Working with Sector Development Programmes

Practical Guide

Norad

NORWEGIAN MINISTRY
OF FOREIGN AFFAIRS

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1. Introduction

1.1 Purpose and Use of the Practical Guide

This Practical Guide is intended as a practical tool for cooperation in support of Sector Development Programmes. It defines the main concepts and terminology used, addresses general issues and illustrates how these relate to the stages of the programme cycle as described in the Development Cooperation Manual[1] and the Agreement Manual[2].

The target users of the Practical Guide are primarily Embassy staff with delegated responsibility for development cooperation, but also staff at Norad and the Norwegian Ministry of Foreign Affairs (MFA) dealing with development assistance and Sector Development Programmes in partner countries. It may also be useful to a wider range of development partners, such as NGOs, researchers and consultants, or institutions in partner countries, in their cooperation with Embassies, Norad and MFA regarding support to Sector Development Programmes.

The guide builds on international policy and strategy documents, especially the "Paris Declaration on Aid Effectiveness"[3] and the OECD/DAC Guidelines[4] which present agreed international principles for effective aid delivery. Terminology used and approaches described are, to the extent possible, compatible with international terminology, principles and procedures subscribed to by other donors and partner countries.

The guideline is structured in the following way:

» The remaining part of Section 1 describes *what* a Sector Development Programme is and argues *why* supporting such programmes is relevant. It also describes general principles for *alignment* with government processes and procedures, and *harmonisation* efforts among donors.

» Section 2 describes the *main elements* of *a Sector Development* Programme from a partner country perspective. It presents the Sector Development

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[1] "Development Cooperation Manual", Norwegian Ministry of Foreign Affairs and Norwegian Agency for Development Cooperation, May 2005.

[2] The Agreement Manual, December 2006

[3] "Paris Declaration on Aid Effectiveness", Statement by a High Level Forum of Developing and Development Country Ministers, Paris 28 February 28 – 5 March.

[4] "Harmonising Donor Practices for Effective Aid Delivery - Volume 2: Budget Support, Sector Wide Approaches and Capacity Development in Public Financial Management", DAC Guidelines

Programme in the context of overall *national policies and strategies* as well as *national planning and budgeting* processes, *programme monitoring*, *management* and *institutional framework. Capacity building* is described both as a means to reach overall goals and as a goal in itself.

» In Section 3, specific emphasis is placed on the *process for dialogue and coordination* since support to Sector Development Programmes involves multiple stakeholders and usually several donors.

» Section 4 discusses the issue of *choice of aid modalities* and *funding arrangements* in support of Sector Development Programmes as programmes may be funded through a multitude and/or in mixed ways.

» Section 5 discusses key issues related to *Sector Development Programmes and the programme cycle* as defined by the Development Cooperation Manual (DCM).

1.2 What is a Sector Development Programme

The overall goals of a sector programme can normally be grouped under two main headings:

1 Institutional reform and capacity building

2 Improvement of sector performance in terms of service delivery

A Sector Development Programme is a specific, time-bound and costed set of actions and activities which support a sector strategy, defined by the partner country.

A main characteristic of a Sector Development Programme is that it addresses all required interventions related to an overall sector development objective and makes efforts to take all relevant stakeholders into account in the planning process.

In this context *sector* can be defined as a subject area with a specific institutional and technical framework. This definition is wider than more conventional definitions, i.e. agriculture, transport, energy, health or education. A local government development programme or a national environmental management programme may be classified as a Sector Development Programme. The definition should be pragmatic. The sector may for example be the whole education system or just the primary education sub-sector. The narrower the sector is defined, the more important it is to anchor the sector policy in broader national policies, not losing sight of general cross-sector issues.

A Sector Development Programme may also cut across different ministries and goverment agencies. Management responsibility of sector interventions may be subdivided between different ministries and government agencies at different levels of the Partner government hierarchy. This poses a specific challenge in establishing efficient management arrangements. However, it also gives opportunities to ensure that all interventions contribute towards the same objective by taking into account the synergies between different components and projects, and avoiding duplication and/or fragmentation frequently observed with a project approach.

The terms *Programme Based Approaches* (PBA) and *Sector-Wide Approach* (SWAP) are often used in connection with Sector Development Programmes.

Donor support for Sector Development Programmes may include *a variety of funding modalities.* It can be provided as a general contribution to the state budget linked to performance in a particular sector or specifically earmarked to finance expenditure in a particular sector. It may also be earmarked as a programme component or a project within the programme, or provided as technical assistance. (See chapter 4)

1.3 Why support to Sector Development Programmes

Over the last decades, a shift has taken place in international development aid from conventional *project approach* to broader *programme based approaches*. The conventional project approach often leads to fragmentation and inefficiency, with external partners individually carrying out or supporting projects sometimes overlapping with others or leaving unattended gaps.

Sector Development Programmes have stronger links to overall planning and management processes of the country, and intend to give stronger focus on strategies and outcomes, rather than on detailed activities and inputs. Supporting Sector Development Programmes is therefore a way to ensure alignment of aid to national goals, priorities and procedures. Table 1 from the OECD/DAC Guidelines[5] summarises key characteristics distinguishing Sector Wide Approach from conventional project approach.

Success of a Sector-Wide Approach relies on a number of factors. One such factor is the political and economic context of the country. Political stability is necessary for a lasting partnership between development partners and government, and without macroeconomic stability sector budgets may not be predictable. Broad and effective government ownership of the process, including strong and effective leadership, commitment to the process at senior political

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[5] OECD/DAC Guidelines: "Harmonising Donor Practices
for Effective Aid Delivery", 2005

level and active involvement of key ministries, such as the Ministry of Finance, are other important factors. Otherwise the process is likely to be donor led and not integrated in the government decision making processes.

Alignment with partner systems and predictability of funding aligned to partner *budget cycle* are the key issues for support to Sector Development Programmes. Harmonised approaches through joint donor arrangements may further reduce the burden on Partner governments in terms of number of donor processes they need to comply with. Harmonised approaches without alignment however do not necessarily reduce transaction costs for partners.

Table 1: Characteristics of Sector Wide Approaches and conventional projects	
Sector-Wide Approach	**Conventional Project Approach**
Country holistic view on entire sector	Focus on projects to support narrowly defined objectives
Partnerships with mutual trust and shared accountability	Recipient accountable to donor
External partners' co-ordination and collective dialogue	Bilateral negotiations and agreements
Increased use of local procedures	Parallel implementation arrangements
Long-term capacity/system development in sector	Short term disbursements and success of projects
Process-oriented approach through learning by doing	Blueprint approach

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2. Main Elements in a Sector Development Programme

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As a reference for dialogue and appraisal this section describes key elements in a partner country's formulation of a comprehensive Sector Development Programme. The elements may be contained in one programme document or master plan, but may also be found in different documents. Some elements may not have been fully developed before appraisal or even launching of the programme. If so, it is important to have an understanding of what the process will be and how the elements will be developed.

It is useful to distinguish between *programmatic aspects* of the Sector Development Programme on the one side and *modalities of funding* on the other. Accordingly, this section focuses on the programmatic aspects – or the Sector Development Programme as such – while Section 4 describes principles and modalities for supporting the programme.

