

# From Project Aid towards Sector Support

An evaluation of the  
sector-wide approach  
in Dutch bilateral aid  
1998–2005





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Printing Opmeer|De Brink|TDS printmaildata

Design Corps, The Hague

Cover design Haagsblauw, The Hague

Lay-out Eindeloos, The Hague

Cover picture Uganda, Kampala, February 2006. Photo: Sven Torfinn / Hollandse Hoogte

Translation mrs. Joy Burrough (Unclogged English) and Paul Gretton

ISBN 90 5146 000 7

Ordercode OSDR 0567/E

[www.euforic.org/job](http://www.euforic.org/job)

[www.minbuza.nl](http://www.minbuza.nl)

November 2006

# Foreword

In order to formulate an answer to the persistent criticism that aid lacks effectiveness, since the mid 1990s bilateral and multilateral donors have developed initiatives to alter the organisation and purpose of aid. The key theme addressed is the need for better coordination of aid: among donors and between donors and recipient governments.

Dutch development cooperation has endeavoured to engage with these international developments. Introduced at the end of 1998, the sector-wide approach was intended to improve the effectiveness and sustainability of the aid. The underlying principle was that aid should be aligned as much as possible with the policy and financial management frameworks of the recipient country's government. This was accompanied by a strong preference for providing budgetary aid. These principles were expressed in the policy memorandum *Mutual Interests, Mutual Responsibilities*, presented to Parliament after the change of government in 2003. The policy memorandum also contained new priorities for sector policy that have influenced all subsequent Dutch bilateral aid.

This evaluation is intended to answer the question of what has become of the policy intentions of the sector-wide approach. In the early chapters it analyses the changes in policy and their implementation. The later chapters examine whether the desired increase in the recipient countries' ownership of the aid has been achieved and what repercussions this has had on the approach to poverty reduction. This, together with the question of whether budget support is an effective instrument to apply to achieve sustainable poverty reduction, is a perpetually topical issue of international and national debate. The present study aims to contribute to the debate and further policy development on bilateral aid.

The report draws largely on a number of studies conducted specifically for the evaluation; they are available on the accompanying CD-ROM. The person responsible for the evaluation was IOB evaluator Nico van Niekerk, who also wrote

the final report. The structure and development of the final report is the result of collaboration with the chief consultant W. Cornelissen and the consultant J. Sterkenburg. Alexander Morren was responsible for the document studies and for setting up the database on disbursements and aid modalities. The report, which was published in Dutch in april of 2006, was translated into English by Joy Burrough and Paul Gretton. Many others made valuable contributions to this study; they are named in the annexes. Final responsibility for the content of the report, however, rests with the Policy and Operations Evaluation Department (IOB).

A. van Ojik

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## On cd-rom

- 1) ToR of the evaluation study
- 2) W. Cornelissen, D. Frans, M. Guhuthakura and R. Rodts (2005). *Sector-Wide Approach. Working Document Bangladesh*. IOB
- 3) N. van Niekerk, W. Cornelissen, C. Toranzo and F. Ruiz (2005). *Sector-Wide Approach. Working Document Bolivia*. IOB
- 4) M. van der Linde and F. Terwindt (2005). *Sector-Wide Approach. Working Document Burkina Faso*. IOB
- 5) A. Leliveld (2005). *Sector-Wide Approach. Working Document Uganda*. IOB
- 6) W. Cornelissen and V. Chisala (2005). *Sector-Wide Approach. Working Document Zambia*. IOB



# Acronyms

BESSIP	Basic Education Sub-Sector Investment Programme
BRAC	Bangladesh Rural Advancement Committee
CIDA	Canadian International Development Association
COCA	Checklist for Organisational Capacity Assessment
CPIA	Country Policy and Institutional Assessment
DAC	Development Assistance Committee
DEK	Directie Effectiviteit en Kwaliteit (Department for Effectiveness and Quality)
DFID	Department for International Development UK
DGIS	Directoraat-Generaal Internationale Samenwerking (Directorate-General for International Development Cooperation)
ESIP	Education Strategic Investment Plan
EFA/FTI	Education for All/Fast Track Initiative
EU	European Union
GDP	Gross Domestic Product
GNP	Gross National Product
HDI	Human Development Index
HHI	Herfindahl Hirschman Index
HIPC	Heavily Indebted Poor Country
IDA	International Development Association
IMF	International Monetary Fund
IOB	Inspectie Ontwikkelingssamenwerking en Beleidsevaluatie (Policy and Operations Evaluation Department)
ISS	Institute of Social Studies (The Hague)
MDG	Millennium Development Goal
MoU	Memorandum of Understanding
MTEF	Medium Term Expenditure Framework
NGO	Non-governmental Organisation
ODA	Official Development Aid
OECD	Organisation for Economic Cooperation and Development

PBA	Program Based Approach
PDDEB	Plan Décenal de Développement de l'Education de Base
PER	Public Expenditure Review
PFM	Public Finance Management
PRSP	Poverty Reduction Strategy Paper
PSAC	Programmatic Structural Adjustment Credit
SBPC	Sistema Boliviano de Productividad y Competitividad
SIBTA	Sistema Boliviano de Tecnologia Agropecuarios
SIP	Sector Investment Programme
SPA	Special Programme of Assistance for Africa
SWAP	Sector-wide Approach
ToR	Terms of Reference
UN	United Nations
WHO	World Health Organisation

# Main findings and issues for future policy

## Background

In November 1998 the then Minister for Development Cooperation announced that Dutch bilateral aid would be restructured, as it was insufficiently effective because of a wide range of problems. Aid was fragmented over a large number of countries and activities. Part of the aid was going to countries where poor governance and policy meant that the structure for receiving aid was not adequate. Moreover, too much uncoordinated project aid was being given and weak donor coordination was making aid even more fragmented. Finally, the donor conditions accompanying aid reduced recipient countries' control over their policy and aid expenditure.

In order to tackle these problems, the Minister proposed concentrating aid on a limited number of countries and sectors. The new priority countries would be selected on criteria of poverty, good governance and good policy. In the bilateral aid to these countries, the principle of the sector-wide approach would then be applied. The aim of this new approach was to enable the recipient government to determine policy itself for a specific sector (education or health, for example), after which donors would mutually agree to support that policy for several years. Aid would then no longer be provided in the form of project aid but, whenever possible as programme aid, preferably as budget support. Moreover, the rules and procedures of the recipient country would have to be observed as much as possible (*alignment*). In this way it was attempted to increase the recipient government's ownership. The policy's ultimate aim was to contribute to more effective poverty reduction.

In this evaluation it was investigated how and to what extent the policy was implemented and whether it achieved the desired increase in ownership and the creation of better conditions for poverty reduction. The results of the sector support in terms of poverty reduction at the level of the target groups were not part of the evaluation team's remit; they will be dealt with in a series of follow-up studies

that IOB began early in 2006. The present study gives a general overview of sector support in bilateral aid to the 22 priority countries selected in 1999, which were supplied with a total of EUR 2.8 billion of bilateral aid between 2000 and 2004. More depth has been added to the analysis by using the results of five case studies conducted in Bangladesh, Bolivia, Burkina Faso, Uganda and Zambia.

## Main findings

### Policy implementation

1. *The selection of countries in which the sector-wide approach was to be applied did not take place according to the criteria specified.*

The selection of countries made in 1999 is only partly explainable in terms of the application of the three key criteria of poverty, good governance and good socio-economic policy. Given the impossibility of selecting a substantial group of poor countries characterised not only by good policy but also by good governance (or prospects of this), a number of supplementary criteria were used in the selection process. As a result, the selection process in 1999 was not sufficiently transparent. The final result was that over half of the 22 countries selected in 1999 did not meet the criterion of good governance, which meant that in these countries, one of the cornerstones of the sector-wide approach was undermined.

2. *The intention to concentrate aid more on countries and sectors was largely achieved.*

The concentration of bilateral aid was achieved to an important extent. The number of countries with which a structural aid relationship is maintained was cut by a third. In virtually all of the 22 countries, the concentration of aid in the sectors was achieved to an important degree, though the division into sectors was not always applied consistently. After 2003, the implementation of the priorities and input goals laid down in *Mutual Interests*, *Mutual Responsibilities* undermined the desired concentration of bilateral aid.

3. *A rapid implementation and uniform approach was opted for in the introduction of the sector-wide approach. Not only did this conflict with the capacity in the ministries and embassies; in most countries, the institutional infrastructure was inadequate for such a drastic change.*

The rapid implementation of the new policy was prompted by the desire to achieve a turnaround during the term of office of the incumbent minister. However, the application of the sector-wide approach assumes specific experience and exper-

tise, neither of which were sufficiently available either within the Ministry in The Hague or at the embassies. Because of this and also as a result of the pressure to implement the sector-wide approach in a short time, there was no systematic assessment beforehand of the institutional and administrative infrastructure (implementation capacity) in the sectors. The uniform implementation strategy followed did insufficient justice to the diversity in the conditions of the recipient countries and the embassies' assessment of the feasibility of implementation. Only in a limited number of countries did the introduction of the sector-wide approach link up with ongoing processes of change.

4. *The Netherlands has pioneered the harmonisation and alignment of aid with the policy and financial management frameworks of the government.*

The Netherlands differs from almost all other donors in its policy towards alignment. It appears to be more prepared to put aside its own procedures in favour of those of the recipient country. There are two reasons for the reluctance of other bilateral donors: a) their estimates of the risks and opportunities associated with giving less earmarked aid differ from those of the Netherlands and b) they face greater internal political and administrative obstacles and impediments.

5. *The intention to reduce earmarking of aid and to provide budget support has been achieved in nine of the 22 priority countries. In over half the countries, project aid still dominates.*

For the 22 countries as a whole, programme aid as a proportion of bilateral aid increased from 37% in 2000 to 47% in 2004, while general budget support increased from 3% (2000) to 18% (2004). In 2000, general budget support was still being given to only two countries; four years later this had risen to eight countries. In over half of the 22 countries, however, the intention to give less earmarked support was not achieved and project aid is still dominant. In 13 countries, no budget support whatsoever was given in 2004, because the preconditions were not met.

6. *In all priority countries, the introduction of the sector-wide approach has led to aid being concentrated in the social sectors and to a reduction in aid to productive and economic activities.*

The concentration on the social sectors occurred because here the preconditions for the application of the sector-wide approach were better than in other areas. This trend towards concentration was reinforced by the Millennium Development Goals (MDGs), and by the formulated target inputs and priorities contained in the policy paper *Mutual Interests, Mutual Responsibilities*. The same trend can be seen for many other donors. As the application of the sector-wide approach was found to

be more difficult in the productive sectors and because the Minister discouraged the choice of productive sectors, the importance of the rural development and agriculture sectors fell sharply after 2003.

The expected impact of the sector-wide approach in the five case study countries: ownership and the contribution to poverty reduction.

7. *In most cases, the anticipated increase in ownership in the recipient countries did not materialise.*

As yet, it is difficult to demonstrate an increase in ownership attributable to the sector-wide approach, for the following reasons:

- a) In many countries, heavy dependency on aid hampers the development of ownership.
- b) In most countries, the degree to which aid is actually aligned with the government's policy and financial management frameworks is limited.
- c) Donors interfered greatly in the creation of the PRSPs and the sector policy. The preconditions laid down for sector financing and general budget support apply to a wide range of policy areas.
- d) Major institutional and capacity shortcomings hamper the governments of the countries concerned from exercising effective leadership over aid and implementing the policy agreed on with donors.

The Netherlands has helped create better conditions for ownership by devolving more of the decisions about aid on to the recipient government and by aligning aid with that government's policy and financial management frameworks. But the Netherlands has not always been consistent when applying the principle of demand orientation. The sector choice was predominantly a unilateral Dutch decision, and by refining its own priorities and input goals the Netherlands compromised the principle of demand orientation. In general, donor policies appeared to be ambiguous. On the one hand, thanks partly to the efforts of the Netherlands, donors made attempts to expand the scope for ownership, but on the other hand the scope was being restricted again by major donor interference in the policy of the recipient government. In some countries the rapid introduction of the sector-wide approach was based on an over-optimistic assessment of ownership.

8. *In most of the sectors supported by the Netherlands the recipient government has great difficulty in effectively reaching the poor.*

The criticism levied at Dutch aid policy prior to the sector-wide approach was that the results of project aid had limited sustainability because a stimulating policy



environment in the recipient country and favourable socio-economic and political conditions at macro level were lacking. Under the sector-wide approach, aid was directed towards the central government. This made it possible in many cases to tackle poverty reduction more structurally, because ways of removing obstacles to poverty reduction could be sought at supra-sectoral level. By focusing more at macro level, this approach of sector support also made it possible to greatly expand the provision of public services (particularly education).

The flipside of this, however, certainly in the short and medium terms, was a weakening of the aid's focus on poverty. Achieving the goal of poverty reduction depended on the recipient government's political will to give poverty reduction high priority and on its capacity to implement that policy. In practice, this was seldom the case. Although the poor have profited from improved access to services, the quality of the provision of services has improved little if at all, and getting sector policy to focus more on the poor and on poverty reduction is still beset with huge problems. In poor marginal regions, the range of services available and their quality are lagging behind because the national provision of services is supply-driven, focuses strongly on supplying inputs, and has been designed to serve all strata of the population. Operating via the central government it is difficult to fit greater accountability and control of the users of services into the present top-down model of the provision of services.

### Issues for future policy

The expectations in 1998 about how quickly the desired policy changes would be achieved were unrealistic. Furthermore, the objectives of the sector-wide approach were formulated very ambitiously and the expectations about the impacts that the changes in aid might bring about in the recipient countries were set too high. Many of the arguments for striving to better align aid with the policy and financial management frameworks of the recipient government are still valid. But for future policy it is important to keep the following points in mind:

#### 1. Country policy

In half of the priority countries there has been absolutely no progress that would make either the sector-wide approach or budget support more feasible in the near future. In these countries it is therefore not sensible to deploy the uniform policy framework. It is worth considering applying more differentiation when trying to embed aid as much as possible within the central government's financial management and policy frameworks. Moreover, a modified strategy attuned to the specific circumstances for different groups of countries might be more effective.

## 2. *The sector-wide approach and poverty reduction*

The general complaint is still that too little of the support reaches the poor. The interaction between macro and micro levels that is given such heavy emphasis in the policy for the sector-wide approach has, in practice, receded to the background. The central question now is how sector support can be better geared to the poverty situation at regional and local levels. Consequently, more attention needs to be given to the obstacles and impediments hampering the implementation of the sector policy at meso and local levels. This requires also taking a fresh look at strengthening the institutions of lower echelons of government.

## 3. *Aid modalities and project support*

The difficulties identified in reaching the poor by giving support to the central government are no justification for falling back on the type of project aid that preceded the introduction of the sector-wide approach. It is advisable, though, particularly in countries in which progress is being made in implementing the sector-wide approach, to deploy project support more strategically to achieve innovation, policy development, and, where necessary, to compensate for the limitations of the central government as regards reaching the poor. Furthermore, project aid can help to achieve more investment in a bottom-up sector approach and more thorough monitoring of the results of national policy at local level. Project aid would then have to be an integral component of sector development.

## 4. *The emphasis on the social dimension of poverty*

There are various reasons why the priority for aid to the social sectors needs to be reconsidered:

- a) Within the donor community, the attention for aid to the social sectors is increasing – partly in response to the millennium development goals.
- b) Now that more donors are focusing on the same social sectors, the limited absorption capacity of the central governments of the recipient countries is becoming increasingly apparent.
- c) The sustainability of the investments in the social sectors is being questioned, because the social sectors are so dependent on external financing and because of the lack of prospects for financing the running costs from the recipient governments' tax revenues.
- d) As the income of the poor is not improving (or not improving fast enough), there are currently no prospects of the people themselves contributing at local level.

- e) In the new generation of PRSPs and national development plans, more priority is expressly being given to the productive sectors and economic development.

It is necessary to take a fresh look at the economic dimension of poverty in the poor regions. For support to the productive sectors, the government's role and responsibilities must be clearly delineated and high priority must be given to strengthening the institutions concerned, so they can perform their tasks properly.

#### 5. *Monitoring and evaluation of the bilateral policy*

The monitoring of the country and sector policy should be less biased towards the donor's perspective and should take more account of the political and economic dimension of developments in the recipient countries.

The way sector policy has been evaluated so far has failed to give more insight into the effectiveness and impact of policy at regional and local levels, particularly in relation to poverty reduction. It is therefore necessary to give more emphasis to the evaluation of impact.

At present, the embassies are largely responsible for evaluating the sector programmes. The quality of the evaluations varies, because embassies lack time and expertise. Furthermore, the embassies' great involvement in approving the sector programmes and the pressure to spend extra funds in the social sectors are not always reconcilable with the responsibility for evaluating these programmes. Therefore the division of responsibilities for evaluation between the Ministry and the embassies may have to be reconsidered.



# Introduction

The principle of the sector-wide approach was introduced as part of the reorganisation of Dutch bilateral aid that took place from the end of 1998. At the end of 2003 the Policy and Operations Evaluation Department of the Ministry of Foreign Affairs (IOB) decided to evaluate the implementation of this approach in Dutch bilateral policy. The Terms of Reference (ToR) of the evaluation were finalised on 2 June 2004 (ToR, annex 2).

The main question addressed by the evaluation was whether the introduction of the sector-wide approach created better conditions for achieving the principle aim of Dutch development policy: poverty reduction. The following research questions were therefore formulated:

1. To what extent have the intended changes in Dutch policy been achieved and what explanatory factors might account for the findings?
2. To what extent have the intended changes been achieved in the recipient country and which factors have been largely responsible for this?

Measuring the impact, i.e. the results in terms of poverty reduction, was not part of the remit of this study. However, the study did examine how the introduction of the sector-wide approach affected the prospects for poverty reduction in bilateral aid. As a follow-up to this evaluation, in 2006 IOB began studies of the impact of sector support on poverty reduction.

The evaluation comprised four parts:

1. A reconstruction of policy formulation and policy implementation.
2. An investigation of the selection of the countries on which aid was to be concentrated: the selection of the '22 countries' in 1999 and of the 'theme countries' in 2003.
3. A quantitative study of the amount of aid given to the sectors and of the deployment of the various aid modalities this entailed.

4. Five case studies that examined the implementation of the sector-wide approach. The following criteria were used when selecting the case study countries:
  - a) the progress made with the introduction of the sector-wide approach,
  - b) a geographical distribution over three continents reflecting the general picture of Dutch disbursements in bilateral aid.

The countries chosen were Bangladesh, Bolivia, Burkina Faso, Uganda and Zambia.

Apart from a desk study that included a review of the literature and the scrutinising of relevant documents, the evaluation also entailed short missions to each of the countries, primarily in order to verify the preliminary findings of the desk study.

The set-up and methodology of the evaluation are explained in annex 3. Although the remit for the evaluation included an examination of changes in the efficiency of the aid (see the ToR), it proved impossible to do this properly because there were so many constraints; the findings did not add substantially to what had been reported in previous IOB research. This topic was therefore not dealt with separately.

The present synthesis report presents the general trends and developments. The underlying arguments and further details on the findings per country can be found in the reports of the five case studies on the CD-ROM accompanying this document.

In relation to the evaluation's scope, it should be noted that:

- a) 'Sector-wide approach' has been interpreted to include more than just aid given to sectors. The topic of the evaluation is the totality of policy intentions introduced under the heading 'sector-wide approach'. For this reason, the evaluation also considers selectivity (as a precondition for the application of the sector-wide approach) and the activities at macro- and supra-sectoral levels deemed important for facilitating the implementation of sector policy.
- b) The evaluation relates to delegated structural bilateral development cooperation: the bilateral aid given via the embassies plus structural macro-oriented support (for which there is a joint decision-making procedure involving the embassy and the Dutch Ministry of Foreign Affairs). In this report the term 'bilateral aid' refers to delegated structural bilateral aid. Other forms of macro aid or bilateral aid (such as the Development-Related Export Transactions Programme (ORET) and the Industry and Environment Programme (MILIEV) and the Least Developed Country Fund (LCD) or aid given via private channels fell outside the scope of this evaluation.

- c) The evaluation uses information on the period 1998–2005. The new policy was announced at the end of 1998 and preparations for implementing it were completed in 1999. The analysis of the trends in funding covers the 2000–2004 period. The period prior to the introduction of the sector-wide approach that was used for comparison was 1996–1999.
- d) In 2003, after the change of government, a new policy memorandum was issued (*Mutual Interests, Mutual Responsibilities*); it no longer mentioned the sector-wide approach as the principle underlying bilateral cooperation and it described new priorities. Important components of the sector-wide approach were continued, however, though sometimes given different names. These changes and their repercussions on aid given to sectors are covered in this evaluation. Though certain themes (*harmonisation*, for example) acquired a meaning of their own, in the present report they are referred to as components of the sector-wide approach.
- e) The policy implementation considered in this evaluation refers to the 22 countries selected in 1999/2000.<sup>1</sup> For more detailed analysis of the policy implementation and for analysis of the intended effects, the study examined the five case study countries. The total number of sectors in these five case studies is 17.

The structure of this report is based on the set-up of the evaluation. Chapters 1 to 5 relate to the evaluation of the first research question about the implementation of the sector-wide approach in Dutch bilateral policy. In Chapter 1 the wording of the policy is described and the evaluation framework is explained in greater detail. Chapter 2 describes the extent to which the intention to concentrate aid in a limited number of selected countries has been achieved. Chapter 3 discusses the sectors chosen and the changes in the composition of the bilateral aid, while Chapter 4 deals with the deployment of less earmarked aid modalities. In Chapter 5, the progress made in implementing the sector-wide approach is described per sector. Then follow two chapters on the expected effects of the sector-wide approach in the five case study countries: Chapter 6 examines whether the sector-wide approach has contributed to ownership and to strengthening the institutions of the recipient country, while in Chapter 7 the activities and results of the sector support and their relevance to poverty reduction are discussed. Finally, Chapter 8 presents a ‘balance sheet’ of the contributions of the sector-wide approach to the creation of improved conditions for poverty reduction.

<sup>1</sup> Includes the adjustments made to the list of countries in 1999 and 2000: see Table 2.2 in Chapter 2, which gives an overview of the countries covered by the evaluation.





# 1 Policy development

## Introduction

It is impossible to discuss the decision to adopt the sector-wide approach without also considering changing international views in the mid-1990s about the effectiveness of development aid. These changed views are explained in Section 1.1. Section 1.2 outlines the new policy based on the sector-wide approach. Section 1.3 deals with the way in which the new policy was introduced into the Ministry of Foreign Affairs and Dutch embassies. Section 1.4 analyses the new policy and compares it with the policy pursued in the preceding period.

### 1.1 International trends and the Sector-Wide Approach (SWAp)

In the latter half of the 1990s, World Bank studies posited a link between, on the one hand, the effectiveness of aid and, on the other hand, ‘good policy’ and ‘good governance’.<sup>2</sup> The main conclusion of these studies was that there is a clearer link between aid and economic growth in countries with good socio-economic policy and good governance than in those with poor policy and governance. It was argued that attempts to compel countries to change their policies in return for aid (‘conditionality’) had not been very successful. Donors might well encourage such changes, but they basically needed to take place ‘from the inside out’. Though the theoretical and empirical conclusions of the World Bank studies were controversial, they had a major impact on the policy pursued by donors, including the Netherlands.<sup>3</sup>

Evaluation studies showed that the results of the structural adjustment programmes of the 1980s were disappointing as regards poverty reduction. It was partly for this reason that in 1988 the World Bank and the IMF switched to financing a new generation of reforms whose main aim was to promote good governance and socio-economic policy, with these now being aimed specifically at

<sup>2</sup> Dollar, D. and Pritchett, L. (1998) *Assessing Aid*. World Bank.

<sup>3</sup> Hout, W. and Koch, D.J. (2006) *Selectiviteit in het Nederlandse hulpbeleid 1998–2004*. IOB working document.

poverty reduction. The IMF's stabilisation loans and the World Bank's structural adjustment programmes were increasingly replaced by loans that involved agreements with the recipients on the specific results to be achieved in the area of good governance and/or economic policy. With this in mind, the two organisations developed new aid instruments involving general budget support: the *Poverty Reduction Growth Facility* (PRGF) and the *Poverty Reduction Support Credit* (PRSC).

A variety of arguments were advanced in favour of providing less earmarked aid and focusing instead on the provision of general budget support. These arguments, which were based on the macro-economic perspective, referred to the interchangeable nature ('fungibility') of aid and reasoned as follows.<sup>4</sup> If donors finance activities prioritised by the recipient government, those activities would also have been financed from the government's own funds even if no foreign aid were provided. In the case of externally financed projects that do not enjoy high priority, however, the question is whether the recipient government would in fact have wished them to be carried out. It is therefore difficult to distinguish between funding that can be considered relevant to development and funding that cannot. According to this reasoning, it is preferable for donors to provide aid in support of the policy pursued by the recipient government. Less earmarked forms of funding can then be deployed the more the aims pursued by the donor and the recipient correspond.

The arguments in favour of less earmarked aid modalities also originated from criticism levelled at project aid. Such aid was said to be fragmented and to take insufficient account of the broader context within which the causes of poverty should be tackled. In addition, decisions on project aid and how it was implemented were largely controlled by the donors, meaning a lack of ownership on the part of the recipient. The preference for projects was explained on the basis

4 The concept of fungibility can be illustrated by the construction of primary schools. If a country's government already intended building schools with its own funds, then the funds provided by donors for building schools become freely available. It thus becomes possible to use either the country's own funds or the money provided by the donors for other purposes, for example purchasing arms. The purpose for which these funds are used depends on the recipient's next marginal priority. The donor can check whether the schools have been built but it still does not know how the funds freed up by the provision of aid have in fact been used. This is not a problem for the recipient – which has been able to achieve more of its priorities – but it may well be a problem for the donor. If it can be shown, however, that the schools would not have been built without financing by the donor, then building them can be considered to be additional. Fungibility is therefore a relative concept. The more the government's budget depends on financing by external donors, the less problematical fungibility becomes. After all, the next marginal priorities are also financed by the donors. See: Gunning, J.W. and De Ruyter van Steveninck (1999). "Minder landen, minder doelstellingen, minder projecthulp, méér effectiviteit". *Internationale Spectator*, Feb. 1999. No. 2:67 ff.

of their being ‘visible’, particularly if they involved infrastructure or the supply of goods, thus allowing the results to be attributed directly to individual donors. The condition for providing less earmarked aid – and above all for general budget support – is that the public finances of the country concerned must be properly administered. The international financial institutions put much effort into developing instruments to improve public finances, so as to have better insight into government expenditure on socio-economic development. This was also a way of making the negative effects of corruption visible and open to discussion, which was an additional incentive for supervising expenditure. As a result, the topic of aid modalities in general and budget support in particular became an important one in discussions of the reorganisation of aid.<sup>5</sup>

The emphasis on good governance as a precondition for effective aid was accompanied by a greater concern for sustainable poverty reduction in the latter half of the 1990s. This resulted partly from criticism of the lopsided macro-economic objectives of the structural adjustment programmes and partly from the persistent chronic poverty in a large number of developing countries. In order to increase the poverty focus of policy, the debt relief initiative for the poorest countries (HIPC) was made subject to the condition that in order to qualify, countries would be required to devise a strategy to combat poverty, to be specified in a *Poverty Reduction Strategy Paper* (PRSP). The eight Millennium Development Goals (MDGs) drawn up in 2000 set out the goals for worldwide poverty reduction. Virtually all the members of the United Nations, both donors and countries receiving aid, committed themselves to these goals. A large number of developing countries have included the MDGs in their national poverty reduction strategies, thus creating a national policy framework in which foreign aid can be embedded.

These developments have had an impact on the readiness of donors to collaborate more in particular sectors and to restructure aid. The proposed method of doing this was referred to as the ‘Sector-Wide Approach’ (SWAp)

More specifically, the SWAp can be traced to two sources:

- a) The experience that the World Bank gained in the first half of the 1990s with *Sector Investment Programmes* (SIPs) in southern Africa, whereby loans were extended for comprehensive sectoral programmes, with a major role being

5 Allen, R. et al. (2004) *Assessing and Reforming Public Financial Management, a new approach*. World Bank. p.4.

allocated to the ministry responsible for the relevant sector in the recipient country.

