the sector) can be transferred whereas the unearmarked funds are withheld.
The sector-wide approach is the organising principle for bilateral aid. However, the Netherlands also uses other aid channels: non-governmental (theme-based Dutch cofinancing organisations) and multilateral (UN institutions and IFIs).

**Theme-based cofinancing organisations**
Theme-based cofinancing organisations are free to choose which countries they want to operate in. In 1999 the government concluded working agreements with the cofinancing organisations on complementarity and cooperation. These working agreements are now being made more country-specific to give the activities of the cofinancing organisations and the SNV greater mutual complementarity and added value. The exact form this will take is still being discussed. The cofinancing organisations want to retain their autonomy in formulating and implementing their own policies, while the missions prefer to achieve maximum synergy between different aid channels wherever possible and avoid fragmenting aid. Contacts between the cofinancing organisations and the missions are often too sporadic.

**UN agencies**
The Netherlands' aim is that UN agencies, too, operate in the framework of the sector-wide approach wherever possible. Some UN institutions (UNFPA, UNDP) are contributing significantly in terms of policy coordination. They offer added value by providing technical expertise and by supporting and implementing innovations. However, their regulations often do not allow pooled funding.

**World Bank**
In 2002 the World Bank relaxed its financial controls to enable pooled funding in the context of SWAps. However, the WB funds to which International Competitive Bidding (ICB) procedures apply cannot be pooled in most cases since the World Bank wishes to retain its own tendering procedures. The remainder – often the lion’s share of the funds in the context of SWAps – can however be pooled. The World Bank has also revised its stance on recurrent costs financing. In future, it wants to be able to finance these costs as part of its investment programmes (which include SWAps). Recipient countries could of course already use the general budget support provided by the World Bank (such as the Poverty Reduction Strategy Credits, PRSCs) for recurrent costs financing in their budgets.

**MOPAN**
In 2002, a group of donors (Denmark, Canada, the Netherlands, the United Kingdom, Norway, Sweden and Switzerland) established a Multilateral Organisations Performance Assessment Network (MOPAN) to monitor multilateral organisations using the goals these organisations had set themselves (via the governing councils). These include goals relating to the sector-wide approach and PRSPs, harmonisation/cooperation, etc. This is a complex exercise since it targets many organisations in many countries. Moreover, this is the first time such an exercise has been carried out. A pilot project was
therefore launched in 2003 to monitor the performance of three organisations (the World Bank, WHO and UNICEF, plus the relevant regional development banks) in the health sector in Bangladesh, Ghana, India, Mali, Mozambique, Nicaragua, Uganda, Tanzania, Vietnam and Zambia.

3.4 The sector-wide approach: an interim appraisal

Key message: An initial interim appraisal of the sector-wide approach in the context of Dutch development cooperation was conducted at the beginning of 2003.

In April 2003 the sector-wide approach support group published its first interim appraisal on the sector-wide approach in the ‘19+3 countries’. The aim was to analyse progress rather than to discuss outcome/impact. Since the sector-wide approach was only introduced as an organising principle for bilateral aid in 1999, it is too early to make any general pronouncements about its outcome or impact. The interim appraisal drew the following conclusions:

- Other donors increasingly favour sector-wide approaches. In 2002, for example, 16 donors reported on 24 sector programmes in 12 African countries to the secretariat of the Strategic Partnership with Africa (SPA). The donors which took part in these various sector programmes were: ADB, DANIDA, DFID, Japan, GTZ, KfW, Italy, the Netherlands, USAID, Belgium, CIDA, EC, SDC/Switzerland, Finland, NORAD and the World Bank.

- The Netherlands is active in 69 sectors in the 19+3 bilateral partner countries. The sector-wide approach is being implemented in roughly half these sectors. Elsewhere it is either in the preparatory phase (38%) or the phase is not yet clear (12%). NB: it has meanwhile been decided to reduce the number of sectors to two or at most three in each country.