2.1 Sector Policy and Strategy

A key element in a Sector Development Programme is a nationally-owned *Sector Policy and Strategy* showing what the Government is aiming to achieve in the sector, as well as how. The Policy document should clearly define the sector (what falls within and outside the policy and strategy), and establish basic principles, objectives, major strategies and priorities for the sector.

A Sector Policy and Strategy Paper should be consistent with the Government's overall policy framework and national development strategy (across all sectors); in some countries called Poverty Reduction Strategy Papers (PRSP). It should be supported by an expenditure framework and medium-term projection of resources.

A Sector Policy and Strategy distinguishes Government's *regulatory role* from its *service delivery role*, specifies the roles of non-government agents and outlines any necessary institutional reforms. The Sector Policy and Strategy will subsequently form the basis for designing the complete Sector Development Programme with detailed *strategies, plans and resource allocations.*

Policy development is an internal political process ideally developed through a democratic process within the country. The principle of country-led and country-owned processes for the development of such strategies is important. Accordingly, donor conditionalities or other means to influence policies and strategies should be minimised.

2.2 Stakeholder Participation

Relevant stakeholders in Sector Development Programmes include Government at different levels, non-government service providers (for-profit and not-for-profit) and civil society, but also representatives of the sector clients and employees. Well designed mechanisms for stakeholder consultation will also include special attention to gender, rights and equality issues.

In a Sector Development Programme, consultations with stakeholders are an important issue during preparation as well as during implementation and evaluation. An approach to consultations, based on the principle of non-discrimination, with a wide range of national stakeholders may have significant implications in promoting increased accountability to the ultimate beneficiaries of sector programmes, as well as for the development of national capacities in a broad sense. Various means are applied to involve stakeholders:

» Representatives of stakeholders directly affected by the programme are invited to participate in a stakeholder forum of some kind.

» Stakeholders are involved through client surveys, tracking studies, focusgroups and research studies.

» Some relevant institutions and organisations are involved in policy advice, supervision or other roles.

2.3 Action plan and Expenditure Framework

The Sector Policy and Strategy are translated into a Sector Programme by the formulation of an Action Plan (sometimes called Work Plan or Activity Plan) and a comprehensive Sector Expenditure Framework, which in some partner countries form part of an overall Medium Term Expenditure Framework.

The Action Plan presents a time-bound set of activities which will lead to the outputs required to meet sector policy objectives. The Expenditure Framework reflects the resource requirements based on costing of the individual activities required to produce the planned outputs/results.

Actions at sector level may be specific improvements of infrastructure or public services through investments, training or other human resource development activities. These are actions similar to those found in conventional development projects. Other actions at sector level may be regulatory, such as devolving responsibility for certain public services from central to regional/local authorities or establishing new regulatory institutions. These actions are typically found in sector reform programmes reflecting policy change that requires a new institutional framework.

The development of an Action Plan for a Sector Development Programme is based on:

» Planning principles which provides a comprehensive and consistent hierarchy of goals, actions and expected results.

» The goals and strategies from the Sector Policy and Strategy, and reflecting the distinction between Government's *regulatory role* and *its service delivery role*.

The Sector Expenditure Framework reflects all resource requirements based on costing of all activities through the duration of the programme. All actions/activities are costed and prioritised against a realistic estimate of available resources. A comprehensive Sector Expenditure Framework embraces all resource requirements, both for recurrent and capital expenditures, and includes all sources of funding (government domestic revenue, donor funding or user charges).

Public expenditures are set in the context of other sources for the sector such as private sector activities and community contributions. In many Norwegian partner countries the Sector Expenditure Framework is part of an overall Medium-Term Expenditure Framework (MTEF)[6]. It is called Medium-Term since it usually contains a forecast of available resources for the total state budget in a 3-4 years perspective. Based on these resource estimates expenditure ceilings are allocated to each sector/area according to overall policies and priorities. The resource requirement in a Sector Expenditure Framework/Sector Programme budget forecast must accordingly be consistent with the assumed available resources projected in the MTEF. However, the Sector Expenditure Framework/Programme Budget should be revised annually reflecting changes in annual budget state submissions and Medium-Term forecasts (revised MTEF).

The development of an expenditure framework for a Sector Development Programme:

» Starts from a comprehensive view of resource flows to the sector; including both "on" and "off" budget donor expenditures and contributions made by clients (user charges), NGOs and the private sector.

» Builds up the sector expenditure framework systematically and gradually; taking improved costing of existing public expenditure as a realistic starting-point, and gradually, by analysis of expenditures, revising the estimates made.

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[6] MTEF is a popular term among donor agencies. In public finance terms of partner countries they are sometimes called Medium Term Plan/Budget, Rolling Plan and Foreward Budget, etc.

2.4 Programme Monitoring

To monitor Sector Development Programme implementation, a Sector Performance Monitoring System is required to assess if sector goals are being achieved and whether sector strategies are effective. A set of indicators are key elements in a Sector Development Programme Monitoring System. This should serve as a shared monitoring system between the government and the donors and should also be designed to enforce the accountability of the government to its citizens.

The key principle of *aligning* with government processes is particularly relevant when it comes to procedures for programme monitoring. By supporting Government's own monitoring systems, donors may contribute to the improvement of such systems while limiting the risk of over-burdening management units and data suppliers.

A distinction should be made according to the purpose of the monitoring:

» Indicators for monitoring the progress of development of the Sector Programme, including procedures in place, plans, agreements and other documents developed, capacity established, etc. These are mainly *input* and *process* indicators/milestones, and may also include indicators of resource use (expenditure).

» Indicators for monitoring the development effect of the programme, focusing on results and service delivery in terms of *outputs, outcomes* and *impact*.

Both categories may be seen as indicators for performance assessment, where input, output and process indicators measure *efficiency*, and outcome/impact indicators measure *effectiveness*[7]. The quality of the service delivery may be measured in terms of lasting changes and equity in distribution, access or utilisation of services. As many actions of a Sector Development Programme are based on assumptions of their effect in relation to programme goals, *formative research* may be introduced to study the real effect of programme inputs on specific goals.

The temptation of expanding the number of indicators for performance moni- toring to capture all potential aspects of the programme often ends up in a long list with variable quality and reliability. *Experience shows that a few key indicators commonly shared by the different stakeholders is the best option to pursue rather than multiple indicators which requires time and money to verify*. Selection of indicators should take into account the availability of data for monitoring and reporting, and what mechanisms are in place to provide

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7 See The Logical Framework Approach (LFA), Handbook for objectives-
oriented planning, Norad Fourth edition 2006.

the nesessary data. The process of developing indicators may in itself be a part of the sector development as it clearly has policy and planning relevance by indicating priority areas.

In determining indicators for monitoring, the following general principles (S-M-A-R-T) are useful:

- *Simple/specific:* Indicators for monitoring should be easily understood and clear, and build on existing sources of information not requiring costly and time consuming efforts to determine.
- *Measurable:* Indicators should be possible to measure in terms of quantity and/or quality to the extent possible using existing systems for acquiring needed information.
- *Achievable:* Milestones for the indicators should be realistically achievable within the timeframe based on existing capacities or capacities which realistically can be developed in a short timeframe.
- *Reliable:* The data for the indicators should be of a sufficient quality to be trusted.
- *Timely:* Data should be possible to obtain within a time period that makes it relevant for use.