- b) Discussions among experts at the World Health Organisation (WHO) regarding the lack of sustainability of the services financed by means of project aid.<sup>6</sup>

The most common definition of a sector programme is ‘all significant funding for the sector supports a single sector policy and expenditure programme, under government leadership, adopting common approaches across the sector, and progressing towards relying on government procedures to disburse and account for all funds’<sup>7</sup>

There are significant differences between donors as regards the point at which they introduced the sector-wide approach.<sup>8</sup> Among the European donors, it was primarily the United Kingdom that systematically developed policy for applying this approach, although it only applied that policy in actual practice for a few years, after which the emphasis shifted to the provision of budget support. Denmark introduced the term ‘Sector Programme Support’ in 1994, with the basic principle being long-term support for national sector policy frameworks. However, this did not by definition cover making use of the recipient government’s implementation mechanisms nor deploying less earmarked financing. Sweden and Norway also applied sector policy but aimed to do so in stages. In 1999, the World Bank developed its own framework for a comprehensive approach to aid, the *Comprehensive Development Framework*, which included some of the main elements of the SWAp. The World Bank proposed far-reaching collaboration between donors and the recipient government in the case of sectoral support. The Netherlands and the EU followed from 1999 on, with Canada introducing this approach in 2002 (referring to it as ‘Program-Based Approaches’). In the case of a number of other donors, programme aid, donor coordination and ownership are the object of increasing attention without there being any systematic application of the sector-wide approach. This applies to such important bilateral donors as Germany and Japan, for example. For a variety of reasons, the UN organisations are also extremely reserved when it comes to incorporating the sector-wide approach in their policy.

6 Cassels, A. (1997). *A Guide to Sector-wide Approaches for Health and Development concepts, issues and working arrangements*. World Health Organisation. WHO/ARA/97.12

7 Foster, M. (2000) *New Approaches to Development Co-operation: What can we learn from experience with implementing Sector-wide Approaches?* Centre for Aid and Public Expenditure. Overseas Development Institute and OECD (2001) *DAC Guidelines Poverty Reduction*.

8 See, for example: Ridell, A. (2002). *Synthesis Report on Recent Developments and Issues Raised by Development Agencies Concerning Programme-Based Approaches*. Learning Network on Programme-based Approaches (LENPA).

The emphasis that the SWAp places on collaboration between donors had a follow-up in February 2003 when 28 developing countries and more than 40 donors (both bilateral and multilateral) signed the Rome Declaration on Harmonisation, agreeing that priorities and procedures should be coordinated to a much greater extent with the national policy of the recipient countries. Concrete measures were proposed in such areas as budget support, public finances, the conditions for providing aid ('conditionality') and the procedures for tendering.

## 1.2 Policy formulation: the sector-wide approach in the context of Dutch policy

### *The sector-wide approach*

In a letter to the Lower House of Parliament (5 November 1998), the then Minister for Development Cooperation, announced that the Dutch government's development policy was to be restructured. The restructuring would relate to 'structural bilateral aid, i.e. that part of the budget that is delegated to the embassies'. In introducing her new policy, the Minister referred to the international views on aid effectiveness. The letter pointed out four main reasons for aid not being effective:

- a) the inadequate way in which aid is granted: uncoordinated project aid that is not embedded in local structures;
- b) the lack of consistency and coherence in aid;
- c) the lack of 'good governance' and 'good' socio-economic policy;
- d) insufficient ownership of aid by the government and civil society organisations in the recipient country.

The Minister also referred to conclusions contained in the 1995 *Aid in Progress* policy memorandum (*Hulp in Uitvoering*) and to recommendations by the Advisory Council on International Affairs proposing that the number of countries receiving aid should be restricted. She also referred to the findings of evaluations carried out by the Policy and Operations Evaluation Department (IOB).<sup>9</sup>

These findings were incorporated in the basic principles underlying the new policy. It was announced that for two main reasons the number of countries receiving structural bilateral aid from the Netherlands would be reduced. In announcing this, the Minister had two objectives in mind:

<sup>9</sup> For a discussion of the manner in which the Minister adopted the IOB's conclusions, see: Van den Berg, Rob D. "Leert de hulp van lessen uit het verleden?" In: *Internationale Spectator* May 2001 LV no. 5: 253.



Mali, Bamako, 18 October 1999. Pupils from a school in Daoudabougou. The banner text endorses Dutch–Malinese development cooperation. Photo: Frans Schellekens/Hollandse Hoogte.

- to increase the effectiveness of aid by focusing on poor countries that display relatively good policy and good governance (selectivity); and
- to bring the number of countries in line with the restricted implementation capacity that the Netherlands has available.

In order to give shape to the new policy, the concept of the sector-wide approach was introduced under the Dutch name *sectorale benadering*, described as the ‘organising principle for bilateral aid’.<sup>10</sup> The objective of the sector-wide approach has been defined as increasing aid effectiveness by enabling the recipient country to conduct its own multiyear policy – drawn up with participation from all the relevant actors in that country – with the support of several donors over a lengthy period. Donors act in concert under the direction of the government and make agreements with the government on how the sectoral programmes will be financed. A sector is defined as ‘a coherent set of activities at macro, meso and micro level in defined institutional and budgetary frameworks for which the government has formulated policy’.<sup>11</sup>

<sup>10</sup> Sector-wide Approach Support Group (Steungroep Sectorale Benadering). (2000) *Sectorale Benadering Groeidocument 1* (2000). p.9.

<sup>11</sup> *Idem.* p.5.

According to the relevant policy documents and other official sources, application of the sector-wide approach to Dutch bilateral aid should display the following features:

- Aid granted to the partner countries should *concentrate* on a limited number of sectors (three) and current programmes that are unrelated to those sectors should be phased out.
- Sectoral support should be *demand driven* and should be consistent with the recipient country's own priorities and capabilities. The PRSPs should form an important point of reference for this. The choice of sectors should ideally take place within the framework of a general development plan (or PRSP). The basic principle is that the government of the recipient country is responsible for drawing up sector policy and a plan for implementing it. The plan will set out the policy and priorities for the sector concerned.
- The *participation of civil society organisations* in the development process should be actively promoted within the new policy frameworks ('social dialogue').
- The sector-wide approach allows a variety of different *financing instruments* to be used simultaneously. Ideally, there should be an overall budget framework that allocates government and donor funds to the various sectors. Where there are no favourable conditions for sectoral budget support, other aid modalities may be deployed temporarily. A preference was expressed for programme aid in the sectors. Where possible, project aid should be phased out and *non-earmarked aid modalities* should be increased. Project support may be granted on a temporary basis, to contribute to government capacity-building, in anticipation of sector support, or in order to strengthen the policy dialogue or encourage innovation.
- More attention should be paid within development partnerships to finding solutions to *supra-sectoral problems at macro level*, particularly as regards management of public finance. The same applies to the *cross-sector themes* that enjoy priority in Dutch development cooperation policy: good governance, women and development, institutional development, and the environment.<sup>12</sup>
- Applying the sector-wide approach assumes that the donors are prepared to act in a coordinated manner under the leadership of the government. *Harmonisation* means that the various donors coordinate their policy, operational rules, procedures and working methods. *Alignment* is the commitment

<sup>12</sup> The "GAVIM" (the themes of good governance, women and development, institutional development, and the environment) were worked out for this purpose and made the subject of a separate memorandum (GAVIM and the Sectoral Approach (2002)).

by donors to base development assistance on partner countries' national strategies, institutions and processes.

- The intention as expressed in these documents was for the new sectoral support to take the form of a long-term obligation so as to make Dutch financing more predictable.

Applying the sector-wide approach is intended to achieve the following results in the recipient country:

- 1) *Strengthened government institutions* concerned with formulating and implementing policy.
- 2) *Increased effectiveness of aid*; this is because transaction costs will be cut as a result of donor coordination and alignment of procedures with those of the recipient government.
- 3) *Increased ownership and control of the government* in respect of aid provided. It is the government that will take the initiative as regards policy-making and the way aid is to be used (*ownership*).

The ultimate aim of the sector-wide approach was to contribute to more effective *poverty reduction*. 'Poverty reduction by means of the sector-wide approach aims to influence those processes that will reduce poverty and ultimately cause it to disappear.'<sup>13</sup> Special attention was required for the 'micro-macro' perspective. Support at macro level should correspond with the national policy of the recipient country and national strategies for reducing poverty, for example the PRSPs. However, support at macro level was to be provided as a result of concern about poverty at micro level. It was therefore proposed that support for sector policy should be based on poverty analyses at micro level and that these should also be the benchmark. Interventions can basically take place at any level but must be coordinated with one another and must stem from the overall sector policy. In order to define matters in greater detail, the 'Mainstreaming Poverty Reduction' programme was set up with the aim of 'promoting the specific organisational and institutional aspects of a more results-oriented and effective policy on poverty'.<sup>14</sup>

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13 Sector-wide Approach Support Group (2000 and 2004), *Sectorale Benadering Groeidocument* (p. 6 of 2004 version).

14 *Notitie Armoedebestrijding: het OS-mainstreamings- en coherentietraject* (2002). This indicated that the efforts of the Netherlands focus on helping to remove obstacles to "pro-poor outcomes". This can be done both within the sector programmes and at macro level. January 2002 saw the publication of *Policy Reduction: Dutch Government Policy in Brief* (*Armoedebestrijding: Nederlands beleid in kort bestek*). This booklet was aimed at the general public and explained the sector-wide approach in the context of the overall policy on development cooperation. It should be noted that neither of these documents played any significant role in policy development; the memorandum *Mutual Interests, Mutual Responsibilities* (2003) does not mention them.



If the policy were to be summarised in terms of a *logical framework*, then the policy itself would be the input, the policy changes achieved would be the output, and the intended changes in the recipient country would be the results. Table 1.1 is a diagrammatic representation of this interpretation of the sector-wide approach.

In October 2003, the present Minister presented her policy proposals for the coming years in the policy memorandum *Mutual Interests, Mutual Responsibilities, development cooperation on the way to 2015 (Aan elkaar verplicht, ontwikkelingssamenwerking op weg naar 2015)*. Although the sector-wide approach is not mentioned as such, the memorandum does state that sector policy within the policy reduction strategy of the partner country remains the ‘organising principle’ for bilateral cooperation. It also announced a further concentration of aid in fewer countries and sectors. Rather than *ownership*, the emphasis is placed on partnership, which is described as ‘collaboration based on reciprocal responsibility and interests and laid down in agreements that can be complied with and that focus on results’. The themes of harmonisation and alignment – which were previously an integral part of the sector-wide approach – are becoming increasingly important internationally and since 2003 have come to be objectives in their own right.<sup>15</sup>

### 1.3 Introduction of the new policy into the Ministry of Foreign Affairs and the embassies

Introduction of the sector-wide approach in the context of bilateral aid was to a considerable extent dependent on concerted action by the Ministry of Foreign Affairs in The Hague and the Dutch embassies concerned. The Review meant that from 1997 on the policy-related tasks in the area of development cooperation were delegated to the embassies.<sup>16</sup> Within the policy framework set out by the Ministry, the embassies can take decisions on the provision of support for projects and on supervision and implementation of those projects. In 1999, the embassies became responsible for implementing the sector-wide approach.

In introducing the new policy, Ms Herfkens made clear that she intended setting strict requirements for Dutch embassies as regards implementation of that policy.

<sup>15</sup> In 2004, the Sector-wide Approach Support Group did in fact publish a new version of the Sector-wide Approach Growth Document; this attempted to incorporate the new priorities of *Mutual Interests, Mutual Responsibilities*.

<sup>16</sup> The review had resulted in the setting up of new regional departments and a number of new policy theme departments. The regional departments were responsible for promoting cohesive policy on regions and countries. They were intended to form a link between the Dutch embassies and the policy theme departments.

**Table 1.1** Policy theory of the sector-wide approach: evaluation framework

Principles underlying new policy	Policy changes	Effects	Impact
<ol style="list-style-type: none"> <li>1. Effective poverty reduction is dependent on the quality of the governance and policy in the recipient countries.</li> <li>2. Conditionality does not work: good policy cannot be bought.</li> <li>3. Aid is split between too many countries.</li> <li>4. Aid is fragmented over too many activities.</li> <li>5. Fragmented project aid has insufficient impact and is not sustainable. Separate projects mean no link to macro level.</li> <li>6. Without ownership, poverty reduction does not have a lasting effect. If government does not shoulder responsibility, aid will not have sustainable results.</li> </ol>	<p>Select countries according to criteria of good governance and good policy.</p> <p>Concentrate aid in fewer countries.</p> <p>Concentrate aid in restricted number of sectors.</p> <p>Coordinate aid with other donors.</p> <p>Interventions in wider contexts at meso and – especially – macro level.</p> <ul style="list-style-type: none"> <li>- Provide aid within the policy and administrative frameworks of the government of the recipient country.</li> <li>- Link up PRSP and other instruments so as to focus aid on poverty reduction.</li> <li>- Provide aid that is less earmarked and work towards (sectoral) budget support.</li> <li>- Reinforce government's capacity.</li> </ul>	<p>Concentration and coordination reduce transaction costs for aid (more efficient).</p> <p>More effective allocation of aid to benefit socio-economic development.</p> <p>Promotes ownership and contributes to institutional strengthening.</p> <p>Promotes ownership and implementation capacity of government for socio-economic development policy.</p>	<p>Contribution to sustainable poverty reduction.</p>

*'I see no reason whatsoever for false modesty on the part of Dutch missions abroad. Your task is not just to passively read the newspaper and provide information for the people back home. The point is to ensure the implementation of effective policy on poverty. ...The missions have moved away from their traditional role as implementers of policy to one in which they are the co-designers and architects of development policy. The system of delegation introduced a few years ago fits in with this approach.'*<sup>17</sup>

November 1998 saw the setting up of a sector-wide approach task force within the Ministry, the intention being that this would collaborate with the embassies in developing and implementing the policy. One of the duties assigned to the task force was to organise regional workshops to explain the new policy. A total of seven such workshops were held in April and May of 1999. The task force then operated until May 2003 under another name (the 'Sector-Wide Approach Support Group'), acting – with a changing membership – as the designated liaison contact and source of information for the embassies and as the body coordinating the introduction of the new policy.

The Minister decided that the new policy should be introduced quickly. The embassies were requested to complete discussions of the selection of sectors by 1 July 1999 and to indicate their definitive selection when submitting the annual plan for 2000.<sup>18</sup> After discussion in Parliament, the policy changes would then be incorporated into the instructions for the annual plans and budget for 2000. This was recognised as being a tight schedule. The assumption was, however, that in a number of countries changes had already been set in motion that were more or less in line with the principles behind the sector-wide approach and that in those countries it could be implemented more quickly. Minutes taken at the workshops frequently report the embassies asking for more time to introduce the sector-wide approach. When Heads of Development Cooperation at the embassies were surveyed, they listed the following obstacles to implementation of the sector-wide approach:

Obstacles regarding the recipient government:

- a) The lack of interest in the sector-wide approach. Line ministries, in particular, were often opposed to this approach because in some cases they would benefit more from the continuation of project aid.

<sup>17</sup> Address by Ms Herfkens at the ambassadors' conference in 2000: p.11–12.

<sup>18</sup> Memo (approved by the minister) from the Deputy Director-General for International Cooperation to Development Cooperation/missions, 10 May 1999 (63/99).

- b) The lack of an overall strategy or plan on the part of the recipient government as to how aid could best be used.
- c) The restricted administrative and policy capacity of the recipient government, which would be unable to handle the new duties arising from the introduction of the sector-wide approach.

Obstacles regarding other donors:

- a) The lack of a readiness to apply the sector-wide approach and collaborate to that end.
- b) The difficult and time-consuming discussions necessary to arrive at a joint approach.
- c) Existing agreements and obligations for the medium term, meaning that the ongoing programme was to a large extent definitive.

Some embassies expressed concern about the gap between what they termed ‘the theoretical approach to the sector-wide approach’ at the Ministry of Foreign Affairs and the reality in the countries where the policy was to be implemented. Senior officials at the Ministry complained about the attitude of the embassies. They were well aware that introducing the changes would take time but they considered that some missions were insufficiently open to change.<sup>19</sup> In the initial period, the new policy was the subject of internal dispute and led to a certain level of polarisation between supporters and opponents.<sup>20</sup> In a few cases, the dividing line in fact ran right through departments, sections within the Ministry, and embassies. The new policy was more easily accepted in countries where a sector-wide approach and collaboration with other donors had already been in place for some time.

It was also unclear to what extent the organisation within the Ministry was geared to the new approach.<sup>21</sup> Doubts were also expressed within the Ministry regarding

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19 Ms Herfkens’ response to the frequent complaints regarding the increase in administrative work was unequivocal: “I want to get away from that baseless old ‘us/them’ antithesis between the missions and the Ministry. There needs to be an open exchange. All those codes involving bafflement and indignation are out of date. Automatically distributing dozens of copies is also bad for the environment and for people’s mental hygiene.” (Address by Ms Herfkens at the ambassadors’ conference, 2000:12).

20 The opponents were in many cases long-serving Development Cooperation staff who considered that the sector-wide approach was no more than an unproven hypothesis whose benefits for the poor still needed to be demonstrated. They were also apprehensive that introducing the sector-wide approach would destroy the “capital” that had been built up over many years in the form of programmes and experience. Younger Heads of Development Cooperation were less troubled by a somewhat pragmatic method of implementing new policy.

21 See, for example, the memorandum (reference TSB 116/99) dated 27 August 1999 on *ToR Landteams Sectorale Benadering* from the Sector-wide Approach Task Force (TSB) to the Deputy Director-General for International Cooperation, Director-General for Regional Policy and the Financial and Economic Affairs Department.

the expertise available at the embassies to implement the sector-wide approach.<sup>22</sup> Heads of Development Cooperation – selected partly on the basis of experience with project aid – would be required to take on new tasks, such as assessing the macro-economic situation and the options for budget support and carrying out institutional analyses.<sup>23</sup> Theme experts would be confronted with a shift from project-oriented work towards sector support and policy dialogue with representatives of the ministries.<sup>24</sup> A programme of courses and in-service training was set up to allow them to acquire this new knowledge and expertise.

## 1.4 Analysis and evaluation

### 1.4.1 Analysis and evaluation of changes in policy

Comparing the policy intentions before and after 1998 reveals the following changes.

- *Selectivity and choice of countries*

The policy pursued prior to 1998 does refer to the relationship between good policy/governance and the effectiveness of aid, but in the case of countries with poor policy and governance, less aid (or no aid) was provided via government channels. Instead, aid was channelled through NGO's. Moreover, the 1995 *Aid in Progress* policy memorandum abandoned the method of working with lists of countries and country budgets. Rather, it categorised the budget according to type of activities related to policy issues (such as rural development, environment, gender). The countries that would qualify for particular types of activities were specified, with the underlying idea being that a type of financial programming would be selected that fitted in as much as possible with Dutch development objectives. Policy after 1998 reversed this approach and was once more based on countries rather than themes. A restricted number of priority countries qualified for a structural bilateral development cooperation relationship. In addition, there was a list

22 An evaluation by the IOB stated in this connection: "An attempt will be made to improve thematisation and familiarity with local situations by providing sector experts and specialists at DGIS. Familiarity with development processes on the part of civil servants continues to be a point of concern, however, for one thing because of problems regarding 'institutional memory' in the light of frequent transfers." (IOB 1998:4).

23 It was recognised that it is no easy matter to engage in dialogue with the governments of the recipient countries and to give international priorities a place on the agenda. "That requires tact, creativity and perseverance. Aren't they precisely the qualities with which diplomats are blessed?" (Herfkens 2000:5). But there was also concern regarding not merely diplomatic skills but also the management abilities of senior embassy staff. "Ambassadors...are no trained change agents or managers with a tendency for risk avoidance which for ambassadors is not necessarily a bad thing but for managers is a definite showstopper." (Boer, J. 2004).

24 Views on the requirements that should apply to theme experts range, however, from those who favour specific thematic expertise and those who specifically demand wide experience and believe it would be more valuable to have more all-round development experts. See: Losse Einden 1999 and HOSsenconferentie 2000 *overleg met de ambtelijke en politieke leiding* (13) and *Beheersmatige aspecten van de sectorale benadering*, April 2000: 11.

of theme countries that only qualified for support in respect of specific themes: good governance, environment, human rights and peace building. After 2002, this thematic approach was dispensed with and only a single category – ‘partner countries’ – was retained.

- *Good governance*

Policy up to 1998 viewed good governance as an aid target rather than a condition for aid to be provided. Aid was intended to promote good governance.<sup>25</sup> The sector-wide approach made good governance an important criterion for selecting countries to receive aid and a condition or tool for poverty reduction. In its report on good governance, the Scientific Council for Government Policy expressed its opposition to the implicit assumption that countries are in a position to decide for themselves whether or not to have good governance. If a country does not have any political culture in this regard, it is generally unable to bring about change without far-reaching external assistance.<sup>26</sup> The policy memorandum *Mutual Interests, Mutual Responsibilities* retains good governance as a criterion for selection but puts more emphasis on the intention of the government to engage in good governance.

- *Concentration on three sectors in the countries concerned*

Prior to 1998, aid could be provided in a large number of fields and at various intervention levels; the sector-wide approach, however, involves deliberate concentration within the countries selected. Aid was to be restricted to no more than three sectors, although activities outside those sectors were also financed, falling into the category of cross-sector themes. *Mutual Interests, Mutual Responsibilities* further reduced the number of sectors: in most countries, to just one or two sectors.

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25 In a review (2001), “Aid as a Catalyst”, in *Development and Change* 32(4): 384, 611–629), the then Minister, Jan Pronk, went into detail about the views on which policy prior to 1998 had been based. In a number of articles, Mr Pronk argued that aid should basically be used as a catalyst, in some cases to generate or gain access to other funds, and in others to help create effective capacity for development. Deploying conditional, properly targeted aid is preferable to a system of rigid selectivity. By arguing in this way, Mr Pronk was going against the principle of making good governance a precondition for granting aid. He contended that good policy may differ not only from country to country but from sector to sector within a given country. In such a situation, the country should be given aid for the relevant sector, even if the country’s macro-economic policy leaves something to be desired. Good governance should therefore be seen not so much as a precondition for aid but as an objective in itself. In this view, dialogue and conditionality are instruments with which to try to influence policy so as to favour poverty reduction.

26 Scientific Council for Government Policy (2001). Report to the Government. No. 58 *Ontwikkelingsbeleid en goed bestuur*. The Hague. p.22.

- *Aid modalities*

As far as the deployment of aid modalities was concerned, the 1995 *Aid in Progress* policy memorandum already argued in favour of more programme aid. It did, however, admit that projects and programmes also continued to be necessary.<sup>27</sup> The policy pursued after 1998 was far stricter as regards the deployment of project aid, only wishing to permit it in transitional situations or for highly specific purposes. A strong preference was expressed for sectoral budget support. After 2003, the preference shifted towards general budget support. Technical assistance was to be deployed primarily as part of the support provided to macro or sector policy and no longer in the form of Dutch expertise.

- *Ownership*

The concept of ‘ownership’ was introduced in the *Aid in Progress* memorandum (1995):

*‘The basic principle is that the activity is the property of those involved (‘ownership’) and not of their government or of the donor. The conditions for this are a policy environment in the country concerned that guarantees this level of involvement and a readiness on the part of the donor to take a step back.’*

Ownership was advocated on condition that there was an effective infrastructure for receiving aid and with a major emphasis on the participation of those directly involved.<sup>28</sup> The introduction of the sector-wide approach put the emphasis on ownership by the recipient government.<sup>29</sup> Critics have noted that the most impoverished people, those who are in greatest need of aid, in fact live in countries with poor governance or in a setting characterised by conflict and violence or ‘semi-war situations’; this applies particularly to Africa. It is precisely in situations where there is a lack of good governance and good policy that support for reform can be decisive, even when there is currently poor governance. There is a risk that states will be granted ownership even though in reality they are currently unable to do justice to it.<sup>30</sup>

27 The memorandum did recognise that there were good reasons for project aid “but together they got out of hand”. (*Aid in Progress*: 77). According to an evaluation carried out by the Netherlands Court of Audit (*Algemene Rekenkamer*) (Lower House: 1998–1999, 26455, no. 2), the intention to prioritise programme aid was not made good: expenditure on programme aid did not rise in the period from 1994 to 1997.

28 *Aid in Progress* p.78–80.

29 A group of Dutch consultants and academics wrote a critical letter arguing that the sector-wide approach had led to a loss of capital because effective programmes were being run down prematurely and the experience and expertise built up by the Netherlands was no longer being utilised. The lopsided focus on central government was also criticised. *Open Brief inzake beleid en uitvoering bilaterale Ontwikkelingssamenwerking*, 8 April 2003.

30 Strategic Policy Planning Unit (SPL) (1998). *Motiveert ownership? Tussen ownership en conditionaliteit in de ontwikkelingssamenwerking met Afrika*, p.3.

Although the sector-wide approach was largely presented as a different way of implementing and organising aid, closer consideration shows that the changes in policy that have been referred to are based on a fundamentally different view of aid. The decision in the 1990s to be active in a large number of policy fields and themes arose from a view of aid that emphasised direct intervention in favour of deprived groups in the population. Aid was intended to catalyse development processes and to serve as an instrument with which to influence policy in the countries concerned so as to benefit the poor. Providing aid gave the Netherlands a say in determining policy. Aid was to be given where the opportunity arose and could therefore focus – depending on the situation in each particular country – on a large number of different fields and themes.<sup>31</sup> This approach meant that, to a large extent, the Netherlands could set the priorities. In reaction to this, the sector-wide approach focused on ‘demand orientation’. The system of direct intervention involving a specific target group was increasingly replaced by general policy support intended to benefit socio-economic development and poverty reduction. Having at first often been seen as a hindrance to poverty reduction – due to bureaucracy, corruption, pursuit of particular interests – central government now came to be seen as the most important body actually implementing poverty reduction policy.

#### 1.4.2 Analysis and evaluation of the introduction of the sector-wide approach into the Ministry of Foreign Affairs and the embassies

In introducing the sector-wide approach, the Ministry opted for rapid change and tight control. The decision to implement the new policy so rapidly was prompted by political considerations and the desire to achieve a turnabout during the term of office of the incumbent minister. The emphasis on uniformity in policy and a common framework was intended to prevent the embassies differing too much in their approach to implementation.<sup>32</sup> That danger was real, given that responsibili-

31 Lower House 1991–92, 21813, no. 31 and 22688, nos. 1–2 *Onderzoek en Ontwikkelingssamenwerking*, Policy Memorandum 40. The programmes functioned as a catalyst. They were to bring about innovations in policy by drawing attention to and implementing activities that had as yet been largely ignored in the policy of the Netherlands or the developing country concerned. This was effectuated by means of the allocation of funds, with there basically being no geographical restrictions. (35) *Stedelijke armoedebestrijding, sector en themabeleidsdocumenten van Ontwikkelingssamenwerking* 5, June 1994.

32 The decision by senior staff at DGIS to introduce the new approach quickly was a deliberate one. As the then Deputy Director-General for International Cooperation put it: “We had at management level clarity of purpose, and had the room in the house to create some quick (and irreversible) results (country choices both on the list and exit and subsequent fast choices).” (MFA/NORAD seminar on delegation on March 18, 2004.) Reference was made to the experience of Denmark, where the results produced by slow and gradual introduction were not significantly different to those of the rapid introduction opted for by the Netherlands. (Source: interview with the then Deputy Director-General for International Cooperation on 23 October 2003). “The chosen path of the internal and political decision-making process left little room for on the road obstruction on agreed landmarks.” (Boer, J. 2004).



ties had been delegated to the embassies. The Ministry worked on the basis that each embassy would interpret the new policy for its particular country, while keeping within the uniform policy framework. The embassies, however, had identified a large number of problems and obstacles, for example the lack of implementation capacity at the line ministries that were to implement sector policy. As a result, there were serious doubts as to whether the necessary conditions for rapid implementation were actually in place. This explains why there was a permanent tension, particularly in the early years of the implementation of the new policy, between the general policy that had been determined and the scope for actually implementing it in such a wide variety of situations as those prevailing in the 22 countries.

The Netherlands differed from most of the other donors both in its strict interpretation of the sector-wide approach and the speed at which it introduced that approach into bilateral aid. Other donors, for example Denmark and Sweden, were more cautious in adopting the new principles and opted for a more gradual and pragmatic approach to implementing them in actual practice.

The introduction of the new approach was not based on any systematic plan for making the necessary changes within the organisation or alterations to the available expertise. The principle adopted was one of 'learning by doing'. Applying the sector-wide approach, however, required specific knowledge and skills at both macro and sector level. At macro level, knowledge was required of good governance and government policy, as well as of financial policy and budgetary processes. At sector level, it was necessary to assess sectoral government policy and to carry out institutional analyses. The embassies were insufficiently equipped to carry out these tasks, and the Ministry was also not properly organised to do so.