- This is the first time that the recently introduced sector rating system has been used to generate management information and analysis at the sector level. The most common sector scores are B (satisfactory) and C (unsatisfactory). The highest and lowest scores, A (highly satisfactory) and D (highly unsatisfactory), are ascribed comparatively rarely. The quality of sector policy (that is, its relevance, consistency and transposition into goals, results and indicators) is generally judged to be satisfactory (75%). For all the sectors together, the commitment (actual involvement) of the three main stakeholders (government, civil society and donors) is found to be roughly similar. Between 57% and 62% are judged to be satisfactory. The implementing capacity of recipient governments is

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31 A similar rationale applies in the Netherlands. A fact sheet has been issued on this topic [http://bznet/content.asp?key=475709&pad=464141](http://bznet/content.asp?key=475709&pad=464141).

generally felt to be poor (only 18% is found to be satisfactory).

- Following the missions’ findings that the capacity of recipient governments tended to be very weak, the focus of cooperation in the sectors is increasingly shifting towards the institutional aspects of the reform processes.

- ‘Government commitment’ and ‘sector policy’ are rated substantially higher in the health and education sectors as compared to other sectors.

- Half of the sectors in which the Netherlands is active (April 2003) are in Africa. These sectors are doing no better or worse than those in the non-African partner countries. Although there are differences between Africa and the other continents in the rating of sector policy, stakeholder commitment, implementing capacity and suitability for Sectoral Budget Support (SBS), these are only incidental.

- In the productive sectors (19 of the 69), the sector-wide approach is still only in the preparatory phase in over half the cases. Commitment from recipient governments and donors to these sectors is low, both in absolute and relative terms, whereas commitment from civil society is relatively higher. Implementing capacity in these sectors scores just as low as in the other sectors.

- The vast majority of the 69 sectors are priority sectors in the PRSPs or national development policies. This is not surprising, since they have generally been chosen by the recipient countries themselves. Examples of countries where sectors have not been formally prioritised are Egypt (a middle-income country so no PRSP) and Bangladesh (I-PRSP still being prepared).

- The sector scores compiled by the missions are generally explained adequately and are consistent with other internal and external sources.

In response to this general analysis, the Sustainable Economic Development Department (DDE) has decided to conduct a more detailed analysis on the sector-wide approach in the productive sectors. Other policy theme departments and multilateral departments are expected to follow suit.

### 3.5 Management framework and financial risks

*Key message: The need to minimise financial risks is crucial to the management framework in the sector-wide approach.*
**Financial risks**

The need to minimise financial risks has always been a key part of managing the sector-wide approach. In all types of programme aid, including sectoral programme aid (in the form of basket funding or sectoral budget support), funds are usually paid directly to government agencies in developing countries which have to account for the way these funds are spent. Dutch funds mix with the government budget and other donor funding for the sector concerned, which makes it impossible to monitor separately how they are spent. Initially it was feared that embassies would not be able to fully assess the risks when taking funding decisions. These fears have on the whole proved unfounded. In fact, the tendency at missions to avoid financial risks is one reason why sectoral programmes in some countries have been slower to get off the ground than anticipated.

**Harmonisation of management procedures**

Harmonisation of procedures and working methods will continue to be a priority. Harmonisation based on the procedures and systems of recipient countries is a necessary but often lengthy process due to the frequent need for fundamental reforms. At the same time, donors can save time, money and effort by making more use of analyses and studies compiled by the recipient countries themselves or by jointly supporting such studies, adopting the same contract models, conducting joint monitoring operations and so forth. They could also experiment more with the appointment of lead donors for sectoral programmes or with detailed agreements governing task distribution. The Netherlands, for example, could use its gender expertise for the benefit of a particular programme while another donor could take charge of the financial management aspects, or vice versa.

**Sanctions policy**

One point of discussion concerns how to formulate and implement a sanctions policy for sectoral and other programme aid. Government financial management capacity is often insufficient for sectoral budget support, so financing is often conditional on reforms that have yet to be implemented. The ministry’s audit department and the Netherlands Court of Audit have both criticised the government for failing to set clear bottomlines or time lines for the required improvements. The same applies to measures to tackle corruption. A proper sanctions policy must be devised to cover these eventualities. This is a complex area which lies at the heart of ministerial responsibility yet which in the context of the sector-wide approach can no longer be left to individual donors alone.