A monitoring system and procedure relies on data which may be qualitative and/or quantitative. On the one hand there are often not sufficient data available or being collected on a regular basis; on the other hand, data are sometimes being collected on a regular basis but do not necessarily provide the information required for monitoring the programme, or is not used. To be able to assess the impact of a programme on various groups of the concerned population, there will often be a need to disaggregate data e.g. regarding gender, age, ethnicity etc.

There is often a need to strengthen *national capacities* for monitoring and evaluation as an integrated component of the programme to further develop methodologies for data collection, management, analysis and presentation.

Case: Monitoring the Health Sector Development Programme in Ghana[8]

A process for unifying the monitoring system using both input and output monitoring was instituted, which involved elaboration of a common monitoring and evaluation system, drawing on joint annual reviews of the donors and Government. A core set of 20 performance indicators where identified, including outcome/impact targets such as health status, fertility, nutrition, health service outputs, and outputs of education, water and sanitation. Cost centre specific indicators were also developed (Budget Management Centre, BMC), aiming at linking performance to funding of the BMC.

[8] Addai and Gaere, Capacity building and system development for SWAPs:
the experience of the Ghana health sector. IHSD 2001

2.5 Programme Management and Institutional Framework

In most sectors, Sector Development Programmes include many stakeholders and different executing agencies with assigned responsibilities for different components of the programme. In most countries it involves a hierarchy of responsible institutions. In many countries, responsibilities have been assigned through decentralisation of different functions from de-concentration to full devolution of authority. In cases where there are extensive devolution of authority, the role of central agencies (typically a line Ministry) is confined to defining overall sector policy and targets, while actual programming of activities are made by regional and/or local authorities and service delivery institutions. In these cases, a Sector Development Programme typically is an aggregate plan based on consolidated regional/local government agency plans which reflect specific needs and requirements defined by each of them.

Fund management is always the overall responsibility of the Ministry of Finance which uses its treasury system for transfers and financial monitoring. From a donor perspective it means that funds intended for Sector Development Programmes should be transferred to the Ministry of Finance. When the authority of budget allocations and spending has been fully devolved to lower levels of Government (typically for primary health and education, rural roads and agriculture extension services), the role of central agencies like the Ministry of Finance and the Auditor General is to ensure that financial regulations in general are complied with. From a donor perspective, when support is given to Sector Programmes without earmarking, the challenge is to monitor compliance with the established systems. In many countries lower levels of Government have authority to define their own procedures and regulations for financial management. In these cases an assessment will be required to ensure that adequate capacity and control is present to minimize fiduciary risks. In many cases it will require particular safeguard mechanisms like additional support to central agencies for monitoring of compliance and/or technical assistance to strengthen capacity at local government levels.

Comprehensive Sector Development Programmes with detailed action plans are typically found in sectors like energy and transport while in sectors like health and education they are more a consolidated programme describing aggregate targets and delivery system. Detailed actions/activities are then contained in plans at lower levels of government. The public sector management structures will differ accordingly.

In a situation with several donors supporting – and hence influencing – the sector, donors should support the building of a *sector coordination mechanism led by the Partner government. The mechanism should be consistent with Partner government* structures, meaning i.e.:

- The Sector ministry, to be responsible for coordination.
- The Ministry of Finance (and Planning) to have a clear role.
- Local government (province, district etc) to be involved if relevant.
- The sector coordination mechanism to be connected to a wider framework of coordination and dialogue around national development plans/PRS.
- Other stakeholders e.g. civil society representatives to be involved if relevant.

Different Management approaches to Sector Development Programmes

In Ethiopia, the Regional and Local government authorities (Woredas) decide on development interventions related to primary and secondary education as well as primary health care services. The Sector Programmes in education and health reflect the sum of targets set by the individual regions which in turn reflect a sum of Woreda plans and targets set by them. These targets have been developed through an iterative process with respective Federal ministries to guide the planning in accordance with general national policies. Accordingly, the overall Sector Development Programme consists of national targets and description of a delivery mechanism to achieve them, while the details on actions/activities and of input requirements are contained in regional and local government plans. The government/donor dialogue on support to this Sector Development Programme is confined to the overall strategy, delivery system and achievement of global targets, not the content and performance of each individual regional/Woreda programme.

In Uganda, the Power Sector Reform programme contained two main elements; institutional reform of the sector and sector investments to upgrade infrastructure and expand outreach of power supply. In this case the Sector Development Programme consisted of two elements; an institutional reform programme including establishing a regulatory authority and divesting public utilities, and a public sector investment programme in physical infrastructure. Both components were fully described with details of outputs, activities and inputs although the former was partially managed by a privatisation unit under the Ministry of Finance and Economic Development and the latter by the Ministry of Energy and Minerals Development. However, the main responsibility for the overall sector reform and investments remained with the Ministry of Energy and Minerals Development. Accordingly, the donor dialogue could focus on the total programme including details of investments and progress in establishing the regulatory institution and in divesting public utilities.

As stated in section 1.3 above, compared to conventional projects, Sector Development Programmes create a better opportunity to make use of national systems of planning, management, implementation and monitoring, and reinforce these systems over time.

Programme planning and implementation often requires institutional reform and capacity building to be in place in advance. However, organisational change and capacity building are time consuming processes. It is therefore always tempting for donors to promote the use of parallel structures to save time, with the risk of missing the opportunity for institutional development and capacity building of the sector as such.

To reduce the pressure for parallel structures, analyses to establish possible needs for institutional reform and organisational development have to be carried out at the early stages of planning of a Sector Development Programme. Even some institutional adjustments may be implemented in advance of full launching of the programme.

2.6 Capacity Development

Capacity for policy development, planning and management within government are often limited, and the development of such capacity is essential for programme implementation as well as for improvement of sector management and service delivery, both at national and local government levels. National ownership and development of national capacity will largely benefit from a set-up in which management responsibility is kept with the sector ministry, sector agencies have a role in the process, and qualified national experts are employed if available.

Capacity development is closely related to institutional development. According to the OECD/DAC Network on Governance, capacity development is the process whereby people, organisations and society as a whole unleash, strengthen, create, adapt and maintain capacity over time. It is often useful to consider capacity development as a process at three levels:

1. Individual level.

2. Organisational level (e.g. ministry).

3. Institutional and political level (e.g. sector and national).

   A minimum capacity is needed at all these levels for regular national systems to take charge of planning, management, implementation/service delivery, monitoring and evaluation of a Sector Development Programme.

   Under Sector Development Programmes emphasis on capacity building tends to shift from *transfer of knowledge* based on training and technical assistance towards *policy dialogue and learning by doing*. The role of donors in this context may be to support capacity and institutional development processes by facilitating access to knowledge, technology or new management approaches; by helping to facilitate change via networking, brokering of new relationships or facilitating consensus building.