## 1.5 Conclusions

The introduction of the sector-wide approach led to a turnabout in policy. Espousing the World Bank's views on selectivity and good governance meant jettisoning some of what had hitherto been the dominant principles regarding aid and poverty reduction from the target group perspective.

It was decided to introduce the sector-wide approach as a short, sharp shock, whereas – given the limited experience of the approach that had been gained up to that point and the situation in the countries where it was to be implemented – the obvious step would have been to introduce it more gradually.

Applying the sector-wide approach assumes specific experience and expertise, neither of which were sufficiently available either within the Ministry or at the embassies. The decision to implement the new approach quickly therefore conflicted with the capacity for actually implementing it.

The relatively uniform implementation strategy followed did insufficient justice to the differing starting situations of the recipient countries and the embassies' assessment of the feasibility of implementation.

## 2 Selectivity: choice of countries and concentration of aid in selected countries

### Introduction

Introduction of the sector-wide approach was partly based on the assumption that development aid would be most effective if it were provided to countries with relatively good governance and good socio-economic policy. Accordingly, a list of 22 priority countries for bilateral aid was drawn up in 1999. A further selection of 36 ‘partner countries’ was made in 2003. This chapter describes and assesses the choice of countries and the allocation of funding.<sup>33</sup> Section 2.1 describes the way countries were selected. Section 2.2 considers whether countries with better scores for the criteria in fact received more funding and Section 2.3 assesses the choice of countries, the allocation of funds, and the validity of the criteria.

### 2.1 Choice of countries

#### *Choice of countries 1999*

When launching the sector-wide approach in 1998, the Minister stated her intention to limit the number of countries to which the Netherlands gives bilateral aid.<sup>34</sup> In that year, the Netherlands had an aid relationship with 119 countries, 41 of which received less than one million guilders. The following criteria were to be applied when establishing or continuing a structural bilateral aid relationship:

- the degree of poverty and need for aid;
- the socio-economic policy of the recipient country;
- the situation in the realm of good governance in the recipient country.

33 This chapter is based on the quantitative study commissioned for the purposes of this evaluation and carried out by Hout, W. and Koch, D.J. (2006). *Selectiviteit in het Nederlandse Hulpbeleid 1998–2004*. IOB working document, The Hague.

34 Although it had been announced repeatedly since the 1980s that bilateral aid would be concentrated in a restricted number of countries, this was actually done to only a very limited extent, if at all. Schulpen, L. and Hoebink, P. (1999). *DAC scoping study of Donor Poverty Reduction Policies and Practices: The Netherlands*. p.3-5. The *Aid in Progress* policy memorandum (1995) in fact abandoned that intention entirely. The growth of the Dutch economy and the link between the size of the development cooperation budget and the gross national product (GNP) meant that during the 1990s the amount of funding constantly rose. There was an increase in both the number of fields in which activities were undertaken and the number of countries receiving aid.

The poverty criterion would be linked to the threshold used by the International Development Association (IDA) when providing concessionary loans: a per capita gross national product of less than USD 925 in the year 1997 (known as ‘IDA eligibility’). Where policy was concerned, ‘the judgement of the relevant multilateral organisations’ was to be followed. Assessment of the quality of governance would focus primarily on ‘the political will to create the social frameworks required for development’. The ‘judgement of the relevant multilateral organisations’ was once again to be followed or – if this was not enough to go by – then ‘an own assessment’ would be made.<sup>35</sup>

The way these criteria were applied, leading to the actual selection of countries, involved a number of steps.<sup>36</sup>

*Step 1:* The selection was based on 78 countries to which the Netherlands donated at least 1 million guilders in bilateral aid in 1997. An initial selection was carried out on the basis of the IDA threshold referred to above (a per capita gross national product of less than USD 925). This produced a list of 55 countries.

*Step 2:* The criteria for assessing the quality of governance and policy were then applied. A list of results achieved in the area of poverty reduction was drawn up for each country. The results of this internal test were then compared with the World Bank’s *Country Policy and Institutional Assessment (CPIA)*. The latter comprises twenty indicators subdivided into four categories: 1. economic management; 2. structural policies; 3. policies for social inclusion/equity; 4. public sector management. For most of the countries, the results of the internal analysis were in line with those of the CPIA. This second round of selection produced a list of thirty countries that were ‘promising and confidence-inspiring’ as regards ‘the results and prospects in the area of policy and governance’.<sup>37</sup> Although it was recognised that the quality of governance and policy in countries including Pakistan, Zambia and Zimbabwe would justify discontinuing aid, it was decided that other considerations – specifically the size and significance of the existing programme and the importance of continuity – meant that they should nevertheless be included in the list of remaining countries. This procedure reduced the number of countries to about thirty.

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35 Minister for Development Cooperation, 1999. Letter on country policy for structural bilateral aid. Lower House, Session Year 1998–1999, 26433, no. 2a.

36 Minister for Development Cooperation, 1999. Letter on country policy for structural bilateral aid. Lower House, Session Year 1998–1999, 26433, no. 2b.

37 Minister for Development Cooperation, 1999. Letter on country policy for structural bilateral aid. Lower House, Session Year 1998–1999, 26433, no. 2.

Step 3: Given the restricted implementation capacity that the Netherlands has available, the group needed to be reduced still further. Three additional criteria were applied in order to do so: 1) the added value of a structural bilateral relationship with the Netherlands in relation to aid provided by other bilateral and multi-lateral donors; 2) the capacity of the countries for utilising aid, estimated on the basis of experience of the utilisation of Dutch bilateral aid in the recent past; and 3) the continuity of aid, with consideration being given to ‘the scope and quality of the Dutch development programme’. The reasoning behind the final criterion was:

‘Constructing a comprehensive Dutch bilateral programme in a country where no such programme exists and where the Netherlands is not represented is unnecessarily expensive.. On the other hand, suddenly withdrawing from a country where the Netherlands already has a major bilateral presence would lead to an undesirable destruction of capital.’<sup>38</sup>

The Minister presented the results of the selection procedure to Parliament on 26 February 1999. The list comprised 22 countries. A structural bilateral aid relationship would be entered into with 19 of these: Bangladesh, Bolivia, Burkina Faso, Eritrea, Ethiopia, Ghana, India, Macedonia, Mali, Mozambique, Nicaragua, Pakistan, Sri Lanka, Tanzania, Uganda, Vietnam, Yemen, Zambia and Zimbabwe. A further three countries with which aid relationships would be temporary were added to the list: Egypt, the Palestinian Authority, and South Africa.<sup>39</sup> There were political arguments in favour of including these three countries: South Africa was selected in order to give support to the post-apartheid political transition; Egypt because it was ‘on the brink of the next phase of development’; and the Palestinian Authority in order to bolster the peace process in the Middle East. Where Zambia was concerned – and initially also Pakistan and Zimbabwe – a decision was taken to continue the relationship and to review it in a year’s time.<sup>40</sup>

38 Idem: p.4.

39 According to a ministerial reply to a question from the Lower House, this temporary relationship would last five years (Lower House of Parliament 1998–99, 26433 no. 3. *Landenbeleid structurele bilaterale hulp*). After 2003 this would not be reconsidered and the relationship with these countries would be continued.

40 Idem



Bangladesh was selected as a priority country for Dutch aid, but as conditions were not conducive for working with the government, much cooperation took place with NGOs. The billboard advertises HSBC, the world's biggest banking network, and an SMS service offered by Grameenphone. Grameen is a Bengali bank that gives microcredit to the poor. Photo: Dieter Telemans/Hollandse Hoogte.

Several changes were later made to the list of priority countries at the insistence of the Parliament: Pakistan and Zimbabwe were removed in 1999 and Benin and Rwanda added in 2001. Aid to Eritrea and Ethiopia was temporarily suspended due to those two countries being at war, but it was restored in 2001. The list of additional temporary partner countries was amended by the inclusion of Indonesia in 2000 after it had indicated that it wished to resume its aid relationship with the Netherlands.<sup>41</sup> The escalation of violence led to the aid relationship with the Palestinian Authority being suspended in 2001; it was restored in 2003.

To these 22 priority countries was added a group of 26 countries that would only be considered for support in respect of specific themes, namely the environment, good governance, human rights and peace-building. Selection of these countries involved marginal testing against the general criteria for a structural bilateral relationship, with the main focus being on more specific criteria for each theme. The end result was that 22 priority countries and 26 thematic countries were selected. In this way, the total number of countries with which the Netherlands had a bilateral aid relationship in 1999 was reduced from the initial 119 to 48.

After the change of government in 2002, the new Minister for Development Cooperation decided that the bilateral country policy should be revised again. In the policy memorandum *Mutual Interests, Mutual Responsibilities, development cooperation on the way to 2015*, she made clear that she wished to remove the distinction between the 22 priority countries and the thematic countries.<sup>42</sup> To that end, a list of 36 'partner countries' was drawn up, consisting of the 22 countries plus a selection (14) of the 26 countries eligible for thematic support up to then. The Minister's justification for doing this was that a single list of bilateral partners would be simpler and clearer.

The 14 countries were selected largely on the basis of the criteria applied in 1999. It was pointed out in connection with the added value criterion for Dutch aid that it would not be a good idea to implement small-scale programmes in a large number of countries. The aim was to operate in countries where collaboration with other donors would make aid more effective.<sup>43</sup> Foreign policy arguments emphasised the contribution that could be made to stability in a region (as expressed in support provided for Egypt, the Palestinian Authority, South Africa and Yemen).

41 One important reason for this was that the Netherlands is a member of the Paris Club, with which Indonesia was negotiating with a view to debt relief.

42 Ministry of Foreign Affairs (2003). *Mutual Interests, Mutual Responsibilities*.

43 *Idem*: p.36.

Compliance with treaty obligations (in the case of Suriname), and the need to maintain good relations with poorer countries within the electoral groups to which the Netherlands belongs at the World Bank and the IMF were also considerations for selecting countries.<sup>44</sup> Afghanistan was added to the list because there the Netherlands ‘is making a large-scale multiyear international cooperation effort’.<sup>45</sup> In 2003, India stated that it no longer wished to receive bilateral aid from the Netherlands (or from a number of other European bilateral donors). With regard to good governance, the Minister indicated that this would be assessed more in terms of the prospects for improvement:

*‘We will therefore intentionally continue our presence in a number of countries in which governance is indeed still ‘substandard’, but in which we believe we can make a substantial contribution to processes of improvement. I am thinking, for example, of Georgia, Vietnam or Kenya, but also of Rwanda.’<sup>46</sup>*

The final list of 36 partner countries is shown in the following table.

**Table 2.1** List of partner countries from Mutual Interests, Mutual Responsibilities

1. Afghanistan	13. Ethiopia*	25. Pakistan
2. Albania	14. Georgia	26. Palestinian Authority*
3. Armenia	15. Ghana*	27. Rwanda*
4. Bangladesh*	16. Guatemala	28. Senegal
5. Benin*	17. Indonesia*	29. South Africa*
6. Bolivia*	18. Kenya	30. Sri Lanka*
7. Bosnia-Herzegovina	19. Macedonia*	31. Suriname
8. Burkina Faso*	20. Mali*	32. Tanzania*
9. Cape Verde	21. Moldavia	33. Uganda*
10. Colombia	22. Mongolia	34. Vietnam*
11. Egypt*	23. Mozambique*	35. Yemen*
12. Eritrea*	24. Nicaragua*	36. Zambia*

\* in 2001 belonged to the group of 22 countries

44 In order to produce a list of partner countries, a trend assessment was carried out for the period from 1998 to 2003. This looked at the way the cooperation relationship had been implemented with the 48 countries on one of the three lists of countries. An explicit decision was made “not to carry out a ‘zero-base’ analysis...for all the world’s developing countries” because “the success of an aid relationship is partly based on reliability and continuity. It was therefore only those countries with which the Netherlands has a bilateral aid relationship that were considered”. (Minister for Development Cooperation. Letter to the Lower House (12 December 2003) in response to motions submitted by Hirsi Ali and Van der Staaij/countries list. DGIS reference 246/2003. p.3).

45 Idem: p.20.

46 Minister for Development Cooperation. Letter on development cooperation (medium-term perspective), Lower House, 2002–2003 session, 26800V, no. 65.



Restricting the number of countries did not mean an immediate cessation of aid to those countries not on the list; instead, their aid was to be phased out gradually. In 2003–2004, aid to a total of 34 countries was discontinued. In five countries, special reasons were given for continuing aid in 2004. After 2003, it still took a certain amount of time to implement the exit strategy for the non-selected former theme countries. All in all, a total of 52 countries were receiving more than one million guilders in bilateral aid at the end of 2004.<sup>47</sup>

## 2.2 Selectivity and the allocation of funds to the 22 countries

When launching the sector-wide approach in 1998, the Minister announced her intention to concentrate aid in countries with good governance and good socio-economic policy, i.e. in the 22 priority countries. She did not, however, indicate any specific objectives regarding the volume of aid, nor the total scope of the bilateral aid to be provided.<sup>48</sup> In 2003, bilateral cooperation with the 22 countries accounted for 15% of total ODA expenditure.

As a percentage of total bilateral aid, aid to the 22 priority countries increased from 55% in 1999 to 74% in 2003.<sup>49</sup> In 2004, disbursements to 36 partner countries accounted for 88% of total bilateral aid. Average annual expenditure for each 22 country rose from EUR 15 million in 1999 to EUR 25.5 million in 2004. The results of the allocation policy for each individual country are given in Table 2.2.

**Table 2.2** Disbursements in EUR 1,000,000 in the 22 countries 1999–2004

Countries	1999	2000	2001	2002	2003	2004	Total 2000–2004
Indonesia	0.6	73	79.2	68.5	37.3	29.3	287.2
Tanzania	26.5	48.1	46.0	74.5	55.6	61.5	285.7
India	28.6	30.7	52.0	58.3	69.1	29.8	239.8
Mozambique	31.6	34.6	38.8	40.4	35.6	35.0	184.3
Bolivia*	22.4	24.4	43.6	34.8	29.3	28.5	160.6
Uganda *	23.4	24.1	29.8	32.2	33.6	31.2	150.9
Burkina Faso*	20.3	16.5	37.7	27.9	29.9	32.9	144.9
Mali	19.8	24	27.1	27.8	24.5	34.8	138.1
Yemen	23.2	27.3	27.9	32.2	22.9	22.7	132.8
Zambia*	14.8	21.9	20.8	27.6	25.1	36.5	131.9

47 Reply to questions in Parliament regarding the memorandum *Mutual Interests, Mutual Responsibilities*, 6 March 2003, p.4: 36 partner countries and 16 of the 17 exit countries received over 1 million guilders in 2004.

48 Bilateral aid made up 29.3% of total ODA and non-ODA expenditure in 2003 and 27.8% in 2004.

49 As pointed out in the introduction, this refers to total delegated structural bilateral aid excluding ad hoc macro-oriented support and the business programme.

**Table 2.2** Disbursements in EUR 1,000,000 in the 22 countries 1999–2004

Countries	1999	2000	2001	2002	2003	2004	Total 2000–2004
Bangladesh*	30.8	26.9	20.7	19.9	34.9	28.2	130.6
Ghana	10.5	13.4	15.3	32.6	24	39.0	124.4
Macedonia	2.2	21.6	40.8	14.8	24.1	20.2	123.3
Vietnam	8.7	13.1	19	25.3	21.7	25.5	104.5
South Africa	24.6	22.9	15.5	23.0	13.5	25.5	100.5
Ethiopia	17.7	16.2	16.5	19.1	20.0	24.5	96.3
Rwanda	0.7	19.9	14.7	16.0	16.5	14.2	81.4
Nicaragua	9.4	15.7	9.7	17.6	14.4	17.3	74.6
Egypt	16	20	17.8	13.3	10.4	8.4	69.9
Sri Lanka	5.5	9.2	8.5	10.6	9.8	8.8	46.9
Benin	5.4	4.5	3.6	0.5	4.5	4.3	17.5
Eritrea	3.7	3.9	0.6	5.3	0.5	2.2	12.6
<b>Total</b>	<b>334.1</b>	<b>511.8</b>	<b>585.6</b>	<b>622.2</b>	<b>557.4</b>	<b>562.1</b>	<b>2.839</b>

Source: IOB Database. \* case study country

In 17 of the 22 countries, the amount of aid provided rose between 1999 and 2004. In Ghana, Macedonia, Tanzania, Vietnam, and Zambia, it more than doubled. An average of EUR 144.7 million was disbursed for each country. The four countries that received most accounted for just over a third of aid provided, with the 11 countries that received less than the average amount accounting for somewhat less than a third.

Various methods were used so as to have the selection criteria play a role in allocating funds to each country. A method was developed in 2000 that would allow a greater focus on the scores achieved for good governance and good socio-economic policy.<sup>50</sup> This method was applied from the 2001 budget year on, but the results played only a marginal role ‘as a frame of reference’ for decision-making.

## 2.3 Analysis and evaluation

### Choice of countries 1999

In the evaluation, an attempt was made to find empirical support for the role played by the selection criteria in choosing the countries that were to receive aid.

<sup>50</sup> So as to work this out in more detail and develop a method for allocating structural bilateral development aid, an “Allocation of Structural Bilateral Development Aid Working Group” was set up in 2000.

The selected countries were analysed to see how they scored for the criteria and the indicators used. They were also analysed on the basis of their scores for alternative indicators. The scores for the selected countries were finally compared with those of the non-selected countries.<sup>51</sup>

With regard to application of the poverty criterion, it is notable that three of the 22 selected countries have a per capita GNP greatly in excess of the IDA threshold of USD 925: South Africa (USD 2600), Macedonia (USD 1700) and Egypt (USD 1470). Political reasons were given for selecting these countries. Therefore, one may conclude that the absolute criterion for poverty was correctly applied to 19 countries.

Given their only moderate to poor scores for good governance, it is difficult to understand why Bangladesh, Burkina Faso, Eritrea, Ethiopia, Mali, Mozambique, Vietnam and Zambia were selected in 1999. The same applies to the selection of Egypt, Indonesia and Yemen. Political reasons were, however, adduced for this. In the case of Rwanda, the argument was that selection would help the country recover after the conflict situation. In her explanation of the way in which the criterion of good governance was applied, the Minister stated that:

*'The basic decision to select relatively poor countries in this initial selection round (of countries that qualify for soft loans from the World Bank) means that countries remain that – specifically because of their relative poverty – are more troubled than others by corruption, weak institutions and an underdeveloped civil society. By not applying absolute standards to further selection, but considering the relative quality of policy and governance, I believe that we have done justice to that correlation, with 'relative' meaning as compared to other countries in similar circumstances (the same income group, the same region, etc.)'. (Underlining added).<sup>52</sup>*

Virtually all the non-selected countries did indeed score significantly lower for good governance than the 22 priority countries. This comparison shows that discontinuing the close aid relationship with those countries is in accordance with the criteria. The scores for financial/economic and social policy for the 22 priority countries are also significantly better than those for the non-selected theme countries and the exit countries.

51 The 26 theme countries, the 24 exit countries and the developing countries qualifying for IDA support but which received little or no development aid from the Netherlands.

52 Minister for Development Cooperation, 1999. Letter on country policy for structural bilateral aid. Lower House, Session Year 1998–1999, 26433, no. 2.

The selection procedure was influenced not only by the three primary criteria but also by a large number of supplementary considerations. Former senior staff of DGIS emphasised during interviews that the countries selected would not just be those whose policy and governance were beyond reproach because that would have restricted the number to only six or seven countries.<sup>53</sup> Capacity considerations at the Ministry made it necessary to produce a list of some fifteen or twenty structural partners. Therefore, senior officials at DGIS carried out an ad hoc assessment, with various countries that scored below par for the primary criteria still ultimately making it onto the list of priority countries.

Consequently, the choice of countries was very much influenced by existing development cooperation programmes. It turned out that one of the few determining factors – if not the sole determining factor – was often the amount of aid provided in the past. Of the ten countries that received most aid in 1997, nine were selected.<sup>54</sup> The existing country allocations therefore had a major influence. The Minister admitted this in her letter to the Parliament of 17 May 1999, in which she says that ‘continuity within the preconditions of the three primary criteria’ played an important role.

### Choice of countries 2003

The way the criteria were applied to select the 36 partner countries was clearer and more transparent than in the preceding period. The 22 priority countries were included and all that remained was to select 14 of the 26 theme countries. No political assessment needed to be made regarding any new candidates and it was enough to phase out aid to those countries that did not comply with the criteria. Policy documents and interviews with the officials concerned show that the selection process basically involved scrapping developing countries from the list of potential partner countries if they were receiving less than a certain minimum amount of development aid, were less poor (relatively speaking), or did not belong to the Netherlands’ electoral group at the World Bank. This meant that the ultimate aim of selection – to give aid only to those countries in which conditions were favourable for aid to be effectively deployed – gradually receded into the background.<sup>55</sup>

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53 Background interview with former senior staff of DGIS (10 December 2003).

54 Koch, D.J (2003). “Herfkens’ selectiviteitsbeleid onder de loep: Een beoordeling en voorstellen ter verbetering”. In: *Internationale Spectator* 57(2): p. 71–75.

55 One of the officials concerned stated that the “zero-base” approach was not chosen because of the estimated costs involved in setting up programmes in new countries that might be selected (interview, 18 June 2004).

The 36 partner countries included seven that did not qualify for IDA loans: Colombia, Egypt, Guatemala, Macedonia, the Palestinian Authority, South Africa and Suriname. The Minister considered that this list of 36 partner countries nevertheless had a 'greater poverty focus' because a number of relatively wealthy developing countries among the theme countries were not included.<sup>56</sup> Even so, a comparison of the countries selected in 1999 with those in the group of fourteen added in 2003 shows a fall in the scores on the poverty criterion. The average per capita GNP of the added partner countries turns out to be higher than that of the 22 priority countries selected in 1999. The 14 additional countries also scored worse than the 22 countries on the CPIA index and on various other indicators for the quality of governance and policy. It is notable that quite a few countries that scored badly on the indicators for the chosen criteria were nevertheless selected. Georgia, Indonesia, Kenya and Yemen are worth mentioning here as countries whose performance was assessed as being poor or very poor. Five countries (Bangladesh, Bolivia, Mali, Mozambique and Rwanda) also achieved only a moderate score in 2002. The Minister justified the inclusion of countries with poor scores for good governance by referring to the change in policy that had been announced, namely of focusing more on the intention to improve governance, rather than on the existing scores for good governance. It hardly seems possible to apply that criterion objectively when making a selection, however, and the Minister did not indicate how the 'intention' of achieving good governance was to be measured.

Political considerations continued to play a role in selecting countries in 2003. The Minister decided to include countries that are members of the Netherlands' electoral group at multilateral institutions as partner countries, even if they did not meet the criteria for partner countries. The inclusion of the former Dutch colonies of Indonesia and Suriname is another example of a political choice.

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<sup>56</sup> In a letter to the Lower House, the Minister for Development Cooperation did, however, say that in her view the new list of partner countries "has a greater focus on poverty than the previous lists of 19+3, environment and GMV countries because several relatively wealthy developing countries have been removed from the list." Minister for Development Cooperation. Letter to the Lower House in response to motions submitted by Hirsi Ali and Van der Staaij/countries list. DGIS reference 246/2003, 12 December 2003. p.6.



Ethiopia, Addis Ababa, 12 July 2004. Ethiopia was one of the 22 priority countries for Dutch bilateral aid. Shown here: traders in Mercato in Addis Ababa, one of the biggest markets in Africa. Photo: Reinout van den Bergh/Hollandse Hoogte.

### *Selection criteria and indicators*

Looking for explanations for these findings raises the question of whether the criteria and indicators used were in fact effective.

The poverty criterion was based on the IDA income threshold of a per capita average of USD 925 in 1997). This, however, gives only a fairly rough indication so as to distinguish between developing countries that are very poor or moderately poor.<sup>57</sup> Average income is a poor yardstick for measuring the gravity of the poverty issue. The relative poverty of countries receiving aid played only a restricted role in selecting the countries (in other words, no distribution criterion was applied and the comparative seriousness and intensity of poverty were not taken into account). Alternative indicators for poverty – such as per capita income according to purchasing power or the percentage of the population living below the poverty line

57 See the critical comments by Van Hulten, M. (1999). “De 19 van Herfkens”. In: *Internationale Spectator* 53(7): 430–435 (1999: 431). “By working on the basis of the IDA’s USD 925 threshold, the Minister negated her own poverty criterion.”

or the Human Development Index – were not used.<sup>58</sup> Consideration was in fact given in 2003 to using per capita income on the basis of purchasing power parity. This was ultimately rejected because the intention was to use the same method as that applied when selecting countries in 1998. Another consideration was that the alternative indicators were not applied by international financial institutions such as the World Bank. It was also feared that using other indicators would muddy the distinction between countries that did and did not qualify.

The number of least developed countries in the group of 22 priority countries comes to 12. Development cooperation with 11 least developed countries was terminated after 1998. The countries qualifying for thematic support included six least developed countries. Of the 14 partner countries added in 2003, only two were least developed countries, meaning that a total of 14 of the overall group of 36 selected partner countries have the status of least developed country. If one uses the criterion of whether or not a country is a least developed country, then the poverty focus was only limited. There was, however, a highly practical reason for the Minister deciding not to apply that criterion, namely that this group includes a large number of ‘failed states’ and that if one also applied the criteria for good governance and policy, very few countries would in fact qualify for bilateral aid.<sup>59</sup>

For various reasons, the CPIA scores proved insufficient for assessing good policy and good governance:

- a) The Dutch view of what constitutes good governance differs in some respects from that of the World Bank, especially as regards human rights and democracy, aspects that are hardly expressed at all in the CPIA index.
- b) The CPIA policy indicators primarily concern macro-economic stability, for example inflation, fiscal balance, government debt, competitiveness and the

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<sup>58</sup> In her letter to the Parliament on 17 May 1999 (2), the Minister pointed out in this connection that the Human Development Index is not a good criterion for selecting countries because it combines the level of poverty with performance in the social field. Applying it would mean that countries with relatively little poverty and relatively weak social policy would find themselves low down in the HDI rankings. Selecting those countries would amount to rewarding poor policy and punishing good policy. The Minister stated that this would not, however, prevent one taking not the final rankings but the HDI poverty scores as the criterion for selection.

<sup>59</sup> Minister for Development Cooperation, 1999. Letter on country policy for structural bilateral aid. Lower House, Session Year 1998–1999, 26433, no. 2.

protection accorded to property rights. These assign much less weight to the quality of the poverty-reduction policy.<sup>60</sup>

- c) There is little variation in the governance scores within and between groups of developing countries. Countries with only moderate scores for governance and policy predominate. When measured by this yardstick for good governance, the differences between developing countries are in fact only very small, making it difficult to draw a worthwhile distinction between countries that perform well or less well in this regard.
- d) The CPIA sometimes displays major fluctuations in governance scores over time. Because aid to priority countries and allocation obligations often involve a long-term commitment, fluctuations in the scores are a problem. This element of the CPIA is also often based on data that is already several years old. A comparison of the scores on the CPIA index for 2001 and 2002 shows that more than half the countries were in a different quintile in 2002 than in 2001.

In later discussions, both in Parliament and elsewhere, the then Minister placed greater emphasis on the relative nature of the criterion of good governance. She pointed out that one was not dealing with ‘a snapshot’ but with ‘a film’, i.e. a trend.

*‘The fact that a country is on that list does not mean that it has been given a certificate of good governance. It is a certificate of proven political will to improve the quality of governance.’<sup>61</sup>*

The restricted value of the indicators used in selecting countries is confirmed by a recent internal memorandum at the Ministry of Foreign Affairs in which it is stated that there are as yet no indicators for good governance that are reliable, sufficiently discriminatory, transparent and comparable over time. Technically speaking,

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<sup>60</sup> Ten of the twenty CPIA indicators relate to “economic management and structural policies”, with the assessment for policy being linked to implementation of programmes of reform supported by the World Bank. Whether the CPIA scores are a good predictor of poverty reduction is open to doubt. Some components of the CPIA index do not relate directly to poverty reduction, and specific policy priorities – whether or not set out in a PRSP – play hardly any role in determining the CPIA score. The Operations Evaluation Department (OED) of the World Bank (2001: 20) concludes that the key criteria of the Washington consensus have continued to play a decisive role in evaluating the CPIA scores. It would also seem to be significantly more difficult to achieve a high score for other criteria. It is virtually impossible, for example, to achieve the maximum score for the variable relating to social safety nets and relatively easy to achieve the maximum score for compliance with debt obligations. In the view of the OED, this is “the opposite of what would be expected if each criterion were weighted according to its influence on poverty reduction”. Operations Evaluation Department (2001). *Review of the Performance-Based Allocation System (IDA10–12)*. Washington: World Bank 20.