### 3.6 Monitoring

**Key message:** Despite the effort it will entail, it is now time to shift the emphasis to monitoring by developing countries themselves. With the introduction of the activity and sector rating system, the Netherlands has taken an important step towards improving its own monitoring systems.

**The need for monitoring systems**
Increasing attention is being given to monitoring and evaluation in the context of the sector-wide approach. There are various reasons for this. First, the principles and assumptions on which the sector-wide approach is based mean that ownership now lies with the recipient country and that where possible, support will be provided by means of (sectoral) budget support. In other words, donors must have sufficient confidence that the recipient country has the administrative and financial management capacity to implement policies effectively. This will to some extent depend on the monitoring system used by the recipient country. Second, international attention for Results-Based Management (RBM)\textsuperscript{33} is growing. Many donors now base their work and reports on RBM and it is even used by a few developing countries (including Uganda). RBM requires good monitoring systems.

**Setting up monitoring systems**

Setting up good and effective monitoring systems for the sector-wide approach is a complex business. Various aspects must be taken into account:

- **Technical aspects**: what de-aggregated information is required? What techniques should be used and how often? How reliable is the data?
- **Institutional aspects**: which organisations – statistical offices, ministries, universities – should be involved and what form should their cooperation take?
- **Political aspects** (perhaps the most important): who has access to what knowledge and why?

Little has so far been written on monitoring the sector-wide approach or PRSs. Van Doorn and Litjens (2002)\textsuperscript{34} have summarised the latest international developments. Although only one study has been carried out so far on the use of monitoring systems in developing countries,\textsuperscript{35} it has yielded some important lessons (Doorn and Litjens, 2002, section 2.2).

**Monitoring by developing countries themselves**

Despite the considerable effort involved, developing countries need to set up effective monitoring systems for each sector in the context of the sector-wide approach. The Netherlands could assist here, but this is very much a responsibility of the recipient countries themselves. They will therefore be devoting extra attention to this in future, as will the Netherlands. As well as focusing on the process itself (an essential aspect in which all stakeholders must be involved) and its inputs and outputs (aspects which are complex enough at sector level), monitoring will above all need to keep an eye on effectiveness and impact. Independent research carried out by local researchers who can work outside the existing framework may be a good way of keeping stakeholders on their toes.

\textsuperscript{33} In the Netherlands, RBM is also applied under the abbreviation VBTB.

\textsuperscript{34} Van Doorn, Ko, Litjens, Paul; Monitoring Programme-Based Approaches: choice of targets and indicators; Paper presented at the Forum on Accountability and Risk Management under Programme-Based Approaches, Ottawa, Canada, June 19-21, 2002; June 2002. Ministry of Foreign Affairs, the Netherlands. \url{http://bznet/content.asp?key=455272&pad=464140}

Monitoring by the Netherlands

As well as encouraging monitoring by the recipient countries themselves, the Netherlands also needs to monitor its own activities and operations. The ministry has already devoted considerable attention to this in recent years. Since the introduction of the annual plan cycle in 1997, missions and the ministry in The Hague have based their monitoring activities on annual reports and track records (monitoring macroeconomic and socioeconomic trends and good governance at country level). At the end of 2002 an evaluation framework was introduced for the PRSPs, as was a rating system for sectors and activities. This system is now operational and the first results have been included in the report *Hoe staat het met SB*? [The Sector-wide approach: an interim appraisal]; see chapter 3.4. The Planning, Monitoring and Evaluation (PME) project group is responsible for embedding the rating system (supported by the management information system Piramide) in the organisation. See the Operational Procedures Manual (HBBZ)\(^{36}\) for an account of these systems.