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3. Process for Dialogue and Coordination

To ensure a coordinated and effective dialogue in the preparatory phase and prepare for a government-led coordination mechanism, donors may already at the initial stage establish a joint working arrangement. As a guide to such arrangement they may develop *a Code of Conduct,* in some cases and countries contained in a *Memorandum of Understanding* ("MoU"). The Code of Conduct or MoU serves as an arrangement agreed with the Partner government and should be integrated as far as possible in the government-led coordination mechanism.

A *Code of Conduct* incorporates the harmonisation measures and commits donors to aim at transparency, alignment with government sector policies and strategies, programme objectives, use of existing government structures, effective communication with donor headquarters, joint guidelines for technical assistance and joint processes for monitoring and review.

Normally one donor takes the role as "Lead Donor". This role may be circulated among the donors e.g. on an annual basis. The Lead Donor will represent other donors in the current contact with the Partner government, and will call meetings with the co-funding donors in order to coordinate and harmonise views in connection with regular monitoring meetings or other important issues pertaining to the follow-up of the programme. It is important that roles and responsibilities in the donor group and specifically the role of the Lead Donor are clearly Defined. If some tasks are delegated to the Lead, e.g. assessment and approval of specific reports, this arrangement must be formalised in writing among the donors. (See also 5.1.4.)

Areas of harmonisation and alignment related to Sector Development Programmes include:

» All donors subscribe to the same Partner government sector policy and strategy, and avoid adding individual policy objectives and conditionalities.

» Donors in collaboration with Government establish a formal coordination framework in the form of a local sector programme donor group.

» Donors prepare coordinated or joint responses to Partner government.

» Donors channel their financial support through joint financial arrangements. (See 5.1.4.)

» Donors and Government conduct joint reviews, joint processes for monitoring and use common performance monitoring instruments.

» Donors consider "delegated cooperation" (one donor delegating part of or its entire donor/government relationship to another donor). See Nordic Plus "Practical Guide to Delegated Cooperation" October 2006.

The coordination framework could include joint forums such as joint Government-donor annual review meetings; donor coordination bodies; ad hoc working groups; annual joint review missions; and possibly a wider consultative stake-holder forum.

Multilateral agencies, such as the World Bank, normally produce an Aide Memoire following joint reviews. Bilateral donors are also more frequently doing this, presenting the main outcomes of the review and agreed actions to be undertaken by the partner country and donors respectively.

Sector Programmes are part of the overall public expenditure in a partner country. To inform the monitoring and review process of a Sector Programme, participation in other processes like Public Expenditure Reviews (PER), Fiscal (or Financial) Management Reviews (FMR) and Country Financial Accountability Assessments (CFAA)[9] should always be considered. Such reviews may inform the reviews on sector - specific challenges and may also bring in general public expenditure management issues to be considered in the management of and support to Sector Programmes.

From an *alignment* and *transaction cost* point of view the main issue is not what arrangement donors agree to between themselves, but to what extent donors individually or collectively *use the Partner government's own systems and procedures* for programme planning, management, monitoring and financial management.

Preparing Sector Development Programmes requires Government and donors to take a *long-term strategic view*. The support to Sector Development Program-mes is a dynamic process, and it will take time to realise all the potential bene-fits. This is particularly the case for institutional change and capacity develop-ment. The time horizon may typically be about ten years. For resources to be predictable, support to Sector Development Programmes should be committed for the long-term, even when implementation is in three- or five-year phases. The long-term strategic nature of commitment should also be reflected in performance indicators.

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[9] PERs and CFAAs are often combined into a Public Expenditure and Financial Accountability Review (PEFAR)

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4. Aid Modalities and Sector Development Programmes

4.1 Project Aid or Budget Support

Sector Development Programmes can be supported by two main aid modalities:

- *Project aid* – funds earmarked for and disbursed directly to a project or programme account in order to fund a specific project/programme, or component or input in a project or programme.
- *Budget support* – funds transferred to the Ministry of Finance consolidated Treasury account for funding of the state budget.

We separate between two main forms of budget support;

- General Budget Support (GBS) is budget support where the purpose is to contribute to the implementation of generic goals as set in the national development strategy.
- *Sector Budget Support* (SBS) is budget support where the purpose is to accelerate progress towards the Partner government's sectoral goals.

For simplicity, we can say that both GBS and SBS are general contributions to the state budget. However, the difference lies in the purpose of the support. GBS is provided for the overall implementation of the poverty reduction or development strategy, whereas SBS is budget support provided for the implementation of a specific sector policy or a sector development programme[10].

The choise with regard to form of assistance will depend on a number of factors. Budget support is by definition fully aligned with Partner government's financial management systems and should ideally be the first option if trans-action costs are to be minimised. However, there may be circumstances were the Partner government's management procedures and financial system do not provide sufficient assurance for budget resources being allocated and used as intended. In these cases one option is to provide budget support with additional safeguard measures in the form of additional support for internal control and external audits. Another option is direct funding to spending units. This will, however, imply additional transaction costs in the form of additional monitoring and reporting procedures since funds are not fully integrated with the Partner government's public financial management system.

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[10] These definitions are in line with the definitions provided in the "Guidelines for Norway's Provision of Budget Support to Developing Countries." For issues concerning the provision of sector budget support please refer to these guidelines.

4.2 Earmarking

Project aid is characterised by *earmarking* funds for specific expenditure items in which donor funds are tracked from source to end use. This will often require other financial management procedures than that of the Partner government (specific bank accounts from which the partner agency can withdraw funds exclusively for specific project eligible expenditures).

Even if funds in such parallel financial management systems are recorded in the budget process ("on budget") the resource flow is rarely captured by the state accounts ("off state accounts").

While project aid may provide stronger influence and control in the use of aid funds, it significantly adds to the transaction costs since the Partner government will then have to comply with extraordinary procedures over and above its internal procedures. It also makes it significantly more difficult to include these resources in the regular budget, budget execution, accounting, and internal control and external audit procedures.

Budget support may also be subject to *different forms of earmarking* even though it implies not directly tracking funds from source to use since the resources are then blended with Partner government's own resources. In the OECD/DAC Guidelines (Ref. Section 1.1) the common definitions of earmarking in the context of budget support distinguish between "real" and "notional" (or "virtual") earmarking:

» The term "virtual earmarking", or "notional earmarking", is commonly used when budget support is made available for funding of agreed budget lines. This requires national authorities to ensure that spending against these lines is equal to or greater than the budget support.

» If the spending on agreed budget lines needs to precede the release of budget support, the earmarking process is real. Special bank accounts need to be created to hold the budget support until expenditures are confirmed and this means that resources are not fully fungible in the short term.

Sector budget support may also be provided without any form of earmarking ("real budget support"). In this case the resources are provided as *General Budget Support* but linked to performance and dialogue in a particular sector.

4.3 Financing Modalities

A key issue in financing arrangements is whether donors provide support individually through *individual arrangements* or *harmonise* their approach through common arrangements, such as *basket funding, pooling mechanisms, joint financing* or even sometimes *delegated cooperation arrangements* (one donor managing funds on behalf of the other).

When aid is disbursed through the central Treasury systems of Partner governments, it will be released though the regular budget execution procedures and accounted for in the state accounts. In this case it is fully *aligned* with the partner system which is the main characteristic of *budget support*.