<sup>61</sup> Lower House. 18–1179. Budget debate proceedings 2002, 1 November 2001.



it would therefore seem almost impossible to carry out a more precise selection within the existing list of countries as regards indicators for good governance.<sup>62</sup>

### *Selectivity and the allocation of funds*

Selectivity related only to bilateral cooperation with the 22 priority countries, even though in the past four years these countries represented only 15% of total ODA expenditure. Despite a number of attempts to allow selectivity to play a role in allocating funds, one can say that in general the scores for the criteria mentioned had little influence on the distribution of funds to the countries concerned. The increase in aid provided to 11 of the 22 countries (for a comparison between 1999 and 2004, see Table 2.2) was not associated with improvements as regards good governance. Better policy, in other words, is not rewarded by more aid, while a decline in the quality of governance and policy does not lead to a reduction in aid. The volume of aid provided by the Netherlands in the past had a decisive influence on the current allocation. After 2002, moreover, input objectives (see Section 3.4) and the provision of extra funds for specific themes had a major influence on the country allocations. Geographical priorities were also relevant: *Mutual Interests*, *Mutual Responsibilities* specified, for example, that 50% of bilateral aid would be provided to Africa.

### *Concentration in fewer countries*

The intended concentration in fewer countries was achieved in 1999, but it was then diluted again with the addition of the thematic countries. Drawing up a single list of 36 partner countries in 2003 further reduced the number of countries with which the Netherlands would have a structural cooperative relationship, intensifying this concentration clearer. However, the former thematic countries among the partner countries retain a separate status for the moment because the activities in those countries are largely restricted to themes and sectors for which support was already provided prior to 2003. The amount of aid provided to those countries is also significantly lower than that for the former 22 priority countries, meaning that the actual significance of the new status accorded to these countries is uncertain.

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62 DMV/IVG,SPL. *Modellen van landenselectie en het gebruik daarbij van indicatoren van goed bestuur*, aantekening, February 2005.

## 2.4 Conclusions

The selection of countries made in 1999 is only partly explicable in terms of the application of the three key criteria. Other factors turn out to be of greater significance: for example, maintaining existing aid relationships or participating in the Netherlands' electoral group in the World Bank.

Applying an absolute – rather than relative – poverty criterion meant that the poorest countries were underrepresented among those selected for Dutch bilateral cooperation. In 2003 there was a weaker focus on poverty when selecting the 36 partner countries, compared to 1999.

Given the impossibility of selecting a substantial group of developing countries that are characterised not only by good socio-economic policy but also by good governance, a number of supplementary criteria were used in the selection process, with the result that the selection process in 1999 was not sufficiently transparent.

The sector-wide approach was supposedly only possible for countries that complied with a number of basic requirements and for which the selection criteria of good governance and good policy had been applied. The fact that more than half the 22 countries selected in 1999 failed to meet the good governance criterion meant that – even before the introduction of the new policy – one of the cornerstones of the sector-wide approach was already undermined in those countries.

A concentration of bilateral aid was achieved to an important extent. The number of countries with which an aid relationship is maintained was cut by a third.

Selectivity was only applied in allocation policy to a restricted extent. The changes in the volume of aid for the 22 priority countries between 1999 and 2003 show hardly any connection with the scores for the selection criteria. The link between the volume of aid and the scores for good governance and good policy is weak. In practice, better policy is not rewarded by the provision of more aid.

Combining the former theme countries with the former 22 priority countries in 2003 was intended to make the country policy clearer. In practice, however, the status of the two categories continued to be different.

## 3 Sector selection and changes in expenditure

### Introduction

Starting in early 1999, the embassies were encouraged to implement the sector-wide approach in actual practice. This chapter gives information about the 22 priority countries as a group, but also looks at the five case study countries so as to investigate the general findings in greater detail. Section 3.1 deals with the embassies' assessments of the feasibility of implementing the sector-wide approach. Section 3.2 looks at which sectors were chosen as the focus of future cooperation. Section 3.3 deals with the extent of sector concentration and Section 3.4 with changes in expenditure resulting from the introduction of the sector-wide approach. The final section, Section 3.5, analyses and evaluates the various findings.

### 3.1 The conditions for applying the sector-wide approach

The prospects for developing the new policy and building up sector support depended on the specific situation in each of the individual countries. It was left to the embassies to devise a strategy for applying the sector-wide approach, based on their assessment of the prospects. The most important variables in this context were confidence in the political will and capacity of the country's government to implement sector policy, plus confidence in the quality of the development policy.

The conditions for applying the sector-wide approach diverged greatly for the 22 countries. In ten of them, it was difficult to apply the new policy given the existing situation; the annual reports presented by the embassies pointed this out

explicitly.<sup>63</sup> In the Asian countries – specifically India and Indonesia – the bilateral donors had little influence on government policy. The same was true for other large countries, such as Egypt and South Africa. Eritrea and Ethiopia were on a war footing and the context for aid to the Palestinian territories, Rwanda and Sri Lanka was determined by internal conflict situations. In all these countries the basis for switching to the sector-wide approach was weak. In most of the African countries, which are greatly dependent on foreign aid, the policy intentions generally fitted in better with the discussions already held about future aid. Nevertheless, there was some divergence in opinion among and within the embassies about the prospects for applying the policy. For example, the embassy in Tanzania was less optimistic than that in Mozambique.

For the five case study countries, a more detailed investigation was carried out of how the embassies attempted to estimate the conditions for implementing the new policy. In Bolivia and Uganda, the embassies had assessed those conditions as being positive. In both countries, the government had taken the initiative to harmonise foreign aid with its policy. Moreover, both governments had shown clear political commitment by reforming the economy and public sector, and also by focusing policy on alleviating poverty. In Uganda, political stability, continuing economic growth and a reduction in poverty were the main confidence-boosting factors. In Bolivia, socio-economic reforms had been implemented and the government had engaged in extensive dialogue with civil-society organisations regarding the national strategy for reducing poverty.

With hindsight, the estimate made by the embassy (and other donors) for these two countries was overoptimistic. In Bolivia, the economic and political situation worsened after 2000. Massive social inequality and the non-delivery of economic improvement for the poor led to sharp polarisation in society and long-term political instability. The result was that the introduction of the sector-wide approach stagnated and the embassy attempted to adjust the aid programme to the rapidly changing situation. It should be noted that the assessment by the embassy in Bolivia changed repeatedly: in 1998 it advised against channelling too much aid

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63 See the annual reports of the embassies for 1999, for example those by the embassies in Eritrea (where aid was in fact suspended, meaning that the sector-wide approach did not apply); Nicaragua (“lack of the necessary institutional conditions”); Vietnam (“in the context of the sector-wide approach, a significantly longer procedure needs to be pursued..before an activity can be committed to and lead to disbursement. Until recently, the Netherlands policy as regards Vietnam, meant that there was no direct development cooperation with the government” p. 11); Yemen (“The embassy suggests to take one year to further analyze the opportunities and constraints in applying the SWAp in Yemen”, p.8); Sri Lanka (“The latter in view of the fact that a number of features that gave rise to the sector-wide approach are not to be found in Sri Lanka” p.8).

via the country's central government, whereas it was much more enthusiastic about this in 1999. In 2000, however, the then ambassador stated that the sector-wide approach was unsuitable as a means of effectively reducing poverty in Bolivia – an assessment that was later modified.

In Uganda, there was a turning point in government policy and the quality of governance in 2004, although signs of this had already been noticeable in previous years. Among the donors, concern grew about the quality of governance, corruption and the development of a democratic system; meanwhile, the problems in the government's implementation capacity turned out to be more intractable than anticipated.

The embassies in Bangladesh, Burkina Faso and Zambia considered the quality of governance and policy in those countries to be poor. The degree of poverty and the need for aid had been important arguments for including these three countries in the list of priority countries, but there were significant differences in the embassies' assessment of the conditions for applying the sector-wide approach. In the case of Bangladesh, the main obstacles were seen to be the quality of governance and the widespread corruption. Because Bangladesh did not qualify for debt relief under the HIPC initiative, it had not drawn up a PRSP in 1999. The embassy had serious doubts as to whether providing the central government with more sector aid would contribute to improving the position of the poor. Therefore it did not wish to abandon collaboration with NGOs. It later arrived at a more positive assessment about applying the sector-wide approach in the education sector and in 2003 decided to actively do so. The assessments for Burkina Faso and Zambia were cautiously positive. In Burkina Faso, the embassy believed that it would be possible to introduce the sector-wide approach gradually. The selection of Zambia in 1999 had been provisional, due to reservations regarding the quality of the country's governance and the strained relations between Zambia and the World Bank about the PRSP. After 2000, the embassy's analysis became more positive, referring to privatisation of Zambian mines and the legislation introduced to combat money-laundering. Zambia was then given a definite place on the list of 22 priority countries. The embassy was optimistic about applying the sector-wide approach in particular areas and specific sectors, although corruption and the weak implementation capacity of the government continued to constitute significant obstacles.

This overview leads to the conclusion that it was not only the situation between the countries that differed but also that the situation within a particular country

could change, sometimes rapidly. The situation deteriorated rapidly after 2002 in Bolivia and from 2004 in Uganda. In Burkina Faso and Zambia, however, a gradual improvement was identified in the quality of governance and policy.<sup>64</sup> In Bangladesh, the scores for good governance indicators were poor – and remained so – but there was an improvement in socio-economic policy. What did not change was the fact that corruption was seen as a major problem in all of the countries, with Bangladesh for years occupying last place on the Transparency Corruption Perceptions Index.<sup>65</sup>

### 3.2 Sector choice and related consultation with the government

#### *Formulation and implementation of policy*

The first thing the embassies had to do was select the sectors. The policy instructions applied the following definition of a sector:

*‘A coherent set of activities at macro, meso and micro level in defined institutional and budgetary frameworks for which the recipient government has formulated policy’.*<sup>66</sup>

The decisive criterion for a ‘sector’ was that it should involve specific policy fields for which policy had been defined. This might also be a sub-sector or a theme that cuts across sectors.<sup>67</sup> A recommendation was made that Dutch support for the sector should be ‘substantial’, although this had not been defined. It was also recommended that the number of sectors to be supported should be limited to three. In order to select sectors, embassies were advised:

- to ensure that the selection corresponded with the long-term planning (a general development plan) of the recipient country;
- to carry out comparative studies of sectors;
- to undertake institutional analyses of each sector so as to determine the government’s implementation capacity;

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64 The changes in the Kaufmann indicators for good governance show an improvement for Burkina Faso for the whole of the period from 1996 to 2004 but a deterioration for 2003–2004. For Zambia, the opposite is true. In both periods, Bolivia and Bangladesh had a negative score and Uganda had a positive one. World Bank Institute: [governance/govdata](#).

65 It is only Burkina Faso that is higher up the list than the other four countries: 70th of 158 countries and seventh of the 40 countries in Africa (2004).

66 Ministry of Foreign Affairs/DGIS. Sector-wide Approach Support Group. (2000) *The Sector-Wide Approach, organising principle for bilateral development Approach* p. 9.

67 Confronted with the criticism that the too general definition of a sector leads to a multiplicity of interpretations, senior officials of DGIS indicated that the definition was less important and was a pragmatic question because the main point was to promote a different way of working and a different structure of development cooperation. However, the lack of a clearer definition has led to a wide variety of interpretations and the distinction between sectors is not always clear. (Background interview with former senior staff of DGIS.)

- to consider the relative position of the Netherlands within the spectrum of external aid so as to determine the added value as compared to other donors.

During discussions of the choice of sectors, which mainly concerned approval of the annual plans, the Ministry pressed for serious reconsideration of the existing programme. At some missions, however, the prevailing view was that as much as possible of the existing set of projects should be incorporated into the sectors. At the 2000 ambassadors' conference, the Minister expressed her disagreement with that view:

'The sector-wide approach means a revolutionary change, one that is sometimes not sufficiently expressed in annual plans. It is not the intention to squeeze the existing set of projects into a sector, or to tinker with it until it fits. That would be doing things in the wrong order.'<sup>68</sup>

After the choice of sectors in 1999 had almost been completed, it was established at the start of 2000 that in the 22 priority countries the total number of sectors eligible for support was 71, and that 28 of these related to health care and education (Table 3.1). As regards sector selection, the Minister concluded that the provisional overall picture was that the composition deviated only slightly from the programmes predating the introduction of the sector-wide approach. The sectors that remained important in the country programmes were health care, education and rural development, together with the water sector.

The selection was refined in 2003 in accordance with the memorandum *Mutual Interests, Mutual Responsibilities*, which stated that the number of sectors per country would be limited to 'two, or exceptionally three'.<sup>69</sup> The criteria given for selecting sectors were expected effectiveness, absorption capacity, the added value of the Netherlands, and the extent of financing by other donors. The policy paper hinted at the direction that should be taken by noting that in the coming years the bilateral programme would make 'heavy investments' in environment, water and education. Good governance and decentralisation (chosen as a sector in almost half of the countries in 1999) were no longer to be considered as a sector but were henceforth to be classified as the supra-sectoral theme of 'good governance'.

<sup>68</sup> Address by the then minister at the ambassadors' conference 2000:7.

<sup>69</sup> Ministry of Foreign Affairs (2003). *Mutual Interests, Mutual Responsibilities* p.38. Annual plan instructions 2004 and supplementary instructions on sector restriction and sector selection.



Ethiopia, Addis Ababa, 12 July 2004. Lorry with an advertisement for an Ethiopian brand of beer.  
Photo: Reinout van den Bergh/Hollandse Hoogte.

As a result of the adjustment, the number of sectors chosen in 1999 was approximately halved. Table 3.1 shows the differences between the sectors selected in 1999 and 2003.

At the end of 2003, the bilateral programme in the former 22 priority countries was restricted to four different sectors: education, health care, water and environment. Of the total of 36 sectors supported, social sectors accounted for 25. Decentralisation/good governance now qualified as a supra-sectoral theme in all countries, and agriculture disappeared from the Dutch aid programme as a priority sector.



**Table 3.1** Choice of sectors 1999 and 2003 22 priority countries.  
(Total number of sector programmes)

Sectors	1999	2004
Education	16	14
Health	12	11
Decentralisation/good governance	10	0
Water	9	7
Agriculture	9	0
Environment	6	4
Private sector*	3	0
Legal	3	0
Other	3	0
<b>Total</b>	<b>71</b>	<b>36</b>

Source: Year 2000: Annual reports by Dutch missions. Year 2004: DGIS-046/2004 Letter to Parliament, Mutual Interests, Mutual Responsibilities/concentration on policy and sectors in bilateral cooperation, 28 July 2004

\* Private sector development comprises the sectors: Micro and small enterprises, later 'good business climate' (Nicaragua), 'private sector' (Tanzania) and 'economic development' (Zambia).

### Sector selection in the five case study countries

In the five case study countries, the second round of selection in 2003 reduced the number of sectors from 17 to 9. Table 3.2 lists the sectors selected.

**Table 3.2** Sectors selected in the case study countries in 1999 and 2003

Country	Sectors in 1999	Sectors in 2003
Bangladesh	<ol style="list-style-type: none"> <li>1. Education</li> <li>2. Health care</li> <li>3. Water</li> <li>4. Rural electrification</li> </ol>	<ol style="list-style-type: none"> <li>1. Education</li> <li>2. Health care</li> <li>3. Water (reinstated as sector in 2005)</li> </ol>
Bolivia	<ol style="list-style-type: none"> <li>1. Education</li> <li>2. Agriculture/productive rural development*</li> <li>3. Decentralisation</li> </ol>	<ol style="list-style-type: none"> <li>1. Education</li> </ol>
Burkina Faso	<ol style="list-style-type: none"> <li>1. Education</li> <li>2. Health care</li> <li>3. Agriculture</li> <li>4. Local government (Decentralisation)*</li> </ol>	<ol style="list-style-type: none"> <li>1. Education</li> <li>2. Health care</li> <li>3. Local government (Decentralisation)* (discarded in 2005)</li> </ol>

**Table 3.2** Sectors selected in the case study countries in 1999 and 2003

Country	Sectors in 1999	Sectors in 2003
Uganda	<ol style="list-style-type: none"> <li>1. Education</li> <li>2. Decentralisation</li> <li>3. Legal Sector</li> </ol>	<ol style="list-style-type: none"> <li>1. Education</li> </ol>
Zambia	<ol style="list-style-type: none"> <li>1. Education</li> <li>2. Health care</li> <li>3. Agriculture</li> </ol>	<ol style="list-style-type: none"> <li>1. Education</li> <li>2. Health care</li> </ol>

\*Sector name changed over time.

The overview of sector concentration presented to Parliament in July 2004 showed that agriculture/rural development had been dropped in Burkina Faso, Zambia and Bolivia. Decentralisation in Bolivia and Uganda and the legal sector in Uganda were made part of good governance. The embassies' annual plans for 2004 stated, however, that these sectors had been retained. The new classification of sectors as submitted to Parliament therefore came as a surprise to the embassies. The activities were in many cases simply continued but were now classified as cutting across sectors.<sup>70</sup>

Most of the problems in defining the sectors had to do with the distinction between local administration, rural development, and the environment. The environment was not classed as a separate sector in any of the five countries, even though in both Bolivia and Uganda a large number of activities in that field received support. In Bolivia, many activities initially categorised as falling under the environment were later classified as part of rural development. After 2003, rural development ceased to be a separate sector and in the annual plan for 2005 the relevant activities were put under 'economic good governance'. The selection of sectors in 1999 was required to focus on the demands of the country concerned. This made it necessary to discuss the choice of sectors with the country's government and to work on the basis of the priorities of national policy as set out in the country's national development strategy. In neither Burkina Faso nor in Zambia was the choice of sectors explicitly discussed with the government. The Zambian government was in fact informed, but there was no question of any discussion because of the strained relationship with the donors and because

<sup>70</sup> One exception was rural development in Burkina Faso, for which aid was halted.

Zambia had not yet definitely become one of the priority countries. In Burkina Faso, discussion had taken place in 1998 regarding the new priorities for Dutch aid and the embassy therefore did not consider it worthwhile to bring up the matter again in 1999.

Discussion did take place in Bangladesh, Bolivia and Uganda. The Dutch embassy in Bangladesh stood by the choice already made in 1997 to concentrate on health, water and education and it made these sectors the topic of discussions with the government. In 1999, the Bangladesh Ministry of Finance pressed for the activities in agriculture and rural electrification that had been abandoned to be included in the Dutch aid programme. That request was not granted, although rural electrification was in fact included as a fourth sector in the final selection of sectors.<sup>71</sup> The Ugandan government expressed a preference for receiving aid from the Netherlands in the form of general budget support and for continuation of the support to existing programmes, including environment, rather than for aid to be restricted to three sectors. The embassy's request to that effect was refused by the Ministry in The Hague, and a decision was taken to stick to the proposed concentration on three sectors. During discussions with the Bolivian government, the embassy acceded to its request that the proposed sector involving the development of small and medium-sized enterprises should be scrapped because the Inter-American Development Bank was already active in that field.

Discussions on aid in the countries mentioned took place with the authorities responsible for aid at the Ministry of Finance. In the course of discussions, the line ministries were hesitant about too much aid being channelled via that ministry. In some cases, for example in Bangladesh, the line ministries would prefer to do business directly with the Netherlands. The decision taken in 2003 to further reduce the number of sectors was not discussed with the government in any of the countries. This was a unilateral decision on the part of the Netherlands.

According to the policy instructions, the choice of sectors needed to fit in with long-term planning; from 2000 on, the embassies should refer primarily to the PRSP. The PRSP was intended to form the main framework for the government's policy intentions and a reference for the choice of sectors. At the point the sectors were selected, however, none of the countries had an approved PRSP, although

<sup>71</sup> One factor was that it was expected that a large number of disbursements could quickly be effectuated in this sector.

Burkina Faso, Bolivia and Uganda did have a virtually complete draft version.<sup>72</sup> The embassies referred to this when justifying the choice of the social sectors; the PRSPs included both education and health care as priorities for poverty reduction.

When selecting the sectors, the criterion of ‘added value’ had to be considered too. If reference was made to that criterion when justifying the choice of sectors, it was generally accompanied by mention of the long-term involvement of the Netherlands in the sector concerned. The instruction that Dutch aid needed to constitute a ‘substantial’ part of the entire aid for a particular sector applied to no more than a third of the sectors.<sup>73</sup> In the other sectors in the five countries, the Dutch contribution at the point the sectors were chosen was of only slight significance compared with other external financing.

The country studies show that the operational instructions or recommendations for choosing sectors were not followed systematically. With the exception of Bolivia, in none of the countries studied was either a systematic comparison of sectors or a substantive analysis done first. Nor was the recommendation followed that an analysis should be carried out of the institutional conditions for switching to the sector-wide approach. It was only in Bolivia that an analysis was performed of the prospects for applying the sector-wide approach to each particular sector. The documentation regarding the choice of sectors in the five countries does not include any analysis dealing with the potential consequences of introducing the sector-wide approach for poverty reduction. In all cases, there was either no financing plan for the medium term at the point when the sectors were chosen or, if such a plan did exist, it was insufficiently detailed.

### 3.3 Concentration of aid in the sectors

The Ministry instructed that activities not covered by the chosen sectors should be subject to an exit strategy.<sup>74</sup> The essence of this strategy was that there should be a properly implemented winding down or transfer of the projects so as to prevent the destruction of capital. The intention was not to enter into any new obligations in the exit sectors ‘without a demonstrable need’ and to wind down the involvement of the Netherlands over a three-year period.<sup>75</sup> The extent to which concentra-

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72 Because the participation process for the PRSPs took up a great deal of time, an “interim PRSP” was used in many cases.

73 In Bangladesh, the contributions to the water and rural electrification sectors can be considered as such. The same applies to the aid provided for the health care sector in Zambia. In Bolivia, the Netherlands was a major financier for decentralisation and education.

74 Letter from the Minister for Development Cooperation, 10 November 1999, 26433 session year 1999–2000: 3. Country Policy for Structural Bilateral Aid.

75 Idem.

tion was achieved was measured by means of two indicators: a) the percentage of aid devoted to the selected sectors and b) the total number of activities/projects in the bilateral programme.

a) *The percentage of aid devoted to the selected sectors*

In the 22 priority countries, 66% of the total aid provided was disbursed in the sectors in the period from 2000 to 2004. In 2004, expenditure on cross-sector themes and the exit strategy accounted for 13% of all the aid provided in these countries, with the rest being devoted to macro-oriented support.

In the five case study countries, expenditure on the sectors was 89% in Bangladesh and 93% in Zambia; in Bolivia (45%), Burkina Faso (57%) and Uganda (51%), the percentages were lower because those countries were receiving general budget support. Expenditure on cross-sector themes ranged from 3% in Uganda to 14% in Bolivia. It was only in Bolivia that a relatively large amount was still allocated to the exit strategy in 2000–2004 (EUR 18.9 million), although in 2004 the exit programmes had virtually been wound up. In 2004, exit expenditure did not exceed EUR 1 million in any country. One can conclude from all this that expenditure for activities outside the sectors was reduced to a minimum and that concentration of aid within the sectors has in fact been achieved.<sup>76</sup> It should be noted that in Burkina Faso, Uganda and Zambia, aid had already been concentrated within the sectors to a significant extent prior to 1998 and a start had already been made on doing so in Bangladesh. It was only in Bolivia that the programme was still a very wide-ranging one in 1998, with extra efforts being made to wind down the activities that fell outside the priority sectors. In considering all of this, one needs to remember that many activities previously classified otherwise had now been assigned to one of the chosen sectors.

b) *The total number of activities/projects in the bilateral programme*

It is impossible to get a reliable picture of the changes in the number of activities in all the 22 countries; analysis of those changes has therefore been restricted to the five case study countries. The efforts in these countries to further streamline the programme produce a varied picture. In Uganda, the number of activities was only small and it later increased (13 in 1999 and 21 in 2004). In Bolivia, the number of activities was reduced from about 90 in 1999 to 29 in 2004. In both countries, this meant that pressure on the financial management capacity of the

<sup>76</sup> Note that the 1999 classification of sectors has been applied. If one were to strictly apply the 2003 classification, the percentage of expenditure outside the sectors would be seen to have risen again.

embassy was reduced. In the other three countries, a large number of separate project-based activities are still being financed. The number of new activities undertaken each year has not fallen since 1999 in either Zambia (43 in 2004) or Bangladesh (40 in 2004).<sup>77</sup> A more detailed analysis of the range of activities in each sector is given in chapter 5.

In two of the five countries, exit programmes have been transferred to other donors. In Zambia, some of the rural development and environment activities have been transferred to Denmark; environmental activities in Uganda have been transferred to Belgium.

### 3.4 Changes in expenditure for each sector

#### *Changes in expenditure in the 22 priority countries*

Table 3.3 shows changes in expenditure per sector in the 22 priority countries since the sector-wide approach was introduced.

The greatest increase was in expenditure on education and health; in 2004, these accounted for a total of 55% of delegated bilateral aid. Despite efforts to allocate extra funds to water and the environment, expenditure in those areas was virtually unchanged as a percentage of total expenditure. Expenditure on rural development and agriculture fell from 13% in 2000 to 8% in 2004.

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<sup>77</sup> In order to prevent all kinds of minor activities (evaluations, financing for technical assistance, payment of a small balance remaining etc.) being classified as new activities, only those activities have been considered that involve more than EUR 100,000.

**Table 3.3** Bilateral aid in sectors, 22 priority countries (in % and total 2000–2004 in EUR 1,000,000)

Sector	2000	2001	2002	2003	2004	Total 2000–2004	%
Education*	16	41	36	28	31	584	31
Health care	16	19	21	21	24	375	20
Rural development	13	12	7	12	8	191	10
Good governance/ Decentralisation	10	3	10	10	9	157	9
Water	10	10	7	9	9	169	9
Environment	4	3	4	7	7	90	5
Private sector develop- ment	2	2	2	2	6	55	3
Legal sector	2	0	3	1	0	23	1
Other	28	11	10	10	4	233	12
<b>Total</b>						<b>1870</b>	<b>100</b>

Source: IOB Database – figures rounded, therefore not all columns add up to 100

\* The major increase in expenditure on education in 2001 was largely due to the financing of large-scale education programmes in Indonesia (via the World Bank), India and Tanzania. The fall in 2003 compared to the previous year is partly due to the reduction in the availability of funds for bilateral aid.

The trend towards greater funding for the social sectors was encouraged by the emphasis on the contributions made by the MDGs, the internationally agreed input targets and the associated priorities contained in the policy memorandum *Mutual Interests, Mutual Responsibilities*. The latter included an announcement that during the lifetime of the ongoing cabinet, 15% of the development budget would be spent on education. Expenditure in the health care sector was also encouraged by a number of international agreements entered into by the Netherlands, for example the provision of 4% of ODA for sexual and reproductive rights and health (UN Population Conference Cairo, 1994). The target for the environment sector is 0.1% of GNP, which according to *Mutual Interests, Mutual Responsibilities* will have to be fully attained by autumn 2007. The Minister has made additional funds (i.e. over and above the regular country allocations) available for all these sectors and

themes. The annual plan instructions for 2004 encourage the embassies to produce proposals for extra expenditure.<sup>78</sup>

### Changes in expenditure in the five case study countries

The Ministry's regular statistics are insufficiently detailed for the calculation of changes in expenditure per sector prior to and after the introduction of the sector-wide approach. Therefore, in the five case study countries, expenditure has been compared on the basis of additional research. The results are given in the table below.

**Table 3.4** Bilateral aid to five countries before and after introduction of the sector-wide approach (in EUR 1,000,000 a year): per sector and total expenditure including structural macro-oriented support

Sector	Education		Health		Rural economy		Total bilateral aid*	
	96-99	00-03	96-99	00-03	96-99	00-03	96-99	00-03
Bangladesh	22.2	19.7	26.2	28.5	18.2	9.3	147.7	102.2
Bolivia	7.4	31.0			34.5	19.4	86.2	132.1
Burkina Faso	12.2	21.9	4.1	16.9	37.7	25.6	89.1	112.0
Uganda	11.0	40.5					57.9	119.7
Zambia	9.0	26.6	20.0	46.8	13.7	14.8	47.0	95.3
<b>Total</b>	<b>61.8</b>	<b>139.7</b>	<b>50.3</b>	<b>92.2</b>	<b>104.1</b>	<b>69.1</b>	<b>427.3</b>	<b>561.3</b>

Source: IOB Database<sup>79</sup>. So as to make comparison possible, the year 2004 has not been included.