Reporting to the House of Representatives

Result-oriented working is one of the core messages of Dutch development cooperation policy as formulated in *Mutual interests, mutual responsibilities*. Reporting on results achieved is a logical consequence of this. The minister has therefore pledged to report to the House of Representatives on the results of bilateral cooperation. The reports will provisionally focus on the priority themes specified in *Mutual interests, mutual responsibilities* (education, environment, water, HIV/AIDS and reproductive health). The form these reports will take and the way in which the information will be gathered will be developed and tested in the course of 2004. A report on the results achieved in 2004 will then be prepared early in 2005.

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\(^{36}\) Appendix 12.2.6.10.1 Richtlijnen voor het toepassen van het waarderingssysteem voor activiteiten en sectoren, [http://bznet/hbbz/Content.asp?Key=461820&Pad=454237](http://bznet/hbbz/Content.asp?Key=461820&Pad=454237)
4 Organisational implications

4.1 Process of change: the missions

Key message: The sector-wide approach is part of a broader process of change aimed at enhancing expertise.

Making principles such as ‘partnership’ work in practice requires a detailed knowledge of the environment in which you are operating, plus a broad expertise and skills base. Early investments were channelled towards the transfer of knowledge in the form of training and workshops. However, this was not enough. Procedures, personnel policy and the organisational culture at the ministry as a whole will also need to be closely scrutinised.

Additional expertise

Embassy staff are expected to have different types of expertise as compared to the past. Whereas a good level of technical know-how and an adequate mastery of project administration, monitoring and audit procedures was enough for the project approach, the sector-wide approach requires a deeper understanding of social and political economics, public finance and aspects of culture and negotiation. The missions are therefore asking for supplementary training and support to help them conduct institutional and management analyses. Expertise can also be gained by pooling specialist knowledge with other donors, for example in the sphere of public procurement.

Staff also need negotiating, teamwork and facilitation skills. After all, the quality of cooperation at local level and the ability of embassy staff to participate effectively in a process involving a multiplicity of factors and actors is crucial. Teams at the missions will also need to change the way they work. In the past, cooperation was not always a priority for staff in charge of their own project portfolios. Moreover, the skills required on the part of the local and contract staff at the mission differ per sector and per stage.

Pilot projects

A pilot project on ‘Learning and Developing’ was launched in 2001 to help the missions adapt to this new process. Over the next few years it will provide coaching for managers at the missions, team coaching and support for innovative forms of ‘learning together’. An induction pilot project (‘Inwerktraject’) has also been launched. This stresses the importance of effective transfers of portfolios among staff and targeted in-service training to impart relevant knowledge and skills. Internal and external training courses are also being adapted and improved. The job profiles for policy officers and heads of department in the field

37 Courses are now available on macroeconomic, institutional and organisational analysis. A more general course on the new skills required in development cooperation is also being devised.
development have been rewritten so that recruiters take account of the new skills required. Although these changes have sufficient potential, their success will ultimately depend on an open and transparent personnel policy throughout the entire organisation.

4.2 Process of change: the ministry

*Key message:* Much has already been done to support the sector-wide approach, but we must continue to search for the right tasks and roles and especially for the right platforms to enable us to work effectively together.

*Much has already been done...*

The ministry has worked hard to define and develop in more detail the scope and implications of ministerial accountability for macro and sectoral programme aid, in close cooperation with the missions.

- The tool for appraising the management capacity of recipient organisations (Checklist for Organisational Capacity Assessment) has been revised so that it can now also be used to evaluate government agencies;\(^{38}\)
- A training course on institutional analysis which places the assessment of management capacity in the context of the institutional analysis of a sector has been devised and given to embassy staff;
- A memorandum on Macro Support and the Sector-Wide Approach has been published. It provides a framework for the various forms of macro and sectoral programme aid and discusses the relationship between the two categories and the relevant management procedures;\(^{39}\)
- The appraisal framework for macro support (track record) has been modified by linking it to appraisal frameworks for PRSP processes and Public Finance Management, and by checking it against CPIA scores. Joint donor PRSP training courses have been set up and a PFM support programme for the missions is being implemented.
- The Activity Appraisal Document (BEMO), which must be completed for each financing decision, has been adapted to increase its focus on forms of sectoral financing;\(^{40}\)
- A memorandum on the Sector-Wide Approach and Agreements has been published containing guidelines on the form and content of agreements governing different types of sectoral financing;\(^{41}\)
- The quality of monitoring has been improved by incorporating it into a new management information system;
- The sanctions policy has been converted into procedures;\(^{42}\)