Harmonisation and simplification among donors can proceed *without alignment*. Harmonised arrangements like basket funding/pooling/joint financing arrangements can in some cases be fully aligned, in others not aligned. Accordingly, funds made available to the Partner government from a basket funding arrangement may be managed like budget support while in other cases it is not.

Good practices related to harmonised disbursement arrangements include:

» To the extent possible *align* a harmonised funding arrangement to the government's own financial management system, i.e. not undermine budgetary discipline by making funds available to sector ministries outside the regular resource allocation procedures managed by the Ministry of Finance.

» Support budget discipline in the sense that sector ministries experience *predictability* in the formulation of government budgets and in the release of budgeted funds.

4.4 Joint Financing Arrangements

Donors may jointly decide to support a Sector Development Programme. In doing so they may apply joint performance frameworks and joint processes for monitoring and review. They may also decide to apply *Joint Financing Arrangements* (JFA). These are usually regulated through a Memorandum of Understanding (MoU) between the donors and/or with the Partner government.

A template for a Memorandum of Understanding called "Joint Financing Arrangement for joint donor support to programmes" has already been developed and agreed to among Nordic Plus members and serves as a useful tool in working through all issues the donors and the Partner government need to address. This template can be found in the Agreement Manual and the issues are:

» Identification and definition of programme to be supported.

» Description of the organisation on the donor side, i.e. how donors will cooperate to ensure a common approach.

» A description of the disbursement procedure.

» A description of main reports to be produced by the partner as well as audits and reviews to be carried out.

» A description of procurement procedures to be applied which are jointly accepted by all donor signatories as well as scope and frequency of audits.

4.5 Technical Assistance

Technical assistance may serve to complement financial assistance for a Sector Development Programme. In many cases the constraint for effective implementation is not purely financial, but lack of knowledge and good management systems. Donors can play important roles in this process of institutional change, e.g. by supporting the preparation of a government-led capacity development strategy for programme planning and implementation and assistance in developing management systems and procedures. Technical assistance may be offered for a limited period of time in order to provide professional advise, or exposure to parallel institutions in other countries (twinning arrangements or institutional cooperation) may be facilitated.

In Sector Development Programmes capacity development may be a goal in itself and at the same time a means to improve and sustain service delivery (Ref. Section 2.6). Strategies for capacity development should be integrated in the programme documentation and appraised for possible inclusion of technical assistance. Experiences with programmes in different sectors and countries have provided the following *good practices for capacity development and the use of technical assistance*:

» Avoid overloading Government capacity with too many simultaneous change initiatives. The use of technical assistance should be driven by Partner government priorities and should, as far as possible, be consistent with the Government's absorption capacity.

» Distinguish between the different roles for technical assistance and avoid overloading it with conflicting objectives (e.g. external expertise may be needed to fill short-term gaps, but expecting the same experts to train their successors rarely works). Technical assistance personnel should work primarily to strengthen government institutional capacity by focusing on skills transfer to civil servants in priority government functions.

» Technical assistance should be transparent, coordinated and designed to support long-term institutional development within the sector.

» Use national and regional professionals whenever available and appropriate, which also will promote human resource development and the national supply of professional services in general.

» Use and strengthen local procedures for prioritising and managing technical assistance and increase Government's discretion over the use of technical assistance resources. Technical assistance personnel should be managed by the Partner government, not the donor.

» Make capacity development an explicit, cross-cutting focus and ensure that all donor support is driven by national strategies and priorities. Technical assistance should not be restricted to supporting individual funding agency's programmes and not perform project management functions.

» Increase collaboration among donors in supporting capacity development. Government and donors may use the opportunity to provide Technical assistance through a pooling arrangement in which Government takes the lead, and/or use the Government system for procurement of technical assistance. If the Government system for procurement does not comply with international best practices for competitive bidding, donors should work with the Government to improve general procurement regulations and procedures, and not establish sector specific procedures as a short term remedy for technical assistance needs.

Case: Designing a Health Sector Development Programme in Malawi

In October 2001 the Ministry of Health and its development partners issued terms of reference for a Design Mission with the purpose to recommend how they could move forward to develop a Sector Development Programme. The contract was awarded to an international institution. The mission consisted of more than 40 consultants, lasted for many months at a cost of several million dollars. The Draft Report was 221 pages long, excluding annexes, describing an ideal health care system in detail, as well as in a Log Frame format. Although it identified problems in the system and identified outputs, activities and inputs required, it was not possible to distinguish between what was specific to the program and what was a general concern for any health care system.

The Report did not suggest priorities in terms of minimum and more general requirements of the programme nor of the system as such, and it did not distinguish between ongoing activities and new activities required to get the programme up and going. Although a long list of interventions, outputs etc. were listed, no prioritisation was made with regards to where to start, how to proceed, in what order and when. A major lesson learned is that designing a Sector Development Programme cannot be done from the outside, but needs to be driven by the Government. It requires considerable time (sometimes years) of all partners involved, and the process needs to be monitored carefully.

5

5. Sector Development Programmes and the Programme Cycle

With a point of departure in Norway's Development Cooperation Manual this section will elaborate issues that are especially relevant in connection with a Sector Development Programme.

It is important to keep in mind that a Sector Development Programme cycle is country dependent and normally *not the same* as the cycles described in the Development Cooperation Manual; the former representing the partner country's process from design of a programme through implementation to completion, the latter describing internal Norwegian decision-making and follow-up procedures related to funding from Norway.

The *preparatory phase as* described in the Development Cooperation Manual is Norway's initial steps in considering support for a programme. It may coincide with the preparatory phase of the Sector Development Programme, but may as well coincide with implementation of the programme. The *follow-up phase* describes issues of relevance for Norway during the period Norway is providing funds for the programme. The *completion phase* describes steps to be taken once the bilateral agreement expires and support from Norway is no longer to be provided under the agreement. The latter does not necessarily coincide with completion of the Sector Development Programme.

5.1 Preparatory Phase

5.1.1 Platform for Dialogue
The purpose of the Platform for Dialogue (PfD) is to clarify important issues which should be raised in the dialogue with the Partner government and potential development partners regarding support to a programme. Donors are often invited into the process already at the design stage to assist in defining the programme on the basis of the Partner country's policy or strategy. In addition, donors are requested to indicate potential future commitments in order for the Partner government to develop an expenditure framework for the sector before designing a programme in more detail.

The focus of the dialogue and thereby the content of the Platform for Dialogue, will depend on the stage of development which the Sector Development Programme has reached at the time when Norway considers funding.

In the process leading up to a decision regarding Norwegian support, it may be necessary to clarify important issues and positions through several PfDs in order to get the Embassy management's approval related to questions of principal nature that are encountered during the early preparatory phase.

Important issues to consider

» If a Sector Development Programme is not yet developed, the focus of attention should be on *how* it will be developed and whether the country needs technical assistance from Norway or other development partners in the process. An institutional analysis may be required at an early stage of programme development, in order to identify the need for institutional and capacity development to be implemented parallel to the programme planning exercise. Ownership and participation of stakeholders are essential issues at this stage (Ref. Sections 2.1, 2.2 and 2.6).