\* Total bilateral aid comes to more than the sum of the sectors mentioned because it also covers other sectors and macro-oriented support.

78 *Mutual Interests, Mutual Responsibilities* states that with effect from 2004, part of the macro support will be used to increase expenditure on education. In 2003, EUR 18 million, i.e. 4% of total macro support, was allocated to education. In Bolivia, the Ministry of Education's new medium-term plan was approved for the sum of USD 75 million for the next five years; this represents a major increase compared to expenditure in the previous period. The amount available for HIV/AIDS will be doubled to EUR 270 million. Increased expenditure for sexual and reproductive health and for combating HIV/AIDS is in addition to the existing bilateral contributions to health care. Support for this sector in the 22 priority countries also rose considerably between 2000 and 2004. Zambia is the main recipient, receiving a contribution of EUR 46.6 million for the period from 2000 to 2003. The Minister also made extra funds available for water/environment with effect from 2004. Embassies with an environment and/or water programme (regardless of whether water/environment have been selected as sectors) are permitted to increase their related expenditure by 20% in 2004, 50% in 2005, and 100% in 2006; this is conditional on the presence of sound projects/programmes. Letter from Minister for Development Cooperation to Parliament, 17 May 2004, regarding reporting on water programme financed from additional funds.

79 In the case of Bangladesh, rural electrification is included under rural development; total contributions include structural macro support. For the initial period, data were only available for three years; 2004 has therefore not been included in the comparison.



The main changes before and after the introduction of the sector-wide approach are a major increase in expenditure in the education and health care sectors and a major reduction in the rural production sector. It was only in Bangladesh that expenditure in the education sector fell and only in Zambia that expenditure in the rural production sector remained the same. In 2004, expenditure on education rose further in Bangladesh, Bolivia and Zambia, whereas it fell in Burkina Faso due to capacity problems. In Uganda, direct support for education was replaced by general budget support. Expenditure on health care remained approximately the same in 2004 as in 2003. Expenditure on rural economy programmes fell significantly in Bangladesh and Zambia but remained at approximately the same level in Bolivia.

In Bangladesh, continuing underspending problems were a major reason for total expenditure for that country falling between 2000 and 2002. In the other countries there was a structural increase in the funds available.

### 3.5 Analysis and evaluation

The analysis focuses on the main topics dealt with in this chapter: the conditions for applying the new policy, the choice of sectors and the concentration of aid in sectors.

#### *Estimate of conditions for applying the sector-wide approach*

In about half the 22 priority countries, the conditions for applying the sector-wide approach appeared to be unfavourable; reports to that effect were provided by a number of the relevant Dutch embassies. The policy documents did assume a wide variety of initial situations and indicated that it was necessary to tailor the method of implementation to those situations. However, the policy and the instructions for applying it took no account of countries where the conditions had long been extremely unfavourable and where there was unlikely to be any change in the short term. Pressure was nevertheless exerted to implement a change of policy in these countries too; the same criteria and indicators were used to monitor the sector-wide approach in all these countries.<sup>80</sup>

<sup>80</sup> The detailed policy for the sector-wide approach distinguishes between “sector-wide approach with sector policy in preparation” and “sector-wide approach with sector policy in implementation”. Even if a sector has not been defined and the sector-wide approach has not yet been adopted, the key elements of the sector-wide approach can still be applied, although in terms of policy the sector-wide approach in that sector would still be at a preparatory stage. In the case of the “sector-wide approach with sector policy in implementation” phase, a distinction is then made between the sub-phases “sector policy in implementation without sectoral budget support” and “sector policy in implementation with sectoral budget support”. For “sector-wide approach with sector policy in implementation” both the sector and the sector policy must have been defined and adopted. This is the sole criterion that is used but it is considered essential. From: Sector-wide Approach Support Group (2000) *Sector-wide Approach Growth Document*, p. 15–16.

In four of the five countries, the embassies did consider that introduction was possible but estimates of the pace at which that should take place differed from one country to the other. Pressure to quickly undertake implementation of the sector-wide approach influenced what later turned out to be the optimistic estimates regarding Bolivia and Uganda. In those countries, it proved difficult to properly estimate trends in the medium term but the analyses by the embassies



Bolivia, San Jose de Chipo, December 2004. Rural development is no longer a priority in Dutch aid. The farmer is hoeing his maize plot a day after rain. Photo: Ton Hendriks/Hollandse Hoogte.

focused insufficiently on internal political and economic developments and long-term trends. A more cautious estimate was made for both Zambia and Burkina Faso, with more gradual introduction taking place. It was only in one country (Bangladesh) that the embassy produced a negative analysis of the prospects for applying the sector-wide approach in the short term.

### Choice of sectors

For all the 22 priority countries, the choice of sectors in 1999 displayed a large measure of continuity as regards the existing programme. The policy instructions required the choice of sector and sector-wide support to comply with a number of criteria. For the five case study countries, these criteria were used to determine the extent to which the policy was put into actual practice.

#### a) Was the sector selection demand-oriented?

With just a few exceptions, the preference of the recipient government and proposals it made for changes had no influence on the choice of sectors. In the case of Bangladesh, there was little confidence in the government as a partner, and the embassy therefore did not want the decision-making to be dependent on the views of the authorities. It is striking – precisely because of the great value the Ministry attached to consultation with the government – that in none of the five countries were the sector selection itself or the results of consultation laid down in a formal agreement.

The extent to which the choice of sectors and the activities within the sectors were in line with the government's priorities turned out to be difficult to objectify. Although the PRSP played no direct role in sector selection, one can say with hindsight that the sectors chosen largely correspond with the priorities set out in the PRSP.<sup>81</sup> That was not really very surprising given that PRSPs were often of a general nature. Little came of the idea that there would be a reorganisation of foreign aid on the basis of the PRSP. The PRSPs were not sufficiently operational for that purpose. There was also insufficient political will among most of the donors to carry out a reorganisation of that kind. The selection of sectors in 2003 so as to implement the policy proposals contained in *Mutual Interests, Mutual Responsibilities* was

<sup>81</sup> A study of the PRSPs in Sub-Saharan Africa concludes that the choice of sectors in Burkina Faso is to a large extent in line with the PRSP. The same applies, more or less, to Uganda and Zambia. (Advisory Council on International Affairs (2003) *Pro Poor Growth in de bilaterale partnerlanden in Sub-Sahara Afrika*: 51.) It should be noted that that agreement did not apply to other African countries such as Ghana, Ethiopia and Tanzania, where major discrepancies were discovered between the choice of sectors and the priorities set out in the PRSPs. In Bangladesh, it was only in 2004 that a PRSP was produced; looking back, one can see that the four selected sectors were included in the list of twelve priority themes and sectors of the strategy.

hardly discussed with the recipient government – if at all – but was determined unilaterally by the Netherlands.

*b) The added value of Dutch aid compared to contributions by other donors*

Although ‘added value’ was not defined precisely, the policy instructions show that it related to the long-term involvement of the Netherlands in the sector concerned, the Dutch expertise and the volume of aid provided. In three sectors (water in Bangladesh, health in Zambia and the legal sector in Uganda), added value is in fact demonstrable. The strong emphasis on primary education and the rapid expansion of expenditure are, however, difficult to justify by referring to existing Dutch expertise or added value in that field. The same is true of good governance. Given the major increase in aid provided by other donors for primary education and health, it is all the more difficult to determine the added value of the Netherlands. The long tradition of support for rural development and agriculture and the expertise available in the Netherlands mean that one can point to Dutch added value in those areas; yet it is precisely here that the activities have been greatly reduced. The relevant line ministries and other donors in the countries studied have consequently expressed surprise at the fact that the Netherlands has withdrawn from the agriculture sector.

*c) Evaluation of the infrastructure for receiving aid*

The policy documents emphasise the need to produce a careful estimate and analysis of the quality of the sector policy and the institutional conditions for applying the sector-wide approach. This element in the policy intentions has hardly been implemented, if at all. In the course of actual implementation of the sector-wide approach, however, implementation capacity and institutional problems were frequently seen as a major obstacle to implementing this approach. The lack of such an analysis beforehand also makes it more difficult to monitor and evaluate implementation of the new policy on the basis of a properly documented baseline situation.

*Changes in expenditure and concentration of aid*

Concentration of aid has been achieved, by and large, in virtually all the 22 priority countries. Even in countries where there was little progress in applying the policy, there has been a clear fall in the amount of funding provided for activities not included in the sectors that were selected in 1999. In some cases, the division into sectors has been somewhat artificial, with existing activities being classified under the priority sectors. After 2003, the number of sectors was reduced even though financing continued to be provided for the activities belonging to the

scrapped sectors. This made it difficult to properly understand the composition of the bilateral aid programmes from 2004 on.

Prior to 1998, the bilateral aid provided by the Netherlands covered a large number of agricultural projects, rural development activities, and environmental projects in the broad sense (including water management, forestry and energy). The introduction of the sector-wide approach greatly reduced the share of such activities, with the emphasis shifting to education and health. This tendency was encouraged further by the selection of sectors in 2003. Experience had shown, moreover, that in the social sectors the funds provided as aid could be utilised relatively easily. There is broad agreement that these sectors form part of the public sector, within which there is generally a clear allocation of responsibilities, with government playing a major part in implementing policy. Implementing the sector-wide approach for productive sectors necessitates collaboration between the public and private sectors, with a clear division of responsibilities. For the most part, there was no such clear division, which made it much more difficult to implement the sector-wide approach. Moreover, recent evaluations had shown that the results achieved by economic programmes were disappointing, particularly in marginal rural areas.<sup>82</sup>

### 3.6 Conclusions

In over half the 22 priority countries, the conditions for applying the sector-wide approach were unfavourable because that approach did not fit in with the existing situation and trends, or did so only poorly.

The operational instructions or recommendations for choosing sectors were not followed systematically. There was no systematic prior assessment of the institutional structure in the sectors – a shortcoming that was not subsequently corrected in most of the sectors.

The decisions about sector selection were largely made unilaterally by the Netherlands. The further reduction in the number of sectors in 2003 was not even discussed with the partner countries.

The intention to concentrate the aid in sectors was achieved. The exit strategy was to a large extent completed.

82 See, for example: Sterkenburg, J. and Van der Wiel, A. (1999) *Integrated Area Development. Experiences with Netherlands aid in Africa. Focus on Development/10*. Ministry of Foreign Affairs.

The introduction of the sector-wide approach was a strong incentive to increase activities and spending in the social sectors, especially education. This trend was reinforced by the influence of the Millennium Development Goals (MDGs), the internationally agreed input goals for certain sectors and themes, and the policy priorities contained in the policy paper *Mutual Interests, Mutual Responsibilities*.

## 4 The sector-wide approach and aid modalities

### Introduction

One of the central aspects of the sector-wide approach is that it attempts to improve the way aid is coordinated with the other donors (harmonisation) and to align it more closely with the recipient government's policy and management rules and regulations (alignment). As regards the latter, one important instrument is the deployment of aid modalities that are less earmarked. Section 4.1 describes how policy on aid modalities is formulated. Section 4.2 surveys the way policy intentions have been implemented: to what extent has there been an increase in less earmarked aid modalities? Section 4.3 analyses and evaluates the deployment of the various different aid modalities. The findings mainly concern the 22 priority countries. Section 4.3 also uses data on the five case study countries to analyse the findings in greater detail.

### 4.1 Policy formulation

Dutch development cooperation had long involved a combination of different aid modalities, the main ones being project aid and budget support. In the case of project aid, funding is earmarked for clearly defined activities. Budget support is the least earmarked, being provided in the form of freely disposable foreign currencies, with the local equivalent of the amount provided being spent on the basis of the policy agreements reached.

The sector-wide approach involved developing and specifying in detail the policy on implementing less earmarked aid modalities.<sup>83</sup> The two key concepts within this context are sectoral programme aid and macro-oriented support (see Box 4.1). *Sectoral programme aid* is programme aid allocated in a single sector, whereas

83 See, for example: Ministry of Foreign Affairs/Sector-wide Approach Support Group (2000) *Beheersmatige Aspecten van de SB*. April 2000 and Ministry of Foreign Affairs/DVF/AS (2004) *Handreiking Trackrecord; Welke mate van "alignment" is mogelijk en welke hulpmodaliteiten komen hiermee overeen?*

macro-oriented support is deployed for supra-sectoral programmes or to support the general budget.<sup>84</sup>

Budget support may be general or sectoral. *General budget support* is a part of macro-oriented support and serves to support the overall policy of the partner country. *Sectoral budget support* makes a contribution to the policy of a sector or of important components of that sector. This kind of support is offered when the total macro and budget policy is deemed to be of sufficient quality but as yet offers insufficient guarantee of the desired level of expenditure in priority sectors (e.g. when the starting level of a certain sectoral budget allocation is low).<sup>85</sup> Between 1999 and 2002, Dutch policy was to shift towards sectoral programme aid as much as possible, with a preference for sectoral budget support. This implied that in the context of the sector-wide approach, the aid instruments were deployed in a sequence: from project aid to 'baskets', from 'baskets' to sectoral budget support and then, ultimately, to the final goal: general budget support. Initially, project aid was strongly discouraged.<sup>86</sup> This aid modality could only be deployed to contribute to government institutional capacity-building, or to stimulate innovations.<sup>87</sup>

The policy paper *Mutual Interests, Mutual Responsibilities* (2003) emphasised the flexible deployment of different aid modalities, with a decision being taken as regards the most effective aid modality for each country. It was again emphasised that programme aid, and where possible budget support, were the most desirable aid modalities but that preference would no longer be given to sectoral

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84 The Ministry of Foreign Affairs uses the term "structural macro-oriented support" to distinguish this from "ad hoc macro-oriented support", of which debt relief is the most common type. Structural macro-oriented support forms part of the country allocations, with the relevant decision-making being largely the responsibility of the embassy (although this is reviewed by the Ministry). When this report refers to macro-oriented support, it means structural macro-oriented support.

85 Sectoral budget support is part of the national budget, but does not always get a complete on-budget treatment (see Box 4.1). Donors usually do stipulate that their contributions are safeguarded from deductions and redeployment by the Ministry of Finance or Parliament (ring fencing). Ring fencing protects certain budget items against spending cuts or other budgetary adjustments. The result of ring fencing depends on the relative size of the donors' contributions. If this is not substantial, then the effect of such protection is only minor: the donors' contributions are protected, but the national contributions are not.

86 Speech by the Minister for Development Cooperation during an ambassadors' conference in January 1999 (SC-014/99).

87 Ministry of Foreign Affairs, Sector-wide Approach Support Group (2000:9-13): *Sector-wide approach. Working document*.



budget support.<sup>88</sup> As delegated budget holders, the embassies were basically free to decide on a combination of aid modalities, which might differ from year to year. A year later, the internal policy memorandum produced by the Sector-wide Approach Support Group advocated relaxing the previous instructions:

*'After the sector-wide approach was introduced, it was wrongly believed that projects were no longer permitted and that the intention was to quickly switch to on-budget support. This would indeed be desirable in countries where the Netherlands has sufficient confidence in the system of governance, it has not always happened.'*<sup>89</sup>

Throughout the period the core policy principle was: the more agreement between the recipient country and the donors about the policy priorities – a focus on poverty reduction – the less earmarked the aid. There was, however, a condition: that the management of the public finances of the partner country was in order, as this would guarantee that the accountability for expenditure would be as transparent as possible. Harmonisation and alignment are therefore closely linked to the choice of an aid modality. The 2003 letter to Parliament on programme aid emphasised that the main priority was the extent to which the donors aligned the aid they provided with the policy and financial management frameworks of the government in the partner country. In the case of full alignment, the aid modalities deployed would be 'on budget', i.e. considered to constitute an integral part of the budget of the recipient country.<sup>90</sup> Since 2004, the policy of the Netherlands has been to link the policy and financial management of the partner country directly to the aid modalities provided. There were three categories of alignment: complete alignment, partial alignment and non-alignment. The associated forms of funding were grouped in the same way (Figure 4.1).<sup>91</sup>

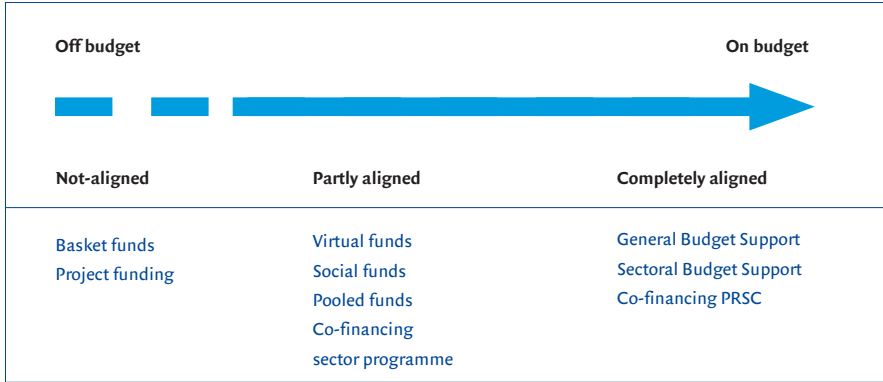
88 The inter-ministerial policy study (2002–2003 round, no. 1), *Final report of the working party on effectiveness and coherence of development cooperation*, had recommended that all off-budget aid (such as project aid) should be converted into "on-budget aid", which would directly benefit the budget of the recipient country. The response to this in *Mutual Interests, Mutual Responsibilities* was: "Adopted as regards the main points, but on the basis of flexible deployment depending on the situation and effectiveness and with the regular three conditions for budget support" (Annex VI).

89 Sector-wide Approach Support Group (2004). *Growth Document*, p.8.

90 Report on programme aid 2003; Letter to the Lower House, 26 April 2004, p. 10.

91 Sector-wide Approach Support Group (2004) p. 18. The features of each type were discussed in the context of *Harmonisation in Practice*. It was agreed that – for the purpose of "Joint Financing Agreements in support of SWAs" – it was necessary to determine whether an aid modality was "completely aligned, partly aligned or non-aligned".

**Figure 4.1** Aid modalities and extent of alignment



**Box 4.1** Concepts related to aid modalities

Delegated structural bilateral aid is the bilateral aid given via the embassies, plus the structural macro-oriented support. All forms of funding for aid that are not directed at a specific activity or project can be indicated as ‘less earmarked forms’ of funding or programme aid.

Sectoral programme aid is programme aid that is allocated to an individual sector. This may consist of:

- a financial contribution to the budget for a sector (sectoral budget support);
  - a contribution to a communal fund on the basis of a financial management framework agreed between the recipient country and donors (basket funding);
  - co-financing of sector-wide reform programmes (e.g. with the World Bank).
- Structural or regular macro-oriented support is programme aid that is not allocated to individual sectors. Forms of macro-oriented support are:
- contributions to social funds;
  - supra-sectoral reform programmes;
  - general budget support, which aims to support the development policy of the partner country by contributing to the budget.

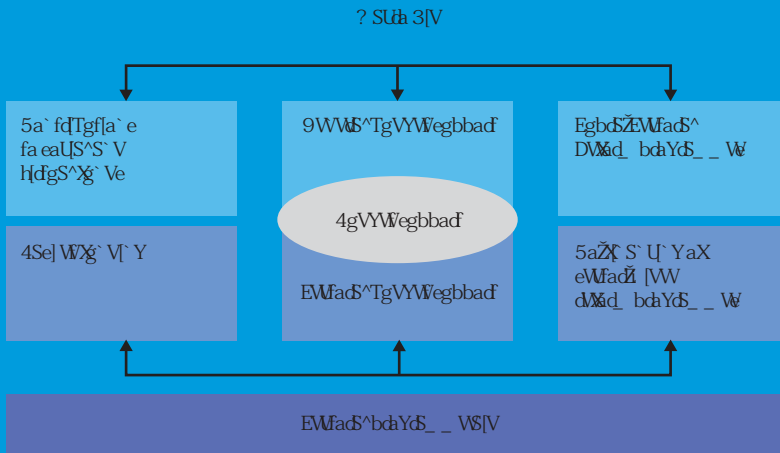
Social funds are generally multisectoral and focus on poverty reduction by investing in the social sectors. Social funds have their own implementation and management apparatus.

Virtual funds do the same, but do not have their own implementation apparatus.

The supra-sectoral reform programmes aim at institutional strengthening, such as the reform of the public sector. They include the co-funding of the World Bank’s

Poverty Reduction Support Credits (PRSC). The PRSC is the only form of credit given by the World Bank that is not based on specific programmes or projects but is intended to support planned government expenditure on poverty reduction.

### Aid modalities



Ad hoc macro-oriented support does not form part of delegated bilateral aid and in recent years has contributed primarily to debt relief.

Support is classified as ‘on-budget’ if it (a) meets the mandate of the parliament of the recipient country to amend/adopt the government budget and to exercise control of its implementation and (b) is the responsibility of the recipient government and consequently is in accordance with the existing legislation, regulations and procedures for management and implementation.

Fiduciary risk assessment estimates the risk of the funds provided not being used as planned according to the government budget as a result of deficiencies in financial management, restrictions in implementation capacity, or poor accountability.

Whether or not budget support was an option in a given country depended on the embassy’s assessment of the risks. The risks were assessed mainly by reviewing the quality of socio-economic policy, and the quality of governance in general and of financial management in particular. In order to produce this estimate, the embassies made use of two instruments. The track records and fiduciary risk management were introduced in 1995 to decide whether a country qualifies for macro-oriented support. They have since been adapted a number of times and serve to

systematise the embassy's views of such important aspects of government policy as the economy and trade, public administration, politics and governance, and they conclude with a formal judgement. Up to the end of 2003, a partner country's track record indicated whether it qualified for budget support; since 2004 it has been extended to cover eligibility for all aid modalities. Currently, it comprises four criteria: poverty reduction, economic policy, management of public finances and quality of governance, and policy dialogue and harmonisation. As part of its analysis, the embassy must now link the scores, the extent of alignment possible, and the aid modalities to be deployed. The second instrument was a specific risk assessment carried out by the donor community in the partner country. In most cases, this formed part of the standard *Country Financial Accountability Assessment*, which is restricted to the government's financial and administrative management and is carried out by the World Bank.

#### 4.2 The deployment of less-earmarked aid

Evaluation of policy implementation focused on whether there has been progress in deploying less-earmarked aid. In order to determine this, the following indicators were used:

- a) The increase in overall programme aid: the sum total of structural macro-oriented support (of which general budget support is the most important component) and sectoral programme aid. This gives a general idea of progress in deploying less-earmarked aid.
- b) The increase in sectoral programme aid so as to clarify progress in deploying less-earmarked aid modalities within the sectors.
- c) The increase in general budget support, so as to clarify progress in deploying modality considered most desirable in Dutch aid policy.

##### a) Programme aid

Between 2000 and 2004, total bilateral aid to the 22 priority countries amounted to more than EUR 2.8 billion. The proportion of programme aid included in that figure rose from 37% in 2000 to 47% in 2004 (Table 4.1).<sup>92</sup>

<sup>92</sup> Ad hoc macro-oriented support, which is provided in addition to bilateral aid (for example in the context of debt relief), has not been counted. If ad hoc macro-oriented support is counted, then the proportion of programme aid provided to the 19+3 countries fell from 65% in 2000 to 47% in 2004. After 2003, ad hoc macro-oriented support played hardly any further role. Debt relief can only be compared with programme aid, however, if repayments are actually made on the reduced debt. For further details of this argument, see: IOB (2004). *Resultaten in internationale schuldverlichting*.

**Table 4.1** Programme aid in bilateral aid, 22 countries, 2000–2004

EUR 1,000,000	1999	2000	2001	2002	2003	2004	Total 2000– 2004
Macro-oriented support	40	84	123	120	126	121	574
Sectoral programme aid	n/a	107	171	156	108	141	683
Total programme aid	n/a	191	294	276	234	262	1,257
Total bilateral aid	334	512	586	622	557	562	2,839
Proportion of total programme aid in bilateral aid	n/a	37%	50%	44%	42%	47%	44%
Proportion of sectoral programme aid in bilateral aid	n/a	21%	29%	25%	19%	25%	24%
Total allocated to sectors	n/a	357	376	413	368	383	1,898
Proportion of total bilateral aid allocated to sectors (i.e. incl. project aid)	n/a	70%	64%	66%	66%	68%	67%

Source: IOB Database. Many figures for 1999 are unavailable (n/a).

The totals given fail to show the differences among countries (see Table 4.2). In ten countries, more than half the bilateral aid was devoted to programme aid; in Ghana, Mali and Uganda, it was in fact two thirds or more. At the same time, programme aid accounted for less than a third of the total in nine countries. In thirteen of the 22 priority countries, programme aid still represented more than half of total bilateral aid.<sup>93</sup> In six countries, project aid in fact increased after the sector-wide approach was introduced.

93 The classification followed here is the official one used in the policy for the sector-wide approach. Project aid is therefore in fact taken to be the aid modalities that do not belong to sectoral programme aid or macro-oriented support. This does not alter the fact that the activities not forming part of sectoral programme aid include a number of different variants: funding for a strictly defined project target but also support of a more general or programmatic nature. Because basket funding is not always classified consistently, one can give a number of examples of cases in which the distinction between sectoral programme aid and project aid is by no means cut and dried. So as to apply the same criterion to the whole list, the official figures have been used as incorporated in the programme aid letters sent to Parliament.

The reasons for the high proportion of project aid are as follows:

- 1) In countries with as yet little experience with the sector-wide approach, the preparation for sector support was in most cases a slow process. Projects that fell within the selected sectors by virtue of their theme were continued. Some new projects were started with the aim of supporting the sector policy, but could not be incorporated in the budget of the recipient government. Another reason for opting for project funding was the fear that delays in the application of the sector-wide approach would lead to a sharp fall in expenditure.<sup>94</sup>
- 2) The thirteen countries that also had a low (less than 20%) percentage of programme aid in 2004 were deemed by the embassies to lack the conditions required to switch to far-reaching forms of alignment. Project funding was therefore largely maintained within the priority sectors.
- 3) For special programmes that were linked with input aims (e.g. HIV/AIDS and water), project aid was regularly given outside the chosen sectors.

*b) Sectoral programme aid*

In the period from 2000 to 2004, sectoral programme aid accounted for just under a quarter of total bilateral aid.<sup>95</sup> That proportion increased slightly over time without any clear trend being apparent, for the same reasons as were given above to account for the large proportion of project aid.

As the percentage of sectoral programme aid influences the percentage of general budget support, and vice versa, the increase in sectoral programme aid is primarily a relevant indicator for the fourteen countries that received no general budget support in 2004. In seven of these the sectoral programme aid increased; in the remaining seven it fell. In eight countries the sectoral programme aid accounted for less than 10% of the total bilateral aid.

When one compares the three forms of sectoral programme aid (sectoral budget support, basket funding and co-financing with the World Bank), it is striking that the relative importance of these components is approximately the same over the whole period. There were however some striking changes over time. The proportion of co-financing with the World Bank fell sharply, from more than half of sectoral programme aid to only about 12%. Precisely the opposite applied to basket

94 This was the case, for example, in Burkina Faso. See: Hendrix, H. (2001). *Sectorale benadering en programmahulp*, memo for meeting of heads of international cooperation, 22 February 2001.

95 The fluctuations in the amounts for the various years are partly to do with whether some large-scale programmes were booked in one year or the next. The analysis must therefore be based on the medium-term trend.

funding, which increased from some 11% to almost 50%. It should be noted in this connection, however, that the criteria for basket funding are not sharply delineated and that the distinction introduced after 2004 between basket funding (not aligned) and actual 'pooled' funding ('on budget', see Figure 4.1) is not reflected in the records of aid modalities.<sup>96</sup>

Sectoral budget support – the aid modality that was most compatible with the sector-wide approach according to the policy documents – was rarely applied in practice. During the 2000–2004 period, sectoral budget support came to EUR 204 million and accounted for only 8% of the bilateral aid to the 22 countries (Table 4.3). Only in Uganda, South Africa and Ghana did sectoral budget support account for over 40% of total Dutch aid.