\(^{38}\) See Intranet/HBBZ [http://bznet/hbbz/homepage.asp](http://bznet/hbbz/homepage.asp)

\(^{39}\) Memorandum on the relationship between macro and sectoral programme aid [http://bznet/content.asp?key=418973&pad=464141](http://bznet/content.asp?key=418973&pad=464141)

\(^{40}\) See Intranet/HBBZ [http://bznet/hbbz/homepage.asp](http://bznet/hbbz/homepage.asp)

A memorandum, *Hoe staat het met SB?* [The Sector-Wide Approach: an interim appraisal] has been published at the request of the Minister for Development Cooperation;

- Guidelines on gender in SWAps have been issued in the context of the DAC/OECD;
- relevant key sheets (on SWAps, aid modalities, corruption/decentralisation) have been compiled;
- A study on the Sector-Wide Approach in Uganda was carried out by the Policy and Operations Evaluation Department (IOB).  

Personnel policy and the coordination of training will continue to be centrally managed by the ministry, which will thus continue to play a key role in the success of the sector-wide approach.

...*but we must continue to search for the right tasks and roles...*

The delegation of responsibilities from head office to the missions has led to a redefinition of many of the ministry’s tasks and roles. Operationalising these new roles is proving difficult, especially for a ministry used to exercising centralised control over policy and over its management and implementation. Some of the ministry’s policy theme departments are struggling with their new role, which has placed them at a greater distance from policy implementation. A pilot project is therefore being launched to encourage the targeted exchange of knowledge and experience. Three policy departments and various missions will be involved. The project will also try to improve the way the departments facilitate and support various processes.  

...*and especially for the right platforms to enable us to work effectively together.*

Effective communication between the ministry and the missions remains a key priority. The contact point for the missions at the ministry was previously the sector-wide approach support group (SSB). From early 2004 onwards this will become the sector-wide approach helpdesk, part of the Macroeconomic Analyses and Policies Division (DVF/AS). The SSB always operated as part of a wider construct consisting of parallel reform processes and initiatives such as the ‘mainstreaming poverty process’, knowledge management, the PRSP coordination unit, the Public Finance coordination unit, the PME (Planning, Monitoring and Evaluation) project and the Poverty Policy and Institutional Development Division (DSI/Al).

Effective communication with the missions will continue to be vital to the success of bilateral development cooperation, and of the sector-wide approach in particular. Great importance is therefore attached to regular consultative fora in the form of biennial conferences for ambassadors and for Heads of Development Cooperation, refresher days for theme experts and regional meetings for embassy staff attended by the Director-General for International Cooperation or his deputy. The departmental country

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42 See HBBZ/chapter 3 [http://bznet/hbbz/homepage.asp](http://bznet/hbbz/homepage.asp)

43 IOB; *Coordination and sector support: an evaluation of Dutch support to local governance in Uganda*, March 2003.
support teams which have been appointed for many of the partner countries to provide and collect feedback to and from the missions on policy, broaden and deepen the collective memory bank and generally ensure a smooth operational performance, are crucial.

When the country support teams were first established in 2000, the ministry did not regulate their composition and performance strictly. As a result, there are now wide disparities between the various country teams. The most common complaint from the missions concerning these teams is the high turnover and lack of practical experience of their members. On 1 January 2003 responsibility for the country teams was transferred to the Directorate-General for Regional Policy and Consular Affairs (DGRC). Since then, their composition and the deployment of their key members in particular has been more closely scrutinised. The aim is for the country teams to be evaluated each year by management. The first evaluation will be crucial and the lessons learned will be vital for any follow-up.