» Is the *Sector Policy and Strategy* coherent with national plans and policies of the Partner country and with Norwegian policy and the MOU? (Ref. Section 2.1).

» *The management arrangement,* including monitoring systems should be discussed at an early stage (Ref. Section 2.4 and 2.5).

» *Donor harmonisation measures* should be explored at an early stage in the preparatory process and as far as possible integrated in the government led sector coordination mechanism (Ref. Section 2.5). Issues to consider:

• Such arrangements may be reflected in a *Code of Conduct* agreed with the Partner government (Ref. Section 3).
• Division of roles and responsibilities between the donors in the preparatory and implementing phase. Should there be a Lead donor and what would the role and responsibility be? (Ref. Section 3).
• Is the Sector coordination mechanism consistent with government structures, i.e. are the roles of the Ministry of Finance, sector Ministry, local government and other stakeholders defined? (Ref. Section 2.5).

» The *financing modality* should be discussed at an early stage. An initial assessment and discussion with the Partner government (and other development partners) of factors that need to be in place at different stages (Ref. Section 4) is required to determine if and how this can be addressed. Norwegian considerations related to the choice of financing modalities normally include both overall assessments of the Partner government's political commitment to reform programmes as reflected in national plans, priorities and budgets, as well as assessment of whether the financial management system is good enough.

» *Critical issues/risk factors* for the achievement of expected results and for the sustainability of the programme should as far as possible be identified with the aim of having adequate analysis included in the programme documentation. The Development Cooperation Manual's description of sustain-ability elements and the "Assessment of Sustainability Elements/Key risk Factors, Practical Guide 2007" may be useful. In accordance with Norwegian policy, special attention should be made to identify critical issues related to gender, rights and environment.

» If Norway is considering support for a Sector Development Programme that is under implementation, a lot of information regarding the above issues will be available. The PfD should then focus on critical issues which are important to pursue further in the dialogue with the Partner government and other donors.

Case: Health Sector Assistance Programme (HSAP) – Ethiopia

The HSAP programme was developed by the Federal Ministry of Health and donor funded health sector specialists. It was designed with a 5-year budget subdivided by its 8 com-ponents. However, the government financial system was not able to produce financial reports by component, making it difficult to compare budgets and reports. This problem could have been avoided if the Federal Ministry of Finance and Economic Development had been included in the process of formulating the budget.

Case: Basic Education Sub-Sector Investment Programme (BESSIP) – Zambia

The programme has been supported for several years by an increasing number of donors. Although a coordinated and harmonised arrangement among donors, it has been an arrangement separate from the Government management structure with funds flowing into 89 bank accounts pending what type of activity the support was intended for and from which donor it was provided. While it has served as a joint arrangement for donors, it has not contributed much to aligning support for the Government.

5.1.2 Programme Documents
In the complete documentation of a Sector Development Programme, one would expect to find all the main elements discussed in Section 2, together with a description of the process for dialogue discussed in Section 3, and a framework for external support discussed in Section 4 above. All these elements need not necessarily be in place for the programme to be appraised. From a donor perspective it is important to observe that a detailed Sector Development Programme with all investments and recurrent activities predefined prior to entering into an agreement can be expected in some sectors and some countries, while in other sectors a Sector Development Programme proposal may be a more strategic document outlining an approach to service delivery. In some cases it is better to get started even if some issues have to be resolved

on the way, and some documents need to be worked out later. It is, however, necessary to have at least a well-defined sector policy and strategy and a rudimentary programme/action plan in place and a realistic process to work out possibly remaining elements.

5.1.3 Programme Appraisal

In a Sector Development Programme many donors may be involved, often with differing views with regard to design of the programme. The process of harmonisation and adjustment takes time, and should as far as possible be dealt with already in the initial dialogue (Ref. Section 3). To further ensure a consistent and coherent donor approach, it is strongly advised that donors *undertake a joint appraisal.* In such cases the Embassy should be flexible and use the appraisal requirements presented in the Development Cooperation Manual as a checklist in the dialogue with the donors on the Terms of Reference for the appraisal. Critical issues identified in the Platform for Dialogue will also serve as a guide for what should be focussed in the appraisal.

Appraisal arrangements

A decision will be required on *how* to conduct the appraisal, including process of selecting appraisal team, contents and format for reporting and subsequent donors' procedure for decision-making in a joint arrangement for support. Joint approaches may include more than one appraisal exercise. Some donor agencies conduct an appraisal after the programme design has been fully completed and all conditions agreed to, others conduct an appraisal as input to the process of programme design. Accordingly, what some donors label as a "pre-appraisal" exercise, others may consider to be the one and only full scope appraisal. In each case the Embassy will need to decide what information is required as basis for its own appraisal.

What to appraise

It is particularly important that the appraisal includes assessments of the Partner government's systems for financial management, monitoring, reporting and procurement to make a basis for the dialogue on alignment with the partner's systems. In some cases such assessments have been carried out in connection with support to other programmes, and the appraisal may build on these.

The issues specific to Sector Development Programmes include:

» *Sector Policy and Strategy,* which may be summarised in one document or consist of different documents. Assess (Ref. Section 2.1) whether they:

* are authorised by the Government,
* clearly define the sector, Government's priorities within this and the role of different actors,
* are aligned with overall national plans and strategies.

» Assessment of the *Programme Documentation* and its comprehensiveness in describing objectives, activities/work plan, budget and financial requirements as well as management arrangements for implementation and the procedures for monitoring.

- Assessment of *resource requirements* (recurrent and capital expenditures) and the sustainability of proposed public expenditures. (Ref. Section 2.3)
- Assessment of *implementation capacity* constraints and requirements for institutional reform and capacity development. Roles and responsibilities of involved institutions. (Ref. Section 2.5 and 2.6)
- Assessment of the need for *capacity development and technical assistance*
- Assessment of the adequacy of the *Government's financial management system*
- Assessment of the proposed *disbursement arrangement* for donor assistance to the programme, including alignment to the Government systems and recommended safeguards, if required. (Ref. Section 4).
- Assessment of *the adequacy of the monitoring system and reports* to be produced for joint monitoring, including content and frequency of progress reports and planned reviews and evaluations. Are indicators SMART? (Ref. Section 2.4)
- Assessment of *procurement procedures* to be applied and to what extent they can be accepted by all donors, or if additional safeguards or specific provisions are required. In such case, how they can be addressed also in an adjustment of the general procurement regulations and procedures of the Partner government.
- Assessment of *proposed scope and frequency of audits* and to what extent they comply with individual donor requirements, if not, how they can be addressed to meet international standards.
- Assessments of other *risk factors/sustainability elements* and cross-cutting concerns considered critical for the achievement of expected results. Attention should be paid to gender, rights and environmental aspects. (See also "Assessment of Sustainability Elements/Key Risk Factors, Practical Guide 2007")

» In case the Sector Development Programme is already developed and ongoing, appraisals made by other donors should be studied before deciding whether it is necessary to undertake additional assessments.

Case: Defining roles and responsibilities in the Energy Sector Assistance Programme (ESAP) – Nepal

ESAP has proven to be a very successful public-private partnership arrangement in support of rural electrification in Nepal. However, a legal framework defining the roles of the different government institutions has been lacking. This has contributed to disputes over which institution represents the Government in implementation once a project supported under the programme graduates from a village network to connection to the national grid generating revenue for the local network owner (village). This issue has proven to be a key issue for the sustainability of the programme.