**Table 4.2** Programme aid, sectoral programme aid and general budget support per country in percentages of the total bilateral aid in 2000–2004

Country	Proportion of programme aid 2000–2004	Proportion of sectoral programme aid in 2000	Proportion of sectoral programme aid in 2004	Proportion of general budget support in 2000	Proportion of general budget support in 2004
Uganda	82.0	41.1	22.1	0.0	69.9
Ghana	76.7	27.6	48.2	0.0	25.6
Mali	66.3	13.8	47.7	37.9	28.7
Zambia	64.2	33.3	56.7	0.0	0.0
Tanzania	59.6	24.9	27.0	0.0	23.7
Macedonia	58.4	0.0	4.1	0.0	0.0
Bolivia	56.9	19.3	44.6	0.0	17.5
Mozambique	55.3	4.3	31.7	19.7	51.4
South Africa	53.3	48.9	61.2	0.0	0.0
Nicaragua	45.8	0.0	1.2	0.0	50.3
Burkina Faso	44.4	0.0	2.7	0.0	38.9

<sup>96</sup> If the new distinction between aligned and non-aligned were to be applied, the proportion that was non-aligned would be much higher than according to the criterion currently used for programme aid (see Figure 4.1).

**Table 4.2** Programme aid, sectoral programme aid and general budget support per country in percentages of the total bilateral aid in 2000–2004

Country	Proportion of programme aid 2000–2004	Proportion of sectoral programme aid in 2000	Proportion of sectoral programme aid in 2004	Proportion of general budget support in 2000	Proportion of general budget support in 2004
Benin	40.9	0.0	88.4	0.0	0.0
Vietnam	36.2	6.1	15.7	0.0	0.0
Indonesia	30.1	47.7	0.0	0.0	0.0
India	27.7	10.4	0.0	0.0	0.0
Bangladesh	20.4	19.7	17.0	0.0	0.0
Eritrea	14.3	46.2	0.0	0.0	0.0
Yemen	13.2	0.0	13.2	0.0	0.0
Rwanda	12.6	0.0	14.8	0.0	0.0
Sri Lanka	10.9	17.4	8.0	0.0	0.0
Ethiopia	10.3	34.0	9.8	0.0	0.0
Egypt	9.7	2.0	0.0	0.0	0.0
<b>Total</b>	<b>44.4</b>	<b>20.9</b>	<b>25.2</b>	<b>3.1</b>	<b>18.0</b>

Source: IOB Database. Ranked according to proportion of programme aid (comprising sectoral budget support, sectoral programme aid and sector cross-cutting programme aid).<sup>97</sup>

### c) General budget support

General budget support accounted for 19% of the macro-oriented support in 2000. By 2004, this figure had risen to 81%. There were sharp falls not only in the support to social funds, but also to the co-funding with the World Bank of supra-sectoral reform programmes. Table 4.3 shows that the proportion of general budget support in total bilateral aid to the 22 priority countries rose from 3% in 2000 to

<sup>97</sup> The very low percentages of sectoral programme aid for Burkina Faso and Nicaragua were due to the fact that in 2004 only EUR 740,000 for the education programme in Burkina Faso and EUR 225,000 for the SWAP Health Development Fund in Nicaragua were classified as such. For both countries, the expenditure classified as sectoral programme aid in 2003 was higher: in Nicaragua, EUR 1 million in sectoral budget support was provided for health and in Burkina Faso EUR 3.5 million for education.





Wall art and graffiti against corruption in Uganda. Photo: Roel Burgler/Hollandse Hoogte.

18% in 2004. The table also shows that total budget support (i.e. sectoral budget support plus general budget support) for the period from 2000 to 2004 increased from 8% to 28% of total bilateral aid.

**Table 4.3** Budget support in bilateral aid, 22 priority countries, 2000–2004

EUR 1,000,000	2000	2001	2002	2003	2004	Total 2000 - 2004
Sectoral budget support (incl. sector cross-cutting)	24	26	60	36	59	205
General budget support (structural)	16	60	59	86	101	322
Sectoral plus general budget support	40	86	119	122	160	527
Proportion of general budget support in the total bilateral aid	3%	10%	9%	15%	18%	11%
Proportion of sectoral plus general budget support in the total bilateral aid	8%	15%	19%	22%	28%	19%

Source: IOB Database.

In 2000, budget support was provided to only two of the 22 priority countries, but by 2005 that number had risen to eight.<sup>98</sup> Table 4.4 gives details of the general budget support for these countries.

The country receiving most general budget support was Mozambique; it was followed by Tanzania and Burkina Faso. In 2004, general budget support to Uganda, Nicaragua, and Mozambique accounted for over half of total Dutch aid to these three countries. In Burkina Faso, the general budget support provided was subject to a far-reaching form of harmonisation: a general framework for budget support for 2005 was created for the implementation of the PRSP and accepted by the government and all the participating donors, including the European Union and the World Bank. In the case of Zambia, the Netherlands and other donors signed a Memorandum of Understanding in 2005 for the provision of general budget support. EUR 5.7 million has been budgeted for this purpose for 2006.

**Table 4.4** Budget support in bilateral aid, 22 priority countries, 2000–2005

EUR 1,000,000	2000	2001	2002	2003	2004	2005	Total 2000– 2005
Benin				3,354		2,000	5,354
Bolivia*				10,000	5,000	(700,000)	15,700
Burkina Faso		6,807	12,767	10,346	12,842	15,000	57,726
Ghana		6,534	8,781	7,153	10,000	10,000	42,468
Mali	9,091	9,076			10,000	10,000	38,167
Mozambique	6,818	10,074	14,688	20,000	18,000	16,000	85,580
Nicaragua					8,650	9,000	17,650
Tanzania		16,011	15,088	25,324	14,591	10,000	81,014
Uganda			7,500	10,000	21,800	15,900	55,200
	<b>15,909</b>	<b>48,502</b>	<b>58,824</b>	<b>86,177</b>	<b>100,883</b>	<b>88,600</b>	<b>398,895</b>

\* The general budget support to Bolivia was terminated in 2005. The sum mentioned is a balance from 2004 and therefore Bolivia has not been included in the calculations for 2005.

In Uganda a special form of general budget support was applied from the beginning of 2003. The sectoral budget support to the education sector was converted into general budget support, but with ‘notional earmarking’. This entailed expressing a preference for the budget support to be allocated to education and making continuation of the budget support conditional on progress in a number

<sup>98</sup> In 2005, general budget support was not given to any other partner country that had been added to the list in 2003, so it can be argued that this aid modality is being applied in 8 of the 36 partner countries.

of agreed performance indicators, some of which were related to the education sector.

In 2005 the situation relating to general budget support changed in both Bolivia and Uganda. In Bolivia the general budget support anticipated for 2005 was scrapped, for three reasons: the lack of a PRSP, much healthier government finances (the deficit fell to less than 3% of the GNP) and the unstable political situation in the country.<sup>99</sup> In Uganda the poor policy results and growing disquiet about the political developments related to the 2006 elections resulted in donors freezing or terminating general budget support. The United Kingdom's decision to terminate aid in March 2005 was followed in November of that year by the Netherlands deciding to freeze funding. As a result, only EUR 15.9 million of the EUR 21.9 million anticipated was paid out in 2005. The funds made available in this way were spent on humanitarian aid in northern Uganda.<sup>100</sup>

### 4-3 Analysis and evaluation

#### *The deployment of less-earmarked aid*

In the past five years, there has been a tendency to deploy aid that is less earmarked, largely due to the increase in general budget support. There is a distinction between countries where a trend towards more programme aid and less project aid is evident and countries where project aid is not being reduced and still constitutes the lion's share of bilateral aid. Each of these two groups makes up approximately half the original 22 priority countries. In practice, there are three major obstacles to providing less earmarked aid: concern about the effectiveness of such aid (and lack of evidence of its effectiveness), a lack of confidence in the transparency of the budgeting system, and doubts about the implementation capacity of the partner country's government.

#### *The distinction between the different aid modalities*

In introducing the sector-wide approach, the Ministry had developed a detailed range of different aid modalities, each with its own conditions and features. In actual practice, the distinctions between the different types were not very clear-cut. The term 'basket funding' was in fact a collective term for a number of very different arrangements, not all of which merit the term. Many variants have been

99 Annual Plan 2006 for the Dutch embassy in La Paz.

100 Letter from the Minister for Development Cooperation to the Lower House dated 21 November 2005 re: developments in Uganda.

found in practice, although in most cases, the programmes concerned were in fact financed jointly but without funds actually being pooled and with each donor keeping separate records and administration. Projects involving several donors therefore quickly came to be referred to as programmes with basket funding, and co-financing with the World Bank could switch to basket funding almost imperceptibly.

The distinction between sector funding and supra-sectoral funding was just as unclear.<sup>101</sup> The embassies found themselves wrestling with these distinctions and tended to classify aid as sectoral programme aid, even if it did not comply with the necessary conditions. The designations in the Ministry's registration system were not always correct and were amended in the light of policy changes, for example the policy paper *Mutual Interests, Mutual Responsibilities*, without there being any real change in the type of funding concerned.

### *Sectoral budget support*

There are various reasons why the deployment of sectoral budget support remained limited. In most cases, the embassies kept to more earmarked aid modalities, because it was considered that the conditions for the sector-wide approach were not sufficiently met. Sectoral budget support was found to be difficult or impossible to apply if the institutional framework was lacking (water in Bangladesh, legal sector in Uganda).

At a number of embassies there were objections to the aid modality itself. In Burkina Faso and Uganda, for example, the embassies considered that this modality offered insufficient opportunities to consider supra-sectoral problems, such as the government's procurement policy or the policy regarding civil servants' wages. Furthermore, the drawback of fungibility of sectoral vis-à-vis general budget support was stressed. For this reason, in Burkina Faso it was decided to switch directly to general budget support. In Uganda, partly for these reasons, the sectoral budget support for education was converted into general budget support, but the embassy remained actively involved in discussions about sector policy. The embassy continued to give support for decentralisation (Local Government Development Programme) in the form of sectoral budget support because, far

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<sup>101</sup> In Zambia, basket funding was wrongly referred to as sectoral budget support. This has been rectified (together with other errors) in the overviews of the country studies. The data for 2003 and 2004 are more reliable because after 2002 the classification of modalities was monitored to some extent.

more than was the case in education, this fund was ring fenced and directly aimed at financing the development programmes of the districts.

A further disadvantage was that sectoral budget support may disrupt integral financial management. In Uganda it was found that donor contributions led to the spending ceiling per sector laid down in the government's medium-term expenditure framework being exceeded. As a result of such an overrun, the Ugandan contribution to the sector in question was reduced. The funds that thus became available were then used by the Ugandan government for other purposes, one of which was to increase the defence budget. In other countries, donors sometimes demanded special constructions within the national budget so as to safeguard contributions made to specific sectors against general measures taken by the Ministry of Finance.<sup>102</sup>

Despite this, sectoral budget support has not been abandoned. The embassies in some countries believe that in contrast to general budget support, this modality enables them to be more technically involved in sector policy and improves the effectiveness of policy dialogue. In the case of general budget support, the emphasis is much more on macroeconomic issues. In Bolivia, sectoral budget support has once more been applied as an aid modality in the education sector since 2004, even though not all the relevant requirements have been met.

When monitoring the sector-wide approach and the sector assessment system, progress was measured according to the prospects for sectoral budget support. As part of total Dutch bilateral aid, however, sectoral budget support remained restricted, coming to approximately 8% of total bilateral expenditure for the whole period from 2000 to 2004. The initial emphasis on this modality – one which in fact did not exist before the introduction of the sector-wide approach – can be considered as a case of 'teething troubles' diagnosed as far back as 2001 but not remedied.

### *General budget support*

In this evaluation, the decision-making on general budget support has not been analysed separately, partly because doing so would go beyond the remit of this

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<sup>102</sup> If donors earmark aid and concentrate it in a restricted number of sectors (education and health care), the country's own expenditure can be shifted to sectors enjoying less external support. In many cases, the donors and the partner country agree on specific percentages for a country's "own" expenditure (such percentages may also be imposed). In practice, however, this may lead to "contamination" of the budget. See, for example: Frantz, Mpuku and Wright (2004:13).

study but also because IOB – together with other donors – is carrying out a separate evaluation of that type of support.<sup>103</sup> The findings produced by the case studies nevertheless allow us to make a number of remarks regarding decision-making.

The decision on whether to switch to budget support was substantiated by the embassies by assessing the quality of the country's policy and governance (its 'track record'). Recurring dilemmas included their assessment of the quality of management of public finances and the transparency of the budgetary process.<sup>104</sup> In most of the countries qualifying for general budget support, management of public finances is seen as weak, with corruption being a major problem. Given those circumstances, budget support was justifiable because efforts could be made to improve matters: by imposing conditions via the dialogue associated with aid and by monitoring. Providing budget support allowed the Netherlands to participate in discussion on such supra-sectoral problems as good governance. In the case of Uganda, this meant that representatives of the Netherlands could engage in talks with the country's government on corruption, defence spending, human rights, the conflict with neighbouring countries, and other problems.

It remains difficult, however, to objectify the conditions set in the track record. It is not always clear why one country qualifies for general budget support while another does not. In the case of Zambia, despite effective donor coordination the Netherlands continued to hold off on providing budget support – even though other donors, including the European Union, did provide it. Uganda and Zambia scored equally well – or badly – in the area of good governance, with each of them in the bottom ten countries on the Transparency International Corruption Perceptions Index. The difference between the two countries was that there was consensus among the donors as regards confidence in the Ugandan government's policy, whereas there was no such consensus in the case of Zambia.<sup>105</sup> The Netherlands now (2006) in fact provides budget support to Zambia.

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103 *Joint Evaluation of General Budget Support 1999–2004.*

104 Just how wide the differences in opinion could be is shown in the case of Ghana, where the country's good track records were partly contradicted by the sharp criticism levelled at the budgetary process and its transparency in a study by the ODI: Killick, T. (2005). *The politics of Ghana's budgetary system.* CDD/ODI Policy Brief No 2. November 2005. There is, nevertheless, broad agreement between donors as regards the decision-making on general budget support.

105 This is less harsh than it may seem because the *Country Integrated Fiduciary Assessment* (World Bank CIFA, 2004) concludes that the risk in Uganda continues to be "high".

The assessment on the basis of the criteria is not always decisive in actual practice, and other motives may play a role. In Bolivia, for example, the embassy justified the provision of general budget support in 2003 and 2004 as a response to economic and political emergencies resulting from the government's shaky position caused by deep-rooted social problems. The agreements made with the government turned out to be valid for only a short time because of the rapid changes of government that took place. Budget support was discontinued after 2005. In Uganda, the government's interest in acquiring budget support was explicitly made clear to the donors but by no means all recipient countries shared such an interest. Like other donors, the Netherlands responded favourably to Uganda's request for budget support. In 2004, after three years, almost 70% of Dutch aid was offered in the form of budget support. The country study of Uganda raises questions about this rapid pace.<sup>106</sup> Budget support was frozen at the end of 2005 but signs were already apparent in 2004 that the political and economic situation was rapidly deteriorating. An oft-heard criticism in discussions of budget support was that the assessment relied too heavily on technical arguments and too little on political and economic arguments. In relation to the developments in Uganda and Bolivia, political analyses indicate that the signs of a deteriorating situation had been visible earlier.<sup>107</sup> With respect to the freezing of the general budget support in Uganda, it was commented that it was not that the nature of the regime in Uganda changed, but that the donors systematically made an overoptimistic assessment of the conditions for general budget support.<sup>108</sup>

In the case of general budget support, harmonisation via a multi-donor approach is important in order to restrict the fungibility that also occurs between donors. In virtually all cases of general budget support, harmonisation turned out to be effective. In Uganda, the donors were largely in agreement about the approval of general budget support but the decision to freeze it was not taken jointly. The effect of the decision to freeze the aid was, moreover, partly reversed because the

<sup>106</sup> Interviews with those then responsible at the Dutch embassy show that the critical remarks in the country report carried out for the purposes of the present study took too little account of the fact that the negative developments could not necessarily be foreseen and that on the basis of the existing tools (track records) there were valid reasons for switching to general budget support. The intention was specifically to bring about a breakthrough as regards overhauling aid; to achieve such modernisation, one needs to be prepared to take risks.

<sup>107</sup> "It was a late reaction to a foreseeable event. Political and historical analysis could have led to a much sounder appraisal of the likelihood of such a crisis taking place, possibly avoiding today's need for such drastic measures." (Michela Wrong and Richard Droven in open democracy, posted on the ODI website on 26 January 2006. See also the literature about the political economy of Uganda cited in the Uganda case study. For similar arguments relating to Bolivia, see the references in the case report to the CAS evaluation by the World Bank (2005) and the series of evaluations of the PRSP commissioned by SIDA and carried out by the Institute of Social Studies (2003–2005)).

<sup>108</sup> Joint Evaluation of General Budget Support 1994–2004 (2005). 54.

IMF continued the policy of debt relief under the Multilateral Debt Relief Initiative that the G8 countries had previously agreed on.<sup>109</sup>

The connection between good governance and less earmarked aid

The correlation between the quality of a partner country's policy and governance on the one hand and the provision of budget support on the other was in fact weaker than might have been expected on the basis of the track records. Although analyses have shown a positive correlation between the track record scores for financial, social and economic policy and the provision of budget support, the correlation is weak when it comes to explaining the extent to which budgetary support was provided.<sup>110</sup> The correlation between the score for poverty reduction and budget support also turned out to be weak (0.27); countries with a higher score for poverty reduction were not rewarded with budgetary support (or more such support). The assessment for good governance did, however, have a reasonable explanatory value (0.58–0.63). The decision to provide budget support was determined by the confidence in a country's government (apparent from its track record) and the assessment regarding good governance rather than by the extent of agreement with the government's policy.

#### 4.4 Conclusions

As a percentage of bilateral aid, total programme aid to the 22 priority countries increased from 37% in 2000 to 47% in 2004. This might suggest that Dutch aid overall is less earmarked and has consequently become more aligned. In over half of the 22 priority countries, however, the intention to give less earmarked support was not achieved and project aid is dominant.

In 2000, only two countries were still receiving general budget support; five years later, the figure was eight. The extent of general budget support rose from 3% in 2000 to 18% in 2004. In 2005, general budget support fell back somewhat. There was therefore an increase in the number of countries receiving general budget support, although this aid modality did not become the norm. The policy of caution in providing this aid modality would seem to be a sensible one. It turned

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109 For a response to this, see the interview with the Head of Development Cooperation at the Dutch embassy in Kampala, A. Dellevoet, in *Internationale Samenwerking*, February 2006, p.44.

110 Wil Hout. Report on IOB follow-up study *Selectiviteit en Sectorale benadering*, 2005. The correlation coefficients are an expression of the extent to which an increase in the scores for a single variable are associated with an increase or decrease in another variable. In the first case (an increase in a variable is associated with an increase in the other variable), the correlation coefficient has a plus sign; in the second case (an increase in one variable associated with a decrease in the other variable), the correlation coefficient has a minus sign. Complete correlation has a coefficient of 1.



out in a number of case study countries that the political situation can quickly change, making an originally positive risk assessment invalid. In such an event, all that can be done is to suspend the provision of aid because it is then very difficult to switch back to aid modalities that are more earmarked.

The Ministry had made a detailed distinction between the forms of funding and the criteria for a particular aid modality. In practice, however, the distinction between these different types turned out not to be so clear-cut, and the relationship between the aid modality and the expected effect was therefore also less transparent than expected. In a certain sense, this fine tuning maintains an illusion of control that does not fit in with the reality in the recipient countries.



## 5 Application of the sector-wide approach in the sectors

### Introduction

This chapter deals with the implementation of policy in the sectors supported by the Netherlands. At this point in time after the introduction of the sector-wide approach, it is possible to draw up an interim ‘balance sheet’. The first five sections deal with progress in implementing the sector-wide approach in each sector. The final section, Section 5.6, analyses and evaluates the various findings. This chapter deals with the sectors supported by the Netherlands in the five countries selected for evaluation.

### 5.1 Primary education in the five case study countries<sup>111</sup>

#### *The initial situation*

The Netherlands was providing support for education programmes long before the introduction of the sector-wide approach. However, the extent to which education was prioritised – expressed as a percentage of bilateral aid expenditure – was restricted; it did not amount to more than 20% in any of the countries. Projects involving formal primary education, literacy and adult education were supported in all the countries, generally via NGOs. Most of the aid provided for primary education was earmarked for specific poor regions.<sup>112</sup> In Bolivia, Dutch aid for formal primary education had been channelled via the Ministry of Education since 1997 and in the three African countries too, there was a trend from the late 1990s towards providing programme support via the central government.<sup>113</sup>

<sup>111</sup> Although the general designation “education sector” is used a number of times, it was mainly formal primary education that was involved during the period evaluated here.

<sup>112</sup> In Uganda, aid focused on the north of the country, where the civil war had badly affected the education infrastructure. In Zambia, it focused on the Western Province and in Bolivia on El Alto (an impoverished satellite town of La Paz).

<sup>113</sup> In Bangladesh, support had already been provided for the central government’s education programme in the 1980s.

When sectors were being selected, the embassies indicated that the education sector met the conditions for applying the sector-wide approach. All the countries had a detailed sector plan and also an implementation plan (or such a plan was at an advanced stage of preparation).<sup>114</sup> These plans provided a long-term policy framework with which aid could be aligned. In three of the five countries, there was a suitable institutional framework.<sup>115</sup> Bangladesh was an exception because the Dutch embassy initially considered that the prospects for adopting a programme-oriented approach were restricted and that there were insufficient guarantees that the money would be properly utilised. For this reason the existing aid programme supporting the education activities of various large NGOs such as BRAC was continued.

### *Progress in applying the sector-wide approach*

Progress was made in all countries in applying the sector-wide approach: there is a broad policy framework for primary education; there is a common financial framework; the annual plans and budget are approved through joint consultation; and joint reporting and evaluation take place. The quality of the policy frameworks – as assessed both by the embassies and according to the OECD-DAC criteria – is generally satisfactory, something confirmed in the joint donor evaluation of primary education.<sup>116</sup>

The introduction of the sector-wide approach brought about a rapid change in the nature of Dutch aid to the sector. Most of the aid is channelled via the central government and the direct aid to the poor provinces or for specific target groups has been cut back. In the case of Uganda, the upshot was that all aid to the sector was incorporated in the national education programme, while in Bolivia virtually all aid was concentrated there.<sup>117</sup> In Burkina Faso and Zambia, aid was focused on programmes run by the national government but projects were also supported. In Zambia, for example, funding was provided for some strategic NGOs that work with village schools and promote education for girls. A vocational education pro-

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114 In Bolivia this was the Programme for Educational Reforms that had been being implemented since 1994. In Burkina Faso there was the Ten-Year Plan for the Development of Primary Education (*Plan décennal de développement de l'éducation de base*, PDDEB), dating from 1999. Uganda had had the Education Strategic Investment Programme (ESIP) since 1997 and in Zambia there was the Basic Education Sub-Sector Investment Programme (BESSIP), implemented in 2000.

115 Zambia was an exception: here, four ministries were involved with education. Primary responsibility for primary education rested with the Ministry of Education.

116 Netherlands Ministry of Foreign Affairs, 2003. *Joint Evaluation of External Support to Basic Education in Developing Countries*, with country studies of Bolivia, Burkina Faso, Uganda and Zambia.

117 The only other programme encourages Indian organisations to participate in educational reform. In 2004 the existing programme for support to the agriculture faculties of certain universities was incorporated in the education sector; this programme was originally to have been phased out.



Bolivia, Amazon basin, San Borja, April 2004. In this small village school for Chimani Indians near San Borja the teaching is bilingual and the classes are of mixed ages. Photo: Bart Eijgenhuijsen/ Hollandse Hoogte.

gramme was also financed in collaboration with Denmark and the World Bank. In Bangladesh, these changes took place later. In 2004, the Netherlands and a consortium of other donors decided to support the new national primary education programme (PEDP II). The support given to education programmes via NGOs continued in parallel with this.<sup>118</sup>

Until 2004, the support was restricted to formal primary education, in all the countries concerned. The introduction of the sector-wide approach diverted some aid from alternative education and education for special groups such as the disabled and adults. Most of the programmes in that area are run by NGOs and the churches, but the introduction of the sector-wide approach has meant a significant reduction in the amount of external funding these receive.

In all sector programmes, Dutch aid was aligned with the policy of the recipient government as set out in the national plan for the primary education sub-sector and the associated budget. The Netherlands has formalised the agreements and

<sup>118</sup> The funded programme of the BRAC NGO is by no means a small-scale one: aimed at non-formal education (at 34,000 primary schools) and reaching 1.1 million children, it focuses primarily on drop-outs and on pre-school education.

obligations regarding support for the sector programmes and contributes to joint funding for the sub-sector. In Bolivia and Uganda, more than 90% of the aid took the form of programme aid; in Zambia, the figure was 52%. In Burkina Faso and Bangladesh, the percentages were much lower, namely 22% and 17% respectively. In Burkina Faso, this low percentage was the result of the meagre progress made on harmonisation and alignment in the sector. In Bangladesh, the percentage of programme aid in the education sector has risen since 2004 along with increased expenditure on the government programme.

The extent of harmonisation between the donors themselves was variable. In most of the countries concerned, joint funding was limited to a core group of donors. The most important differences of opinion between donors concerned the demands involving procurement, financial administration, and (to a lesser extent) auditing. In Uganda and Bangladesh, there was complete harmonisation; in Uganda, this took the form of the provision of multi-donor budget support, while in Bangladesh it involved basket funding with a joint account. The other countries also made use of basket funding but its effect on harmonisation differed from one country to the other. In Bolivia, there was joint funding and close cooperation between the donors participating in the basket, but the funds were not actually combined. The Netherlands imposed fewer conditions than the other donors, largely leaving the decision-making and responsibilities relating to funding to the Bolivian government. The Netherlands went further in this respect than the other donors participating in the basket. Since 2004, the Netherlands has been providing Bolivia with sectoral budget support; in 2005, it was joined by three other donors.

The extent of alignment with the government policy frameworks also differed from one country to the other. In Bolivia and Uganda, alignment was achieved to a large extent, with funding being provided via the relevant national procedures and regulations. In the other countries, the funding mechanism continued to run parallel to that of the government and sector support was not integrated into the national budgetary process. In the case of Zambia, serious consideration is being given to switching to budget support when the current programme ends in 2007. The contributions made by the Netherlands to harmonisation, alignment, and the associated aid modality in the education sector are summarised in Table 5.1.

In all African countries, progress in implementing the sector-wide approach was seriously hampered by major capacity problems. In Burkina Faso, there were serious delays in implementing the government's primary education pro-

gramme in both 2004 and 2005, which meant that the expenditure planned by the Netherlands could not take place. In Uganda, the problems in implementing the sector programmes became worse in 2005 and the Dutch embassy has expressed doubts as to whether the assumptions on which sector support is based are still valid. In Zambia, the Ministry's implementation capacity is no longer able to cope with the rapid increase in the number of pupils. In all three countries, the changes required for the next phase of educational reform have not in fact taken place. In Bolivia, implementation capacity has improved in many respects over the years but the country's recent and frequent changes of government have been an obstacle to starting the next phase of educational reform.

**Table 5.1** Dutch contributions to harmonisation and alignment in the education sector (2000–2004)

Country (total Dutch aid to sector)	Role of the Netherlands in harmonisation	Extent of alignment in donor consortium/group to which the Netherlands belongs	Aid modality*
Bangladesh (EUR 27.6 million)	Consortium of 11 donors led by the Asian Development Bank. Joint risk estimate. Code of Conduct (Netherlands initiative) covers joint technical assistance, reporting, procedures for implementing, monitoring and evaluation, and auditing.	Full-scale policy alignment; contributions are indicated in the budget (and MTEF) (but are not 'on budget'). Financial administration integrated in public sector. Tendering in accordance with (revised) national regulations. Programme approved by Cabinet.	Basket funding (17%) since 2004 (also actually pooled). Most other aid involves project funding for NGOs.

**Table 5.1** Dutch contributions to harmonisation and alignment in the education sector (2000–2004)

Country (total Dutch aid to sector)	Role of the Netherlands in harmonisation	Extent of alignment in donor consortium/group to which the Netherlands belongs	Aid modality*
Bolivia (EUR 42.0 million)	In consortium of 11 donors, Netherlands belongs to core group of four donors (2004), with far-reaching harmonisation of procedures and financial administration.	Prior to 2004, formal basket but Netherlands was sole donor to provide direct support to ministry budget (not earmarked). Separate reporting to donors did continue, however. In 2004, Netherlands was the first to sign the Memorandum of Understanding (Sweden and Denmark followed in 2005). Integration in national budget and included in MTEF (provisionally). Government implementation and reporting mechanisms.	Basket (77%) and since 2004 listed as sectoral budget support.
Burkina Faso (EUR 23.7 million)	Netherlands active in preparing and determining themes for PDDEB. Twelve donors have joint planning, reporting and six-monthly reviews, evaluation and annual auditing. Discussions with new donors for the sector in 2005 to switch to 'real' basket funding.	Recognition (by means of a <i>cadre partenarial</i> ) of PDDEB as policy basis for primary education. Three donors formed a core group (6 in 2005) but use separate accounts. Parallel administrative structure. Regional earmarking within the PDDEB.**	Formal basket but in government administration funds and expenditure per donor are linked (22%).