5. Issues and dilemmas relating to the sector-wide approach

*Learning capacity in relation to lessons learnt*
Managing knowledge is a key priority within the Directorate-General for International Cooperation (DGIS), as befits a learning organisation. Despite this, its learning capacity is limited, especially in relation to lessons learnt. Policy changes need to be based on an understanding of what was good and bad in previous policy. Unfortunately, the ministry does not have a knowledge database of this kind and therefore tends to base its decisions on perceptions rather than facts. However, it was recently decided that each year, departments will collate knowledge on the status of the sector-wide approach in a more active and targeted way. IOB will carry out a series of more extensive, targeted evaluations to improve knowledge and insight concerning the implementation of the sector-wide approach in the medium-term.

*Far-reaching implications for the practice of development cooperation*
A core objective of current policy is to pursue an integrated foreign policy and to increase the focus on the political aspects of development cooperation. But are the organisation and the instruments available to it equal to the challenge of attaining these policy goals? The realisation that development cooperation means working on processes of change and that social reforms are always hard-won is a lesson learned through experience with politics and political processes. This will have far-reaching implications for the way we practice development cooperation, especially as regards the attitudes we adopt and the alliances we form.

*Good governance to be key determinant for intervention*

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44 Pilot project ‘Exchanging knowledge based on experience’ (DSI/DMV/DDE) [http://bznet/content.asp?key=476839&pad=464140](http://bznet/content.asp?key=476839&pad=464140)
Aspects of good governance will be brought more centrally to the fore. These aspects are relevant at sector level, but above all at cross-sectoral level. They must be specifically addressed at all levels. One might ask whether, after all the ‘hype’ surrounding PRSPs and SWAPs, development cooperation might not in future concentrate exclusively on issues of good governance.

**Universal values**
Saying what we do and doing what we say should be a golden rule when pursuing both the spirit and the letter of the GVIM priorities (ref. Paragraph 2.3). These priorities should remain on the policy agenda as permanent universal values, despite the shift towards partnership and ownership. Yet experience has shown that while they are generally converted into policies, when it comes to implementing them, gender, environment and human rights are given low priority. Attention for policy is all very well, but policy alone does not lead to social reform. Reforms must be thrashed out by many actors against an intransigent background of conflicting interests. We must continue to ensure that policy is translated into action and to keep in mind its implications for the poorest of the poor, men and women alike.

**‘Lows’**
Saying what we do and doing what we say has become something of a hollow claim, given the impact of current budgetary cutbacks on the financial pledges we have made in the past. In a partnership, donors are also responsible for ‘lows’.

**Global balance of power**
We must continue to see our efforts in the light of the global balance of power, including international agreements (WTO!). After all, the scope for effective poverty reduction is largely determined by supranational relationships.

**Staying in touch with the field**
It is regularly claimed that the sector-wide approach has reduced the need for fieldwork, and hence the missions’ feel for work on the ground, and that technical assistance has the added advantage of keeping the missions better informed. But is this a convincing argument? Are there not other ways of obtaining accurate information? And where technical assistance does prove necessary, it should be used to promote a genuine transfer of knowledge rather than just for ‘information gathering’.

**Heterogeneous sectors**
A closer analysis of the sector-wide approach in productive sectors is required, given that many debates centre on the question of what this should entail.
The sector-wide approach: key messages at a glance

**Background** The sector-wide approach springs from the realisation that fragmented, project-based aid has too little impact and is insufficiently sustainable. The sector-wide approach is the organising principle for Dutch bilateral aid.

**Definition** The sector-wide approach is neither a dogma nor a blueprint. Rather it is a working method. It is an organising principle based on a reallocation of responsibilities and therefore involves fundamentally different roles for the various stakeholders compared with project aid.

**Poverty reduction** Poverty reduction via the sector-wide approach aims to influence processes that reduce and ultimately eradicate poverty.