In the dialogue with the Partner government and other donors subsequent to the appraisal, keep in mind:

» To the extent possible, ensure that procedures for monitoring and reporting agreed on are based on *the monitoring and reporting system of the Partner government*, and on the use of their reporting procedures and formats, rather than adding specific procedures and formats by Norway and other donor. Any additions should be part of an effort to improve on the Partner government system, and not a unilateral requirement by Norway or any other donor.

» Additional measures may be agreed for independent verification of actual outputs and outcomes of the programme by *commissioning reviews or studies from independent institutions.* It could be conducted as formative research using a panel of beneficiaries to monitor change at the beneficiary level (e.g. service users).

» Disbursement arrangements should *follow the fiscal year, budget cycle and budget execution procedure of the Partner government.* It should be made clear what is the basis for annual disbursements *(trigger for release)* and future year commitments *(review of performance)* to ensure that funds can be fully predictable for the Partner government. (When, how much and any conditions to be met for funds to be released)[11]. Whether or not there is a joint financing arrangement, donors should *jointly present a disbursement plan* for the programme with a schedule of releases.

» *Avoid introducing additional provisions for procurement, financial reporting and auditing* beyond Partner government requirements for financial management and procurement regulations. If still considered (like internal control, provisions for procurement to comply with international standards, special purpose audits) it should be referred to the *general dialogue on public financial management* rather than specifically addressed in support of a Sector Development Programme[12].

If, despite this, specific provisions are made for support to the Sector Development Programme, they should at least be harmonised with similar provisions by other donors and performed jointly with them.

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[11] Expressions such as "reserve the right to withhold if a programme develops unfavourably" should be expressed to the extent possible in concrete terms for the Partner government to appreciate what specific requirements they need to fulfil.

[12] Many donors refer to general country assessments and follow-up actions surrounding Public Expenditure Reviews (PER), Country Financial Accountability Assessment (CFAA) and Country Procurement Assessment Report (CPAR); the IMF's Report on the Observance of Standards and Codes of Fiscal Transparency (ROSC); the IMF/World Bank Public Expenditure Tracking Assessment and Action Plan (AAP) and/or the application of Performance Measurement Framework in Public Financial Management introduced by the joint donors of Public Expenditure and Financial Accountability (PEFA) secretariat.

5.1.4 Appropriation Document and Agreement

The recommendations of the Appraisal constitute the basis for the dialogue between the partners that finally may lead to preparation of an Appropriation Document (AD) and Agreement. The conclusions with regard to alignment with the Partner government's systems for financial management, monitoring, reporting and procurements should be included in the AD's description of "responsibilities and procedures", and reflected in the Agreement. If donor coordination implies delegation of tasks and authority to a Lead donor, e.g. assessments and approval of specific reports, such arrangements must be described in the Appropriation Document and formalised in writing.

These procedures may be different in delegated co-operation where funds are channelled through another donor, which through a separate agreement between the partners has wider responsibilities in the management of the cooperation. (Ref. Nordic Plus "Practical Guide to Delegated Cooperation" October 2006).

The *Agreement template* to apply will depend on the form of assistance (programme support, budget support). Modalities for funding may have been elaborated jointly, in parallel to programme development and appraisal. Otherwise funding arrangements are elaborated on the basis of the appraised programme documentation and negotiated between Government and donors, jointly and/or bilaterally.

When *joint financing arrangements* are considered, an additional challenge is to achieve consensus with other donors on conditions and procedures (Ref. Section 4.4). This process may require substantial time depending on which donors are part of the process, and to what extent Partner government systems satisfy minimum requirements for all of them. In order to achieve consensus on a joint arrangement it should be developed in steps:

Step 1: Agree on *definition of the programme* to be jointly supported, *benchmarks* to be applied for measuring performance and *triggers for release* of disbursement and/or commitment for future release.

Often the latter is included in a joint agreement as a Performance Assessment Framework (PAF). The challenge is for the donors to agree on a minimum set of priority indicators rather than the sum of all donor preferences. Another challenge is to include as trigger for release indicators directly linked to what the programme alone can *achieve* (typically process and output indicators) as opposed to general assessment of what the programme may contribute to (outcome and impact indicators). How cross-cutting issues should be assessed (regular monitoring or special reviews), needs to be considered.

Step 2: Design *a joint financing arrangement* as far as possible aligned with the Partner government's financial management systems. (Linked to this is the issue of funds to be earmarked for specific budget heads or expenditure items, or provided as budget support (Ref. Section 4.2).

Firstly, the design of a joint disbursement arrangement often requires a long and detailed process. It requires a shared understanding of Government systems for programme monitoring and financial management. Secondly, it requires an assessment of the fiduciary risks associated with the system and identification of additional safeguard measures satisfying donor requirements for assurance. Thirdly, it requires an overview of individual donor specific requirements, in particular those which are compulsory for each of them.

The above describes the main elements in the process in which donors, with support of public financial management experts and legal advisors, discuss and prepare a draft JFA for negotiation with the Partner government. How to ensure that the elements are aligned with Partner government systems, but simultaneously meet basic requirements for monitoring of programme performance and management of financial resources are central issues in the discussions.

> **Case: Typical issues which requires time to resolve among donors in Joint Financing Arrangements**
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> Limitations in donors' ability to make advance disbursement is a frequent issue encountered when harmonisation among donors is discussed.
>
> Some donors do not allow the Partner to retain accrued interests on foreign exchange deposits but demand that they are reimbursed before they are converted into local currency. To fulfil this requirement the Government needs to keep track of individual donor contributions by maintaining different foreign exchange accounts for each of them.
>
> Aligning commitments and disbursements are often a challenge since donors have different fiscal years and often different from the partner country. Some donors may insist on following their own fiscal year without observing the Partner's fiscal year, in which case it seriously undermines the integrity of the partner budget process.
>
> Multilateral agencies like the World Bank and European Commission require specific procurement procedures applied globally without adaptation to Partner country's legal framework and apply special provisions concerning country of origin in procurement of goods and services.
>
> Although many of the issues should be addressed in the general dialogue with the Government they frequently appear in the dialogue surrounding sector programmes and need to be addressed as early as possible in the formulation of the JFA since they are often the most time-consuming issues to resolve.

5.2 Follow-up Phase

The Development Cooperation Manual provides general guidance to important issues in the follow-up phase. Many of the issues dealt with under Preparatory Phase above are highly relevant also in the follow-up phase, but will not be repeated here.

Coordination and harmonisation of processes among donors and Norway's roles and responsibilities need special attention in the follow-up of Sector Development Programmes. (Ref. Section 3)

5.2.1 Work Plans and Budget

When *assessing work plans and budgets* one should ensure that:

» They are *comprehensive* in as much as they cover the entire programme and all associated activities and planned outputs.

» The *budget reflects all recurrent and capital costs* and that they are equally reflected in the state budget.

» Any adjustments from the initial medium-term plan and budget guiding the programme is duly *explained* and *reflected* in the plan.