**Table 5.1** Dutch contributions to harmonisation and alignment in the education sector (2000–2004)

Country (total Dutch aid to sector)	Role of the Netherlands in harmonisation	Extent of alignment in donor consortium/group to which the Netherlands belongs	Aid modality*
Uganda (EUR 40.8 million)	Eight donors (including the Netherlands) have joint approach to project financing, technical assistance and budget support. The Netherlands belongs to the budget support group. ‘Silent partnership’ with United Kingdom.	Code of Conduct at national level. Full-scale integration in national policy and national budget (including MTEF).	First sectoral budget support, later general budget support with ‘notional earmarking’ (94%).
Zambia (EUR 44.1 million)	12 donors have signed a Memorandum of Understanding. Consortium of 8 donors for pool financing (for most recent programme). Netherlands pressed for sector policy and pool funding. Joint reporting, monitoring and evaluation, and auditing.	Single policy framework. Mentioned in the budget (but not ‘on budget’). Separate financial administration but government procedures apply. Consideration being given to switch to general budget support from 2007 on.	Basket (52%). A total of 7 education sector activities were still supported in Zambia in 2003. After 2003, pooled funding.

\* (proportion of sectoral programme aid in overall bilateral aid provided for the sector by the Netherlands)

\*\* The 2005 Annual Report states that the aid provided by the Netherlands follows the national procedures and is on budget but uses a separate account.

## 5.2 Health care in Bangladesh, Burkina Faso and Zambia

### *The initial situation*

In the period prior to the introduction of the sector-wide approach, the importance of the support provided for health care in the context of the bilateral programmes differed from one country to the other. In the case of Bangladesh and Zambia, for example, support for the health care sector in the period from 1996 to

1999 amounted to more than 20% of bilateral aid, whereas in Burkina Faso it was 5%.

In Zambia, support for health care had for 25 years been a high-profile component of Dutch bilateral aid and included posting doctors to district hospitals. Health care reforms in Zambia in the first half of the 1990s prioritised basic health care; this was often held up to other African countries as an example. It was only in Bangladesh and Zambia that a significant portion of aid was channelled via the Ministry of Health; in Burkina Faso, this was mainly via NGOs.<sup>119</sup>

Zambia, in particular, complied with the conditions for applying the sector-wide approach. There was a national policy framework and a sector-wide approach involving close collaboration between the government and donors.<sup>120</sup> In Bangladesh, the selection of health care was based on the government's intention of drawing up a new National Health Programme and the embassy's assessment that there was sufficient political will for the reforms to actually be implemented.

#### *Progress in implementing the sector-wide approach*

When the sector-wide approach was introduced, the embassies in all three countries attempted to concentrate the aid in the government's national programmes. In Zambia, it was possible to maintain the existing policy, with agreement being reached that funds for health care should be used to support the National Strategic Plan for Health 2001–2005. In Bangladesh the situation deteriorated after the change of government in 2001; Dutch aid was temporarily suspended, resuming in 2003. At the point when the sectors were selected, Burkina Faso had just commenced preparations to produce a national sector plan. The embassy therefore decided on a gradual approach. Aid to the districts continued, while the embassy simultaneously worked with the central government to prepare a sectoral programme. The Dutch contribution to these preparations aimed to improve the institutional and administrative conditions at the Ministry in preparation for a sector-wide approach. Support for the separate district programmes was phased out in 2004.

By the end of 2004, most of the aid provided by the Netherlands in the health care sector was concentrated in programmes run by the national government. As indi-

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119 In the years prior to the introduction of the sector-wide approach, almost 30% of Dutch aid to the Zambian health care sector was intended to support the reforms.

120 The stagnation that had begun in 1997 was considered to be temporary.

cated in Table 5.2, basket funding was provided in all three cases. Nowhere was it felt that the conditions were ripe for budget support. In Bangladesh and Zambia, there is a high proportion of sectoral programme aid, but with partial integration into the government's administrative frameworks. In both Burkina Faso and Zambia, a relatively large number of separate project activities were financed in addition to the programmes already mentioned. Most of these were projects to supply medicines, prevent tropical diseases and activities to combat HIV-AIDS. These programmes were generally not integrated in the broader sector support.

The number of donors that were in favour of joint funding and alignment remained restricted and only in Zambia was there was far-reaching collaboration between the majority of donors involved in the sector. In Burkina Faso, there was progress in 2005 with 'silent partnerships' in which France and Sweden leave a significant part of the administration and monitoring to the Netherlands. In all three countries, there was progress in policy alignment but the majority of donors have not yet integrated their contributions into the government policy frameworks. Major bilateral donors such as the United States, Japan and most UN organisations continue to require separate dialogue with the government on their 'own' funding, together with separate reporting on that funding. The stream of new initiatives in the sector regarding HIV-AIDS is a reason for separate new funding programmes. These are partly undoing the benefits of harmonisation.

As in the education sector, reporting on the sector support for health care paid a great deal of attention to organisation and administrative problems. Even though there was progress at the central level on institutional strengthening, the institutional care capacity at local level remains weak. The major increase in additional funds (HIV-AIDS, tuberculosis and malaria) imposes heavy pressure on the implementation capacity of the line ministries, particularly in the African countries.

**Table 5.2** Dutch contributions to harmonisation and alignment in the health care sector (2000–2004)

Country (total Dutch aid to sector)	Role of the Netherlands in harmonisation	Extent of alignment in donor consortium/group to which the Netherlands belongs	Aid modality*
Bangladesh (EUR 36.6 million)	Exchange of information about projects; joint reporting. No joint funding mechanism (World Bank separate plus separate projects).	Implementation according to government procedures via 'liaison' through Programme Support Office. Simpler accounting system. HPSP contribution on budget. Programme approved by Cabinet.	Basket funding 73%.
Burkina Faso (EUR 22.6 million)	WHO is main donor in the sector but the Netherlands plays leading role in the sector programme. No consensus among donors regarding joint support, but there are exchanges of information and joint field visits. Only the Netherlands and Sweden have harmonised their procedures.	Code of conduct in recognition of National Health Plan (PNDS). Financial procedures partially aligned but recorded separately and with parallel administration.	Basket funding 21%. Eleven separate project activities for more than EUR 100,000 in 2004.
Zambia (EUR 61.4 million)	The Netherlands participates in pooled funding within a larger consortium. Joint secretariat, information exchange, joint reporting, monitoring and evaluation. Pool funders also have joint tendering system and auditing.	Policy alignment: single strategic plan. Code of Conduct. Separate financial administration outside the existing government frameworks. Working towards sectoral budget support from 2007 on.	Basket funding 64%. Total of 13 project activities for more than EUR 100,000 in 2004.

\* (proportion of sectoral programme aid in total Dutch bilateral aid for the sector)

### 5.3 Rural development and agriculture in Bolivia, Burkina Faso and Zambia, and water in Bangladesh

#### The initial situation

In Bolivia, Burkina Faso, Uganda and Zambia the core of the bilateral cooperation programme had for twenty or thirty years been rural development. The support was mostly given as integrated rural development projects consisting of a combination of activities in the domain of production, and in social services and the strengthening of local government. Most activities were concentrated geographically, with the most important target group being the rural poor. None of the countries had adequate policy frameworks for rural development, or clear institutional frameworks. Furthermore, the recipient governments lacked the political will and interest to arrive at a sector-wide approach. In Bolivia, the embassy considered that the existing rural development programme was too project-oriented and that there was no proper foundation for introducing the sector-wide approach. In Zambia, the embassy had had to deal with a previous failed attempt to set up a joint investment programme for the agricultural sector.

**Table 5.3** Dutch contributions to harmonisation and alignment in rural development and agriculture (2000–2004)

Country (total aid to sector)	Role of the Netherlands in harmonisation	Extent of alignment in donor consortium/group to which the Netherlands belongs	Aid modality*
Bolivia (EUR 22.5 million)	No consensus or mutual trust between donors. Weak coordination. Six donors support SIBTA through pool funding, with joint planning, reporting, monitoring and evaluation, and audit. The Netherlands is the first to finance SBPC.	SBPC is government's own policy. SIBTA has been developed with the World Bank and IDB but World Bank has already abandoned this as a concept. Public-private partnership with administration via parallel systems. Procedures of private sector.	Basket (with genuine pooled funding) with six donors in the case of SIBTA (29%). Pool for SBPC in preparation.
Burkina Faso (EUR 36.8 million)	Joint strategy for rural development but no consensus. Ad hoc coordination. The Netherlands withdrew from the sector in 2003.	No donor-government alignment.	n/a

**Table 5.3** Dutch contributions to harmonisation and alignment in rural development and agriculture (2000–2004)

Country (total aid to sector)	Role of the Netherlands in harmonisation	Extent of alignment in donor consortium/group to which the Netherlands belongs	Aid modality*
Zambia (EUR 17.2 million)	Basis for sector programme but fragmentation after premature termination (2002). Subsequently, Dutch initiative for support for public–private partnership. Silent partnership with Norway.	Policy alignment, but no funding with the government.	Basket funding (55%)

Source: IOB Database.

\* (proportion of sectoral programme aid in bilateral aid)

NB: In Zambia, support for the public–private trusts is registered as sectoral programme aid even though no sectoral/sub-sectoral approach is involved.

### *Progress in applying the sector-wide approach*

In both Bolivia and Zambia the introduction of the sector-wide approach marked a decision to make a drastic change of course. Existing programmes were wound up as far as possible. In both countries they were replaced by public–private trusts funded (or set up) for specific tasks such as research, innovative cultivation techniques, dairy farming, and export-oriented vegetable and flower production (Zambia) or activities supported at the level of the entire production chain (Bolivia)<sup>121</sup> In both countries, the support consisted almost entirely of specific programmes and projects; no system of sector-wide support for government policy was set up. There was, however, some progress in the area of agriculture and rural development as regards harmonisation, but hardly any progress with alignment. In both Bolivia and Zambia, what is involved is in fact project funding, with a number of donors contributing to a programme. Since 1999, the Dutch embassy in Burkina Faso has been collaborating with the government to draw up a sector programme. Disagreement among the donors and the Ministry of Agriculture’s lack of political will to operationalise the sector programme led to the embassy deciding to terminate the support to the sector in 2003.

<sup>121</sup> “Old” projects continue to exist, for example that involving agricultural mechanisation, and a new project for the Southern Province was started with the FAO (2002). Both were completed towards the end of 2004. This led to hardly any reduction in the number of projects.

### Water sector in Bangladesh

In Bangladesh, the aid provided to the water sector led – until 1999 – to a large range of projects involving drinking water and drainage, water management, coastal protection and institutional strengthening, as well as a special programme for the Ganges Delta. Because of the weakness in the institutions, project aid was the most obvious implementation modality.

In Bangladesh, the sector-wide approach did not lead to any substantial alignment of Dutch aid with the activities in the sector. It was in fact only the drinking water component that was phased out. Nor were any serious attempts made to achieve a sector programme for water management because neither the government nor the donors could envisage how such a programme would fit into the government structure. The embassy concluded in 2001 that a sectoral programme for water was not realistic and in 2003 it stated that it would not apply the sector-wide approach, adopting an institutional approach instead. One influential factor was also that aid provided by multilateral donors in the water sector was exclusively project aid. Alignment in the area of water management and water supplies was restricted to the setting up of two working parties to exchange information between donors and between donors and the government. The Netherlands has chaired the water management group for many years. The support provided for the water sector was entirely in the form of project aid, even in the case of co-financing with multilateral development banks.

## 5.4 Decentralisation in Bolivia, Burkina Faso and Uganda

### *The initial situation*

Within the regional development programmes, the focus had already shifted away from socio-economic activities towards capacity building and institutional strengthening of regional and local administration prior to the introduction of the sector-wide approach. In many cases, this was associated with the new process of decentralisation that had commenced in those countries. In both Bolivia and Uganda, a policy framework had been worked out and institutional reforms had been implemented. Efforts had been made to do the same in Burkina Faso, but changes were only taking place slowly. The policy framework in Bolivia strongly emphasised the political and participative dimension of decentralisation; it was therefore actively supported by a large number of donors, including

the Netherlands. The Netherlands had been providing budget support since 1996 but experience in that regard was negative. In Uganda, the Netherlands had been directly supporting nine districts in the poorest part of the country, the north, in the 1990s. In 1997, the government had introduced local government legislation and set up a national financing fund for local development and poverty reduction. In the two latter countries, an effective framework was therefore in place for introducing the sector-wide approach.

### Progress

In Uganda, Dutch support for the districts has since 2001 been integrated into the national Local Government Development Programme, although it was originally earmarked for the nine districts, with a separate scheme for providing direct technical assistance.<sup>122</sup> The Netherlands has played an active role in this sector in harmonising donor support for decentralisation. Support for the national programme is provided in the form of sectoral budget support.

In Burkina Faso, progress has been made by converting Dutch support for the districts into support for a national programme to finance local development. This process was a slow-moving one and in 2004 introduction of the sector-wide approach was still a long way off. In Bolivia, the Dutch embassy decided to run down the programmes for providing support at local level and to switch to providing general support for the decentralisation policy. This application of the sector-wide approach was fleshed out through participation in a consortium under the leadership of the World Bank. However, the ambitious nature of the programme, conflicts within the government and the ensuing political instability meant that the programme was a failure. Since 2004, the Netherlands has been providing direct, small-scale project support to municipalities via the Federation of Bolivian Municipalities.

In both Uganda and – until 2004 – Bolivia, there was far-reaching harmonisation and alignment of aid. In Burkina Faso, no sector programme got off the ground. Core information on harmonisation and alignment is given in Table 5.4.

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<sup>122</sup> In 2000, the financing was channelled via the *Poverty Action Fund* and then via the *Development Fund for Local Government*. In 2005, EUR 4.1 million was spent on the second phase of funding.



**Table 5.4** Contributions from the Netherlands to decentralisation (2000–2004)

Country (total Dutch aid to sector)	Role of the Netherlands in harmonisation	Extent of alignment in donor consortium/group to which the Netherlands belongs	Aid modality**
Bolivia (decentralisation) (EUR 19.3 million)	Harmonisation with United Kingdom and Sweden in a number of programmes. Far-reaching harmonisation with PSAC. Disagreement between World Bank and bilateral donors, resulting in numerous, often contradictory, conditions.	Support for PSAC was policy-based lending; support for policy on basis of agreed performance targets with complete alignment with government financial management and administration.	In the case of PSAC: policy lending; other programmes: basket funding. PSAC was the main programme and involved entirely sectoral programme aid. After 2004, mainly project aid.
Burkina Faso (local development)*	Harmonisation restricted by dominant position of World Bank. Harmonisation between Netherlands and Denmark, but at local level.	Government has not succeeded in developing a sector programme that can serve as framework for further alignment of donor contributions.	n/a
Uganda (local government)* (EUR 27.2 million)	Besides the Netherlands, six other donors are providing support for the programme.	Fully aligned (Local Government Development Programme).	Sectoral budget support; only technical assistance earmarked for nine districts.

\* No specific expenditure on decentralisation was ultimately registered for Burkina Faso: this partly came under rural development and partly under good governance.

\*\* Proportion of sectoral programme aid in bilateral aid.

## 5.5 Analysis and evaluation

### The 'balance sheet' for the seventeen sectors

For the seventeen sectors selected in 1999, one can draw up a 'balance sheet' showing progress for the following groups:

- a) Good progress has been made in applying the sector-wide approach to Dutch aid in five sector programmes: the education sectors in Bolivia, Uganda and Zambia; health care in Zambia; and decentralisation in Uganda.
- b) In two sectors (education in Bangladesh and the legal sector in Uganda), there has been progress in building up sector support and applying the principles of the sector-wide approach; however, the experience gained is still too recent to be able to draw conclusions from it.
- c) In the three other social sectors (education and health care in Burkina Faso and health care in Bangladesh), Dutch aid has been aligned with the policy of the national government, although progress in harmonisation and alignment has been restricted. The aid is therefore only partly integrated in the national implementation systems. Programme support is provided but there are no prospects for budget support.
- d) In the other seven sectors, there has been little or no progress, although there is improved coordination between the various donors.<sup>123</sup>

#### *The balance sheet for each sector*

The greatest progress in implementing the sector-wide approach has been in the education sectors. Even in countries where the good governance situation at national level was unfavourable for applying the sector-wide approach (Bangladesh and Bolivia), it is notable that it was still possible to achieve progress with that approach in the education sector. One major reason for this was that in both countries those at the highest levels of central government had the political will to push through the new policy.

In health care, the support provided to the sector in the three countries does display a number of significant features of the sector-wide approach (policy framework, medium-term financial framework, sectoral programme aid) but there still a large number of restrictions on how it is applied. The embassies and other donors consider the central government to have insufficient implementation capacity and believe that funding individual programmes for specific goals offers better conditions, for the time being, for effectiveness and efficiency. The numerous specific projects for medicines and for combating malaria, tuberculosis and polio, together with the expansion of funding to combat HIV-AIDS, resulted in the aid to the sector becoming more fragmented.

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<sup>123</sup> Since 2003, it has been difficult to determine the precise number of sectors. This chapter assumes that we are dealing with the 17 sectors referred to in Chapter 3. Since then, however, rural electrification in Bangladesh and decentralisation in Burkina Faso have been dropped. In Bolivia and Uganda, decentralisation has been placed under “good governance” as a theme that cuts across sectors.

Sectoral programmes have made little progress in agriculture/rural development. In none of the countries studied did the embassy still play an active role in 2004 in producing a SWAp. One obstacle was the serious disagreement between donors as to the strategy that should be adopted. The relevant literature questions whether SWAPs are in fact applicable in the agricultural sector.<sup>124</sup> The four case studies underline the difficulty of approaching aid to rural development and agriculture from a 'sector-wide' perspective. The difficulty arises because of the diversity of topics, the multiplicity of actors (including institutional actors), the often conflicting interests within the sector and – in particular – the lack of clear-cut roles for the public and private parties in the sector. A more obvious step would be to divide up the aid and provide it to sub-sectors (for example irrigation or livestock farming), with the emphasis being on the role of the public sector (for example research and information, monitoring and legal frameworks). However, the appropriate institutional framework for this often does not exist.

In Uganda, the aid for decentralisation evolved rapidly away from direct aid to district programmes towards sectoral budget support to the national programme for local government. In Burkina Faso, the support for decentralisation was terminated because there were no prospects of results. In Bolivia, the principles of the sector-wide approach were followed through a long way, but with only negative results. The decision by the embassy to drastically reduce the aid to this sector came after decentralisation had been the flagship in the Netherlands' development programme in that country for almost ten years.

### *Harmonisation and alignment*

There has been progress in harmonisation, especially in the social sectors, but the participation of most donors remains largely limited to the exchange of information, consultation and fitting their own projects and programmes into a general policy plan. Operationalisation in the form of joint funding and far-reaching integration in government administrative frameworks has been restricted to the education sector and in a few cases to health care.<sup>125</sup> In practice, it is mainly just a few European donors that make joint arrangements. Other important donor coun-

124 Foster, Mick et al., (2002) *What's different about agricultural SWAPs?*, CAPE/ODI.

125 This definitely also applies to Zambia, where an ambitious trial of harmonisation commenced in 2003. The embassy's track record for 2005 has this to say about the matter: "Although harmonisation and donor coordination have been followed through a long way in Zambia, actual alignment is restricted. In many cases, sectoral programmes are implemented via parallel off-budget systems, with implementation in fact taking place to an increasing extent under the responsibility of the Zambian government and with maximum use being made of the existing systems and procedures." (p.11).



Burkina Faso, July 1997. CREN health centre for malnourished children. Mothers and children in the waiting room at Kayero clinic. Photo: Jaco Klamer/Hollandse Hoogte.

tries such as Germany, the US and Japan mostly do not participate at operational level and stick to parallel implementation structures. The same is true of the UN organisations. It also turned out to be difficult to achieve harmonisation with the World Bank and with regional development banks such as the Inter-American Development Bank and the Asian Development Bank. In particular, agreement about procurement and the administration of funds was reached only after protracted discussions – if at all. The World Bank and the regional banks interpret harmonisation primarily as a process in which other donors adapt to their standard procedures.<sup>126</sup>

Major bilateral donors and the international funding organisations, in particular, are sometimes extremely cautious about actively participating in harmonising aid. The Netherlands differs from almost all other donors by being more prepared to put aside its own procedures in favour of those of the recipient country. In this sense the Netherlands has led the way, with other donors either not wanting to

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<sup>126</sup> Moreover, the role of the World Bank was not always seen as promoting harmonisation. In Bangladesh, for example, both the government and the donors preferred the Asian Development Bank to take a leading role, while in Zambia it was decided to have rotating leadership, in order to prevent any single donor from becoming too powerful. In 2002 the Netherlands withdrew from a co-funding arrangement in the education sector in Bolivia because the embassy was of the opinion that the World Bank was dominating too much of the decision-making about the aid, while wholly bypassing the policy agreements of donors in the agriculture sector (2005) and letting it be known that “harmonisation is not on the agenda” in that sector.

follow or opting to follow more slowly. There are two main reasons why other bilateral donors are lagging behind: a) their estimates of the risks and opportunities associated with giving less-earmarked aid are different than those of the Netherlands and b) there are internal political and administrative obstacles and impediments. The effectiveness of the great efforts the Netherlands is making to involve other donors in the harmonisation process is sometimes questionable because this is not always based on a realistic assessment of power relationships between donors.

### Explanations

The most important impediments to the implementation of the sector-wide approach mentioned in the reports from the embassies are the lack of capacity and commitment in the governments concerned and the donors' unwillingness to collaborate. In all cases, one of the most important impediments to further progress mentioned by the embassies is the weak management at sector level – not only at national level but particularly at regional and local levels. In all sectors – even when progress has been made in the application of the sector-wide approach – the embassies are concerned about the central government's will to improve the provision of services at local level and whether it can in fact do so. Little progress seems to have been made in implementing the sometimes ambitious plans for institutional reform.

Drawing on Foster (2000), the following conditions can be used to explain in which sectors the sector-wide approach has more chance of succeeding.<sup>127</sup>

- a) Public expenditure is a major feature of the sector: this certainly holds for the social sectors and for the road infrastructure.
- b) The extent of foreign aid is large enough for coordination to be a problem.
- c) There is a supportive macro budget environment.
- d) The institutional relationships are manageable: sector programmes function best when the responsibility for the budget rests with a single ministry and the external funding comes from a limited number of donors.

The degree to which these conditions are met largely explains the findings relating to the Netherlands' experience with the sector-wide approach. The education sector in Bolivia provides a good example of a situation in which most of these conditions are largely fulfilled. In some cases (decentralisation in Bolivia and

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<sup>127</sup> Foster (2000). *New Approaches to Development Co-operation: What can we learn from experience with implementing Sector-wide Approaches?* ODI Working Paper 140.

Burkina Faso), an important reason for failure is the complexity of the debate and the difficulties preventing donors from reaching agreement. The complex institutional relationships in the case of the water sector (Bangladesh) and particularly in the rural productive sectors largely explain the scant progress made in the application of the sector-wide approach in these sectors.

## 5.6 Conclusions

The introduction of the sector-wide approach has led to two important changes in the aid provided to the sectors:

- a) A tendency to concentrate the aid provided by the Netherlands on the central government's general and sector policy. This is almost exclusively so in Bolivia and Uganda and increasingly the case in Zambia. In Burkina Faso and Bangladesh, this change is taking place more slowly.
- b) Winding down programmes for poorer regions and for specific target groups (usually poor ones) and abandoning intervention at regional and local level.

Although in almost all the sectors a start has been made in applying the sector-wide approach, success has been mixed. In only five of the seventeen sectors studied has the aid provided by the Netherlands been largely integrated in the government's policy and administrative frameworks. Some progress has been made in five other sectors. In the remaining sectors, efforts have been made to delegate the implementation of the programmes to the recipient government, but progress has remained limited in terms of integrating the aid in the government's policy and administrative frameworks.

In general, by comparison with rural development and agriculture, the social sectors lend themselves much better to the application of the sector-wide approach. That is partly because, unlike the production-oriented sectors, in these sectors the government is assigned an important role in implementation. The important variables that have influenced progress in the application of the sector-wide approach have been not only the large differences in implementing capacity but also political and institutional stability.

The Netherlands differs from almost all other donors by being more prepared to integrate the aid it provides into the policy and administrative frameworks of the recipient governments. The readiness of major bilateral donors and most multilateral donors to integrate aid into the national policy and administrative frameworks more quickly is limited; in some cases it is almost entirely lacking.

## 6 The changes in the ownership of the aid

### Introduction

Through the sector-wide approach, the Netherlands intended to promote the transfer of control, accountability for the development process and aid coordination to the recipient country. This is referred to as ‘transfer of ownership’. This chapter deals with the findings relating to the transfer of ownership. In the first section, the context in the five case study countries is briefly described. Section 6.2 deals with the question of whether ownership has increased at national level and to what extent this is attributable to the sector-wide approach. The same is done in Section 6.3, but then at sector level. In the final section, the findings are assessed. This chapter relates solely to the five case study countries.

### 6.1 Context

The opportunities for donors to contribute to ownership are influenced to an important extent by the recipient government’s degree of dependence on aid and its capacity to actually implement the policy for which aid is being given. It is also important to consider the internal political relationships, particularly in order to determine whose ownership is being promoted. These factors are described briefly below.

#### *Ownership and dependence on aid*

As changes in ownership take place in the relationship between the recipient government and donors, the degree to which that government is dependent on aid is an important factor. The data on this are shown in the table below.

**Table 6.1** Dependence on aid (2003) in the 5 case study countries

	ODA per capita (USD) 2003	ODA as percentage of the GNP (2003)	Aid as % of central government spending*
Bangladesh	10	2.6	12 (21)
Bolivia	105	12.0	34 (80)
Burkina Faso	37	10.8	67 (n/a)
Uganda	38	15.8	50 (40)
Zambia	54	13.6	39 (85)

Source of statistics for 2003: country documents, World Development Report 2004 and for Burkina Faso, Joint Evaluation PGBS 2004. In parenthesis: the dependence of foreign aid in the case of capital expenditure. Data for Uganda refer to 2005.  
n/a = not available

In most of the social sectors, dependence on external funding for government investments is much more than 50%. When the aid is expressed as a percentage of the total government expenditure, the dependence of Bolivia and the three African countries on aid is high. Bangladesh is much less dependent on aid; here, aid is primarily important as a source of supplementary funds for macro-economic policy.

The dependence on foreign aid has given rise to a long tradition of intensive donor interference in development policy in the aid-receiving countries, with the result that those in power have to operate carefully under pressure from two sides: on the one hand, they have to make sufficient concessions to the donors in order to carry out reforms so that foreign aid remains guaranteed, whereas on the other hand they must continue to have sufficient funds at their disposal in order to keep the support of their electorate.<sup>128</sup> In the African countries, the relationship between those in power and the donors can be described as a coalition of interests. The intensive collaboration between Uganda and donors was based on interdependence: those in power needed foreign aid in order to safeguard their interests, and donors benefited from booking successes in implementing the new

<sup>128</sup> In Zambia, in the period from 1991 to 2001 the government adopted an ambivalent position towards the international funding organisations: ownership of the reforms was weak and their implementation seemed to be motivated more by the need to safeguard new aid than by an internally developed development strategy. See Rakner, L (2003). *Political and economic liberalisation in Zambia 1991-2001*. Uppsala: The Nordic African Institute.





Evo Morales was sworn in as president of Bolivia in January, after a long period of political instability in the country. She is seen here campaigning in 2005 in Tilaque, near Achacachi, east of La Paz. Photo: Christian Lombardi/Redux/Hollandse Hoogte.

aid agenda.<sup>129</sup> By contrast, in Bangladesh it was found that the opportunities for donors to influence government policy remained few, because of the limited dependence on aid. The government of that country is firmly convinced that it does not have to be accountable to donors for its policy.