**Micro-macro approach**. Think micro, act macro.

**Partnership and ownership** Partnership, ownership and public support increase the effectiveness and sustainability of poverty reduction. Yet even when these are in place, the real problem is often the lack of implementing capacity.

**Multi-actor roles** The sector-wide approach is not simply a question of government to government cooperation but involves donors in a complex political interplay consisting of many different stakeholders and political interests. The challenge is to acknowledge these various actors, identify the motives underlying their involvement and make explicit your own role as donor organisation.

**Good governance, institutional development, capacity building** Development is about reform and social transformation. Good governance is a precondition for sustainable poverty reduction and will therefore be given increasing attention over the coming years, not just at sector level but above all at cross-sectoral level. Institutional development involves rewriting the formal and informal rules that define social relations and thus places a strong emphasis on political and cultural factors. Capacity building has to contribute to this social transformation and therefore goes beyond the mere transfer of knowledge and skills.

**Donor coordination and harmonisation** Effective coordination and harmonisation between donors and between donors and recipient governments are essential to the success of the sector-wide approach.

**Multiannual perspective** Structural cooperation as envisaged by the sector-wide approach calls for long-term commitment. However, this is sometimes difficult to sustain in the face of uncertainty concerning political and economic developments on both the donor and recipient side.
**Stages in the sector-wide approach** To reflect the process-oriented character of the sector-wide approach, a specific distinction is made between two phases: ‘sector-wide approach in preparation’ and ‘sector-wide approach in implementation’.

**Aid modalities** On-budget where possible, off-budget where necessary.

**NGO and multilateral channel** The nature of country-specific cooperation with the Dutch NGO channel is still being discussed. The multilateral channel is taking positive steps to support the sector-wide approach.

**The sector-wide approach: an interim appraisal** An initial interim appraisal of the sector-wide approach in the context of Dutch development cooperation was conducted at the beginning of 2003.

**Management requirements and financial risks** The need to minimise financial risks is crucial to the management framework in the sector-wide approach.

**Monitoring and evaluation** Despite the work it will entail, it is now time to shift the emphasis to monitoring by developing countries themselves. Since the introduction of the scoring system at activity and sector level, the Netherlands has taken major steps towards improving its own monitoring systems.

**Process of change: the missions** The sector-wide approach is part of a broader process of change aimed at enhancing expertise.

**Process of change: the ministry** Much has already been done to support the sector-wide approach, but we must continue to search for the right tasks and roles and especially for the right platforms to enable us to work effectively together.
Abbreviations

DAC  Development Assistance Committee
ECDPM  European Centre for Development Policy Management
EU  European Union
GAVIM  Good governance, Poverty, Women, Institutional development, Environment
HBBZ  Operational Procedures Manual
INTRAC  International Training and Research Centre
IOB  Policy and Operations Evaluation Department
MDG  Millennium Development Goal
MOPAN  Multilateral Organisations Performance Assessment Network
NGO  Non-Governmental Organisation
PME  Planning, Monitoring and Evaluation
PRS  Poverty Reduction Strategy
PRSC  Poverty Reduction Strategy Credit
RBM  Results-Based Management
SBS  Sectoral Budget Support
SNV  Netherlands Development Organisation
SPA  Strategic Partnership with Africa
SWAp  Sector-Wide Approach
TA  Technical Assistance
UNDP  United Nations Development Programme
UNFPA  United Nations Fund for Population Activities
VBTB  From Policy Budgets to Policy Accountability
WSSD  World Summit on Sustainable Development
Bibliographical references

The literature used in this document is referred to in the various footnotes. Hyperlinks have been used wherever possible. However, these can only be accessed by staff at the ministry.

For the latest developments relating to the sector-wide approach, see the Canadian International Development Agency (CIDA) website. This contains documents, studies, announcements and other information placed there by donors who are actively involved in the sector-wide approach. Please note that it is an extranet site, which means that you will need a user name and password. These can be obtained by registering on the site itself. [http://remote4.acdi-cida.gc.ca/pbas](http://remote4.acdi-cida.gc.ca/pbas).