5.2.2 Disbursements

Adherence to donor commitments is a common problem facing a Partner government and a cause of delay in implementation in countries with low liquidity (limited tax-base or unpredictable domestic sources of revenue).

The disbursement plan agreed upon between donors and the Partner government (see p.21) should serve as a *firm commitment* within the fiscal year (linked to benchmarks or triggers for release in the event of performance-based disbursement) to ensure predictability and transparency for the Partner government and allow cash planning and management for programme implementation.

Case: Education for all (EFA) – Nepal

The programme is supported by five donors in the form of sector budget support through a joint financing arrangement (JFA). Other donors provide support through other forms of assistance to the programme. The pooling donors have committed themselves to the principles of harmonisation as reflected in the JFA, and to align their modality of support with the public financial management system and legislation of the government. The financial support from the pooling donors is provided through a common foreign exchange account in the name of the Government. The budget support is notionally earmarked to specific budget heads for education with the condition that the expenditures under these budget heads shall at least exceed the total aid provided. »

>> In order to reduce further the administrative burden on the Government, the pooling donors have designated one donor as contact point for all communication and information sharing with the Government ministry. Monitoring of the programme performance is conducted as a *joint review by all the partners* according to trimester progress reports. They report on progress related to programme outcome, output and process indicators as presented in Annual Work Plan and Budget. The verification and assessments of the reported data have demonstrated a need for more conceptual clarity and significant increase in the capacity to collect process and manage information at all levels of the system. These issues have been addressed in the annual reviews and a more simplified reporting and monitoring system have been recommended. This will require making more realistic and achievable programme targets. It must be easier to verify information and baseline indicators which will make it possible to identify programme trends and achievements.

5.2.3 Progress and Audit reports

Progress reports would normally consist of the following main elements:

>> A report on overall progress in implementation of the programme in accordance with the work plan. The report should document achievement of outputs and outcomes based on selected indicators.

>> Combined with the above, a financial report produced by the Government's accounting system analysing deviations between budget and actual expenditure according to government regular chart of accounts (economic and functional classification). If initially agreed to, also a report on budget and expenditure by programme component or activity (activity-based budgeting).

>> If agreed to, a report on procurements undertaken with description of procurement procedures applied.

In addition, an annual report is required from the Auditor General, or which ever auditor it is agreed to conduct the audit, presenting the Auditor's opinion and management report.

Similarly to assessing work plans, the key issues when *assessing progress reports and reports from auditors* are to ensure that:

>> they are *comprehensive* in as much as they cover the entire programme,

>> the financial statements reflect *all recurrent and capital costs*[13] as they are reflected in state accounts,

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[13] Some countries still use regular and development expenditure as expenditure classifications.

» the report from the auditors is not only limited to issuing an opinion but *presents all the findings as per their management report to the Partner government*[14],

» *any deviations from the above are explained* and any limitations in the comprehensiveness of the report are observed (such as limited opportunities to report on direct donor contributions in the form of technical assistance and other in kind contributions).

One challenge is to engage donors in *a joint review process* and a *coordinated response* to the Partner government, not losing the opportunity for the Partner government to save transaction costs. (Ref. Section 3).

A second challenge is to *focus on process, outputs and outcomes* rather than on input in the review of reports. The main attention should be on the likelihood that the Sector Development Programme may achieve results and targets as defined in the programme documentation. The process, and how the results are achieved will, however, also be important, in order to secure achievements with regard to cross cutting issues (such as gender and human rights) and programme sustainability. Any likely deviations found between targets and actual achievements should be subject to joint assessments by the development partners collectively before responding to the Partner government.

A third challenge is, as far as possible to limit *donor specific requirements for information and/or safeguard measures* for added assurance. Typically this relates to additional external financial and procurement audits/inspections. Such audits/inspections should preferably be conducted jointly and information shared among donors. Donors should try as far as possible to arrive at common positions and recommendations and in any case convey their views to the Partner government in a joint process.

It should be noted that the Embassy will have to assess reports and document Norway's assessments and positions also when there is a Lead donor, unless a division of work has been agreed upon, placing the responsibility for assessment and approval of reports with the Lead donor. Such division of work must be formalised in writing and procedures must be in place for the Embassy to assess the Lead's comments. The Embassy's positions must be documented and filed.

See also the Nordic Plus Practical Guide to Delegated Cooperation including a template for arrangements which describes procedures related to delegated cooperation.

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14 In the case of the Auditor General the full report to the parliament/congress or other political leadership.

5.2.4 Annual/Monitoring Meetings

Annual Meetings and other meetings/reviews should be part of a joint process for dialogue and follow-up.

To limit transaction costs for the Partner government, donors should clarify their points of view between themselves and as far as possible arrive at common positions prior to engaging the Partner government. This is commonly done through a preparatory meeting called by the Lead donor. If a joint Mandate for the Annual Meeting is prepared, the Embassy must document its positions and inputs to the Mandate e.g. through a Mandate for the preparatory meeting, Norwegian positions.

Even though not mandatory, it will be useful to prepare a brief follow-up report after the Annual Meeting, focussing on results achieved and challenges ahead.

5.2.5 Reviews and Evaluations

When dealing with Sector Development Programmes, donors should *avoid separate field visits, reviews and evaluations,* taking up considerable time of sector employees. Scope and process should also be limited to prioritised issues, as programme reviews tend to be costly and time-consuming. Optimal timing of reviews and evaluations in relation to *the programme and budget cycle of the Partner government* is also a challenge, as they should serve to inform the process and provide input to the formulation of work plans and budgets. Accordingly, donors and Government should agree on a joint scope for a review or evaluation and a timing that ensures the output to be available to inform the decision making processes (typically finalised one month in advance of an Annual Meeting).

Alternative approaches to reviews/evaluations may be considered, including:

» *Reviews/evaluations conducted by the development agencies themselves (but approved by Government) or jointly with the Government.* Since all are stakeholders to the programme, it limits the integrity and independency of the review/evaluation, but ensures learning both for donors and Partner government needed for decision-making.

» *Reviews/evaluations conducted by external researchers/consultants.* The challenge is for Government and development partners to agree on the process; i.e. for each partner to nominate team members/institutions to participate, or delegate the full responsibility to one development partner (which can be changed each time).

The latter should be chosen if the professional quality of work is the key issue, the former if the key issue is to promote active participation and ownership of the process by all donors. In both cases a provision should be made for the highest possible level of participation by independent national institutions in the partner country. This is an opportunity not only for national capacity building but it also promotes national awareness of public sector management and service delivery.

5.3 Completion Phase

The bilateral agreement on Norwegian support for a Sector Development Programme is typically linked to a programme period of 4-5 years. However, there is a major difference from other programmes in that the Sector Development Programme is by nature normally not completed when the period for Norwegian support ends. Technically, however, from a Norwegian point of view the programme agreement will be treated as completed and terminated. The next phase is then treated as a "new" programme period, and a new agreement is entered into.

According to the Development Cooperation Manual, an *End Review* is mandatory in programmes with a Norwegian contribution of NOK 50 million or more. If a specific End Review is not part of the agreed process for dialogue and coordination, possibilities for building the Norwegian End Review on *other joint reviews* should be considered.