### *Implementation capacity*

Ownership is not just about control over aid and policy, but also about the capacity to implement policy. Improvements have been identified at the level of macro-economic policy – particularly in the management of public finances – but less so or not at all in the line ministries. Apart from that, the problem is mostly not the lack of sufficiently knowledgeable or able people but rather the inadequate functioning of institutions and the failure to make competence the basis of staff recruitment. This is aggravated by the negative effects of politicisation and clientelism. The biggest problems appear at regional and local levels – precisely the levels that

<sup>129</sup> See the country study on Uganda, which draws on, among others, Mwenda, A. and Tangri, R. (2005) Patronage, Politics, Donor Reforms, and Regime Consolidation in Uganda. *African Affairs*, 104/416, p.449-467; see also a recent report commissioned by the World Bank, with the team leader as author: Barkan, J. *The Political Economy of Uganda* (2004). The World Bank did not accept the report, so the version of the document in circulation is unofficial.

play an important part in the provision of services to the target groups and the investments at target-group level.

### *National political relationships*

The relationships between the recipient country and the donors develop within a concrete political context whose characteristics may largely explain how the aim of promoting ownership is translated into practice, particularly *whose* ownership is at issue.

- 1) In the five case study countries the power is concentrated in the hands of the executive authority. Furthermore, in the African case study countries there is a strong form of 'presidentialism': the concentration of political power in the hands of the president. President Museveni has been in power in Uganda since 1986; President Blaise Compaoré in Burkina Faso since 1991.
- 2) A second characteristic of the political context in the five case study countries is clientelism and the use of public state funds for private political ends. Resources and benefits are distributed in personal patronage networks, from patrons to their clients rather than equally among citizens. Through favours, patrons build up power and political stability. In return for material rewards (licences, contracts, projects, money transfers etc) 'clients' mobilise political support and refer all decisions upward in a mark of loyalty to patrons.<sup>130</sup>
- 3) With the exception of Burkina Faso, all the countries score badly in terms of the anticorruption index of Transparency International.<sup>131</sup>
- 4) In Bangladesh and Bolivia the government and opposition are sharply polarised and the state is weak because the government, parliament and judiciary are dependent on pressure from various interest groups in society.

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<sup>130</sup> Bratton and Van de Walle (1997): *Democratic Experiments in Africa: Regime Transitions in Comparative Perspective*. Cambridge University Press.

<sup>131</sup> On Transparency International's list, Bangladesh is placed last and Burkina Faso is in 70th place (coming 7th among the African countries).

**Box 6.1** Ownership in Bangladesh

One of the most influential researchers on this topic in Bangladesh has written: 'Donors should not make the mistake of promoting ownership which would in itself be a contradiction in terms. Reforms depend mainly on domestic political and social factors; the donors have to come to terms with the limited influence they can exercise over domestic policy-agendas. Donors in Bangladesh and elsewhere lack the comparative advantage and political experience in a specific country to influence such political sensitive agendas. They will thus have to come to terms with the reality that governance is a deeply indigenous process which remains sensitive to the nature of politics and the capacity of civil society to promote better governance. The idea that they can actually improve the governance of BD appears no more feasible than their belief that they could impose economic reforms through external pressure.' (Rehman Sobhan 2003:4).<sup>132</sup>

The four points mentioned above have repercussions on ownership. Donors wishing to promote ownership must take account of the political reality in which many different actors operate. For these reasons, a neutral indication of ownership by the government is not sufficient; instead, in many cases it has to be determined whose ownership is being promoted and how this can take shape within complex internal power relationships and alliances. In countries where power is concentrated in the central government and there is no democratic control, the promotion of ownership will reinforce this concentration. And if there are many internal conflicts and power is divided between the supporters of different groups, donors will have to be very careful whose ownership is being promoted within the fragile internal political relationships. In politically unstable countries, ownership of development policy has repeatedly proved to be very short-lived. Bolivia is an extreme example of this: here, each change of government led to problems with the continuity of policy and the honouring of agreements with the donors.<sup>133</sup>

132 Rehman Sobhan (2005). Increasing Aid for Poverty Reduction: Rethinking the Policy Agenda. In *IDS Bulletin* Vol 36 No.3 Sept.

133 Between 2001 and 2006 there were six presidents and many cabinet changes; in less than four years, some ministries had more than 10 ministers. The effect of this was to paralyse the continuity of policy and the collaboration with donors.

## 6.2 The contributions to ownership at national level

Ownership was never precisely defined in the Dutch policy documents. The OECD DAC definition, which is also followed in Dutch policy, is:

*‘The effective exercise of partners’ authority over their development programmes including when they rely on external resources to implement them (OECD 2005).’*

In Dutch policy for the sector-wide approach, the objective of promoting ownership has been specified in the following intentions:

1. To use the PRSPs (Poverty Reduction Strategy Papers) as a framework.
2. To actively participate in the processes for harmonisation and alignment.
3. To provide (general) budget support and to reduce conditionality.
4. To strengthen central government institutions.

Comments on these intentions and on the degree to which they have contributed to ownership follow below.

### 1. The PRSP and ownership

In the policy for the sector-wide approach the PRSP is seen as a crucial instrument for promoting ownership. The underlying assumption is that the PRSP reflects the priorities of the developing countries themselves. It was for this reason that the Netherlands was one of the first donors to make the PRSP the framework for bilateral aid. In the words of the then Minister, the PRSP is ‘the basis of the sector-wide approach’.<sup>134</sup> This principle has been adhered to consistently during implementation policy, even when the recipient government has had serious doubts about the expediency (as was the case for Bolivia).<sup>135</sup> The evaluation of the PRSP is an important component of the track record and has played an important role in decisions about general budget support.

The ownership of the PRSP can be further examined using four indicators: the initiative, the breadth of the commitment within the government, the degree of political and social support, and the implementation.

The PRSP was a donor initiative and was a precondition for access to additional aid funds in the context of debt relief. In order to receive these funds, approval was

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<sup>134</sup> Letter from the Minister for Development Cooperation to the Lower House dated 14 June 2001: presenting the memorandum *Coördinatie van middelen voor ontwikkelingssamenwerking* p.16 and 17.

<sup>135</sup> Although the Netherlands gave general budget support in 2003 before the government had finished developing a new PRSP, the Netherlands continued to insist on the need for this.



Kampala, February 2006. Ugandan president Yoweri Museveni at a political meeting in the capital city Kampala, during the election campaign. Photo: Sven Torfinn/Hollands Hoogte.

required from the World Bank and the IMF. In Uganda, the PRSP linked up with the national policy for development and, after some revision, the existing plan for poverty reduction was accepted as a PRSP. In other countries, the PRSP replaced the existing development plans. The donors exercised great influence on the PRSP process: the World Bank drew up a comprehensive manual for its execution, advisers were hired and paid for by donors, and consultation meetings with civic organisations were also almost totally financed by donors.<sup>136</sup>

In most of the countries there has been increasing government involvement in the PRSP, but this has as a rule been limited to senior officials in a few ministries (Finance and/or Economic Affairs) and a core team of civil servants (usually in senior positions in the Ministry of Finance). Line ministries usually feel less involved with the PRSP. In Uganda and Burkina Faso, the government's engagement is expressed in the budget and there is continuity in the implementation of the PRSP.<sup>137</sup> In both countries a second – improved – PRSP has been worked out for

<sup>136</sup> In the latter, the IMF evaluation of the PRSPs concludes: “The perception that the approach is overly influenced by procedural requirements of the Bretton Woods Institutions is widespread”. IMF (2004) *Evaluation of the IMF's role in PRSPs and the Poverty Reduction and Growth Facility*. p. 3.

<sup>137</sup> This is confirmed by the IMF evaluation of the PRSPs, which talks of a “relatively strong ownership in a narrow circle of official stakeholders responsible for driving the process, but much less among other domestic stakeholders”. IMF (2004) *Evaluation of the IMF's role in PRSPs and the Poverty Reduction and Growth Facility*. Chapter 2. Washington.

the period 2004–2006.<sup>138</sup> In Bangladesh, though the government is highly committed to the PRSP, it remains to be seen how the forthcoming elections will affect its continuity.

The degree of political and social support can be assessed in terms of the role of parliament and the significance of the consultations with civic organisations. In four of the five countries the PRSP was not presented to parliament for approval. The exception is Burkina Faso. In all five countries there were consultations with civic organisations, but with the exception of the second PRSP in Burkina Faso, the outcomes of these played hardly any role in the final version of the documents.

The implementation of the first generation of PRSPs was inadequate: in four of the five countries, the PRSPs were not worked out in detail. Only in Uganda were implementation plans drawn up for each main theme and was the PRSP linked to the budgetary process. Now, however, in each of the five countries there is a Medium Term Expenditure Framework, which sets out the financial planning for the medium term. In addition, there has been discernable progress in the development of a system for monitoring and evaluation, but there continues to be much interference from the World Bank and the IMF – via their annual progress reports, for example. Moreover, the PRSPs in the five countries are very ambitious and over-optimistic in relation to economic growth, largely because of the growth scenarios worked out by the IMF in the context of the debt relief initiative (HIPC).

In light of the above arguments, the conclusion on ownership of the PRSP is negative. This, however, does not alter the fact that evaluation studies also point out positive effects of PRSPs: for example, that they form an important frame of reference for national debate about poverty reduction.<sup>139</sup>

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138 In Zambia, it has been decided to prolong the duration of the present PRSP by a year. In Bolivia, the development of a second PRSP has been postponed repeatedly, because of the frequent changes of government. Bangladesh was not eligible for debt relief via the HIPC initiative, but in order to access the World Bank and IMF loans for poverty reduction it presented an Interim PRSP in mid 2003. The definitive PRSP was completed in October 2005.

139 David Booth, (2004) *Fighting Poverty in Africa: are PRSPs making a difference?* London: Overseas Development Institute. This study also mentions the positive effects of the contribution of PRSPs to poverty reduction, but in relation to countries other than the five case study countries considered here. A recent paper by the same author contains a critical discussion of the lack of the political interpretation of the PRSPs: Booth, D. (2005). *Missing Link in the Politics of Development: Learning from the PRSP Experiment*. ODI Working Paper 256. For a critical evaluation of PRSPs in Latin America, see the country reports on Bolivia, Honduras and Nicaragua on the website of the Institute of Social Studies. The studies were commissioned by the Swedish development agency SIDA.

2. Leadership in the harmonisation process

According to the Dutch objectives, the PRSPs should offer an overarching and guiding framework for foreign aid. It was also intended that the process of harmonisation and alignment would increasingly be directed by the recipient countries. In chapters four and five it was shown that the Netherlands has been proactive in promoting harmonisation and alignment. It is difficult to say how much the efforts of the Netherlands and other donors have contributed to an increase of government leadership in development policy. At the very least, the recipient government must have elaborated a harmonisation framework that can serve as a route map for donors. The available information on this has been summarised in Table 6.2.

**Table 6.2** Leadership for the aid and the execution of a harmonisation plan

Country	
Bangladesh	There is a formal framework and annual consultation with donors, but the government places little value on structured consultation with bilateral and other donors. There is no agenda or harmonisation plan, nor is there active leadership in harmonisation. Harmonisation still remains to an important degree the initiative of a group of donors. In 2005 the government played a more active role and a harmonisation plan was being prepared.
Bolivia	There was strong leadership until 2000. Early progress in the development of a policy framework and alignment at national level has stagnated or has been undone as a result of political changes. A harmonisation plan was being prepared in 2004, but at the initiative of the donors. The developments stagnated again because of the elections in December 2005.
Burkina Faso	There is no strong central leadership, nor is there a harmonisation plan. Initiatives for harmonisation mostly come from donors. The government has adopted a proactive attitude in alignment with donors involved in general budget support.
Uganda	The government exerts strong leadership over the foreign aid. The new plan for poverty reduction is the framework for the foreign aid; external aid is fitted into a three-year funding framework that is revised annually. Donors are expected to fit their contributions into both frameworks. The attempts of the government and donors to work out a joint aid strategy as from 2005 have foundered.

**Table 6.2** Leadership for the aid and the execution of a harmonisation plan

Country	
Zambia	A Memorandum of Understanding has been signed by almost all the important donors, in order to achieve more intensive harmonisation; a policy plan is currently being prepared for this. There is still no operationalised framework or policy for foreign aid. The harmonisation process is mainly borne by the donors and much less by the government. Progress in harmonisation has not been accompanied by more alignment of the donor contributions.

Source: OECD-DAC Survey on Progress in Harmonisation and Alignment (2004), modified and augmented with data from country studies.

A general conclusion that can be drawn from this table is that governments have made efforts to develop a plan of action and framework for foreign aid, but harmonisation and alignment remain very dependent on donors' initiatives. Only in Uganda is there adequate government leadership and control in order to align foreign aid with national priorities and financial management frameworks.

The most important impediments to leadership of harmonisation and alignment are:

- regarding the recipient government:

A lack of equipment, inadequate personnel and internal political complications (delineation of competences, for example), which prevent the government from playing a greater role and taking more initiative in order to exercise leadership. Government representatives have repeatedly drawn attention to the inadequate funds and opportunities that preclude the government from adequately playing its new role.<sup>140</sup> This was the case in Zambia: here, the donors jointly did a trial with harmonisation, but little progress was made.

Implementing a proactive ownership policy implies much additional effort and more obligations for the recipient government. Though harmonisation brings potential savings in the costs of obtaining aid, these are countered by the higher costs of consulting with the donors and of satisfying the increased demands

<sup>140</sup> Officials from the line ministries are having to accept an expanding range of requests and terms – particularly at sector level – in numerous working groups (in the presence of many representatives of donors) without these ministries having sufficient qualified personnel and funds to be able to implement them. Moreover, many competent professionals work for donors or are directly in the pay of donor organisations or embassies, an important motive being that the working conditions are superior to those of the national government.



relating to monitoring and financial reporting. The intensive consultations with donors in working groups has appreciably increased the time spent in meetings: according to the Zambian Ministry of Finances taskforce that is accountable for donor coordination, meeting time has tripled by comparison with a few years earlier. In Burkina Faso, the Dutch embassy commented that until 2002 the PRSP had primarily resulted in additional demands, not in additional funds. It was also noted that the sum of all the new demands made by the donors far exceeds the capacity of the government.<sup>141</sup>

- *regarding the donors*

In all countries, the PRSP has been a reference framework for donor harmonisation in only a very general sense. There are still big limitations to the extent to which donors are prepared to actually fit the aid into the recipient government's policy and financial management. The Netherlands is exceptional not only in taking an active role in the harmonisation process, but also in being more willing to subordinate its working method to the harmonisation process. Recently, initiatives to increase the distribution of tasks among donors have been taken in Zambia and Uganda.

### 3. *Increase in ownership as a result of an increase in general budget support and the application of 'new conditionality'.*

Dutch aid policy gives preference to general budget support and broadly aligned sector programmes that fit into a national development strategy. This is considered a better way to promote ownership than funding disconnected projects. The Netherlands has gone furthest with this in Uganda: there, 70% of Dutch aid in 2004 was given as general budget support. In Burkina Faso, the figure was 39%; in Bolivia, 17.5%.

General budget support has positively affected ownership of recipient countries by giving them more leeway to integrate the decision-making about aid in national policy. It is also important that the recipient government can itself decide whether to use the funds for capital expenditure or running costs. This contrasts with sectoral programme aid, in which there are many constraints: on financing salaries, for example. It is also assumed that there are positive effects on the quality of the

<sup>141</sup> "The Ministry of Economics and Finances that is spearheading the PRSP process seems not to be able to see the wood for the trees. It has to do everything: prepare MTEFs, supervise the drawing up of programme budgets, improve statistics, develop indicators, straighten out the management of public finances, steer the sector ministries, evaluate the PTRP and bring it up to date, and also produce results. All this in addition to its very extensive regular work. This exceeds the Ministry's capacity, and the result is stagnation." Memorandum from HM Ambassador in Ouagadougou to DVF dated 8 February 2002. Reference OUA/02/0271.

budgetary process and the government's responsibility to improve the management of public finances.<sup>142</sup>

Despite the announcement that more account would be taken of the results of policy, this has rarely happened in practice. Donors still impose conditions in a wide range of areas: macro-economic policy, poverty reduction, and also political and institutional circumstances.<sup>143</sup> Furthermore, conditions are being stipulated for processes, such as the requirement to engage civic organisations in policy preparation or in developing the PRSPs.<sup>144</sup> For budget support and other loans, the World Bank, the IMF and bilateral donors stipulate a series of supplementary conditions relating to financial and economic policy; this again restricts the scope of the recipient government.<sup>145</sup>

As a result of the increase in general budget support in three of the five countries, the embassies are much more involved in the policy debate at national and sector levels than they were before the introduction of the sector-wide approach.<sup>146</sup> The budget support 'buys' a seat at the negotiation table so that the priorities and points of attention of Dutch aid can be brought to the fore. The quality of the dialogue is now very much a part of the annual track record that the embassies prepare for each country.

If the Netherlands' influence in the dialogue is measured in terms of proportion of general budget support, then it is modest: although in Uganda, for example, over 70% of total Dutch bilateral aid was given as general budget support, the Dutch share of total general budget support in that country was 7.8% in 2002/3 and 11.8% in the budget year 2003/4. Measured in terms of the size of their contribu-

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142 Joint Evaluation of General Budget Support 1994-2004 (2005). Draft Synthesis Report:

143 Adam, C. and Gunning, J. W. (2004) "Performance-Based Conditionality: A European Perspective" in: *World Development* Vol. 32, No. 6. p.1059-1070.

144 For criticism (incl. from the Netherlands) on general budget support to Bolivia, see: SIDA/ISS (2004). *Evaluation of PRSP in Latin America. Bolivia more of the same without pro poor growth?* The detailed list of preconditions (e.g. for institutional reforms) goes against existing consensus and "runs counter to recommendations made in evaluations of budget support: budget support should not be accompanied by detailed micromanagement of internal policies, but rather by conditions for improvements in budgetary processes and accounting." (p.11).

145 This finding is expressed articulately in the evaluation of general budget support in Tanzania: "A more consistent criticism is that the processes of dialogue and conditionality are completely interwoven. (...) it undermines country policy ownership, because it creates the impression that conditionality has no boundaries". Lawson, A. et al. (2005). "Does General Budget Support Work?". ODI. By way of illustration: for a list of all donor working groups in Uganda see annex 3 of the country report on Uganda. The following quotation is also relevant in relation to this: "When it comes to macro-policies, there is no pretence of national empowerment through the PRSP process, beyond the (usually limited) national contribution to the formulation of macro-programmes that already exists." Stewart and Wang, M. (2003). "Do PRSP's Empower Poor Countries and Disempower the World Bank, or is it the Other Way Round?" Queen Elizabeth House, University of Oxford, Working Paper 108: 22.

146 Because it did not prove possible to realise all the factors required for conditionality at sector level, the embassy in Kampala decided to finance the support for the education and legal sectors from general budget support.

tions, the influence of international funding organisations – and, increasingly, of the European Union – in the dialogue on general budget support is much greater.

#### 4. *Institutional strengthening and capacity building*

In four of the five countries (the exception is Bangladesh), the Netherlands – together with other donors – is supporting various of the central government's programmes for institutional reform. The emphasis is mostly on the administration of public finances, the reform of the Civil Service, and specific themes of good governance, such as anti-corruption initiatives and the office of the national ombudsman. The evaluations of some of these programmes have reported positive results, particularly in the area of the management of public finance. However, the programmes are criticised for tending to approach the capacity problem as if it were a technical issue:<sup>147</sup> for example, too little account is taken of unfavourable contextual factors – such as the politicisation of the Civil Service – which often form a greater obstacle than a lack of capacity or of expertise.

### 6.3 The contributions to ownership at sector level

#### *Progress at sector level*

The country studies report an increase of ownership in the education sector in Bolivia and the health sector in Zambia. In these sectors, the ministry in question largely determines the policy and strategy to be followed and is responsible for their implementation. The bilateral donors that contribute to the basket are no longer directly involved in implementing the programmes. Hence the Ministry's negotiating position vis-à-vis new donors has been strengthened. These donors cannot ignore existing agreements and, for example, set up parallel structures to carry out projects. The great degree of ownership in the case of the Bolivian education sector is also apparent from the broad public support for educational reform. Moreover, there has long been political engagement with the reform policy: educational reform has survived many changes of government.

The results for the education sectors in the three African countries received a more mixed evaluation. Although donors have left room for the Ministry's own initiatives in Uganda, it was reported that the Ministry was reluctant to take the

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<sup>147</sup> The programme funded by the Netherlands for institutional strengthening in Bolivia has produced good results in certain areas (customs and the inland revenue): rationalisation of the personnel management and higher revenues.

lead in making decisions about policy and spending.<sup>148</sup> This is partly the result of insufficient capacity to be able to satisfy the growing demand from donors for policy development and monitoring. The worsening of the governance in Uganda in recent years has also affected developments in the education sector. Internal donor reports mention a rapid reduction of commitment and political will to implement the sector policy. Donors have retained influence on the content of proposals and the implementation of policy in Burkina Faso and Zambia too.<sup>149</sup> In both countries, ownership is hampered by the limited implementation capacity of the ministries. In Burkina Faso this led to serious delays in the implementation of the sector programme in 2004/05.<sup>150</sup>

The development towards a sector-wide approach has recently been found to have positively affected ownership of aid in the education sector in Bangladesh and the legal sector in Uganda. In both sectors, the initiative for the sector-wide approach was largely with the donors, but in the course of the process, the parties involved gradually took more initiative. In the other sectors, progress with the introduction of the sector-wide approach has been so insignificant that it cannot be expected to have affected ownership.

### Box 6.2 *Harmonisation and the creation of better conditions for ownership*

*That harmonisation can lead to major changes in the sectors supported by the Netherlands can be illustrated by the education sector in Zambia, where the number of donor support accounts managed by the Ministry declined from about 800 in 1999 to 10 in 2004. The number of donor missions in the sector per annum also declined: from about 120 to about ten. Another recent example is the education programme started in 2004 in Bangladesh, which replaces 27 programmes financed independently by donors. In all these cases it has been made easier for the government to obtain control over the aid flows and to exert more influence on them. In many other cases, however, the number of independent accounts and reports remains high.*

148 In relation to this, the country study notes that when the Netherlands chaired the sector-wide coordination group in 2003, attempts were regularly made to convince the Ministry to take over the responsibilities of donors, but without much success.

149 The World Bank's evaluation of the aid programme was negative in relation to the Zambian government's ownership of the education programme. As the policy development largely depends on a small group of local and foreign donors, there is in fact little ownership and the results are not sustainable. World Bank (2003) *Evaluation of the Country Assistance Programme*.

150 Among the sources used when compiling this section are reports from the embassies from the end of 2005 to early 2006, on the developments in the education sector in these countries.

### *Dutch contributions to ownership attributable to the implementation of the sector-wide approach*

In five of the eight social sectors, over half of the Dutch support is now programme aid. In three sectors in Uganda (education, local government, and the legal sector) and in education in Bolivia there is complete or near-complete alignment. By better attuning Dutch aid to the national financial management and policy frameworks and by increasingly relinquishing policy to the recipient government, better conditions have been created for the government's ownership in the social sectors.

In addition, the predictability of Dutch aid has been increased. This helps the recipient government to better plan the funding of the sector. Formally, support from the Netherlands to a sector is committed for the middle term (usually three to four years), but in practice, the Netherlands has generally committed for a longer term in the social sectors.<sup>151</sup>

In most of the countries, the Netherlands has influenced the nature of social sector programmes by attaching conditions relating to improvement of the position of women. The Netherlands has exercised more restraint regarding the programme content of the education sector in Bolivia and the health sector in Zambia. In both these countries, the government did not see the provisos and agreements with donors as major interference, as they largely corresponded with national policy or existing intentions. In the education sectors in Burkina Faso and Uganda, however, the ministries concerned often saw the conditions stipulated by donors, including the Netherlands, as control mechanisms. In these countries, donors influenced the nature of the sector programme significantly.

During the implementation of programmes, more conditions were stipulated – in reaction to progress reports, for example. Some of these new conditions or agreements were specified in an *'aide memoire'* that the parties involved signed after each sector review. The dilemma faced by embassy staff is that on the one hand there is inadequate initiative, leadership and implementation capacity in the Ministry, yet on the other hand the government cannot acquire ownership while the donors are actively interfering in the implementation of policy.

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<sup>151</sup> The obligation cannot be legally binding for longer than the agreed contractual obligation, which is mostly a maximum of four years. In Zambia, health care has been supported since before 1998. In Bolivia, the educational reforms have been supported since 1995; a new commitment for five years started in 2004.

### *Dutch contributions to technical assistance and capacity building*

One important precondition for ownership was an improvement to the recipient government's implementation capacity. The thinking behind the sector-wide approach was that capacity building must form part of sector support and must primarily aim at policy development, budgetary processes and financial management – i.e. primarily at the organisational dimension of institutional development.<sup>152</sup> The implementation of these intentions has led to changes in technical assistance. Until 1998, the capacity building done as part of Dutch development cooperation was usually human resources development. It entailed deploying technical assistance in projects and programmes, in combination with training. The introduction of the sector-wide approach changed this. Since 1998, Dutch technical assistance has been rapidly reduced, in terms of the money available and the deployment of experts. In the five countries, Dutch technical assistance programmes have been discontinued and, in contrast to countries such as Germany and the United Kingdom, the Netherlands has not deployed its experts in order to support the sector policy. So whereas 28 Dutch experts were deployed in Burkina Faso in 1998, by 2004 there were only six. In that country the Netherlands now only has a programme for technical assistance in the Ministry of Health, which is intended to create better conditions for the sector-wide approach. In Zambia, where for 30 years Dutch doctors worked in district hospitals, there is a programme to encourage Zambian doctors to work in marginal regions. In Uganda, some technical assistance is still being given to the northern provinces, where the Netherlands had earlier financed regional development programmes. Capacity building is now frequently a component of general sector support, particularly in the form of personnel management, computerisation and organisational reform.<sup>153</sup>

The part played by theme experts in the embassies in the creation and monitoring of sector programmes, and their input in the sector-wide working groups are now

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152 Three dimensions are usually distinguished in institutional development: human resources development, organisational strengthening and system development. The human resources development may entail training, for example, or giving material support. Organisational building includes improving planning, management, technical processes, financial management and the development of internal and external relations. System development is to do with strengthening legislation and regulations, contributing to policy development and conceptual renewal (IOB, 2000). Active networking is often seen as a supplementary component.

153 The ministries of education, for example, are often staffed solely by teachers and educationists who are very reluctant to accept people with other qualifications (financial, administrative, IT, management, etc.), not least because they fear for their own jobs. This is very much the case in Zambia; in Bolivia, positive changes in this have been observed.

increasingly being seen by the Ministry in The Hague as a form of technical assistance.<sup>154</sup>

With a couple of exceptions (Burkina Faso, health; technical assistance for districts in Uganda) the Netherlands now rarely seizes the opportunity to directly finance projects for technical assistance in order to facilitate the implementation of sector policy. Though capacity building is part of the general support, the reports on this pay scant systematic attention to this theme.

#### 6.4 Assessment: the sector-wide approach and the changes in ownership

In Section 6.1 the importance of placing the evaluation of changes in ownership in the political context of each country was emphasised. Two country studies (Bolivia and Uganda) were critical of the embassies for underestimating the political dimension of aid in their analyses by chiefly reporting on formal criteria of ownership. Partly because of this, the embassies have not always realistically estimated the potential for promoting ownership and have sometimes raised false hopes.<sup>155</sup> Ownership is largely determined by the interdependence of the recipient government and donors. Four of the five countries are dependent on foreign aid to a high degree, so therefore have limited scope to develop their own policy. Although the government usually formally endorses poverty reduction and accepts the donors' conditions, in practice there is a continuous process of negotiation. The government of the recipient country has other themes besides poverty reduction on its political agenda, and as soon as seems necessary for reasons of domestic political interests, other priorities become more important and it returns to pursuing its own line.<sup>156</sup> In the event of failure to make efforts and achieve results as agreed, it is not easy for donors to apply sanctions immediately. Furthermore, donors for their part also depend on the recipient government to produce results they can report back to the home front. In this complex game of negotiation and changes in power relationships it is very difficult to arrive at a sound judgement of the

<sup>154</sup> On the basis of experience from development projects, questions can also be asked about whether it is better to make a clear distinction between the responsibility for funding and the responsibility for technical assistance.

<sup>155</sup> This has been confirmed in, for example: *Joint Evaluation of General Budget Support 1994–2004* (2005). Draft Synthesis Report: "One of our common findings as regards relevance and the design of PGBG was the relative weakness of IP's understanding of political contexts". p.87.

<sup>156</sup> "This is a clear indication that no matter what donors think or do, domestic politics takes precedence when power-holders feel that their regimes are being questioned. Donor pressures and threats to cut aid are less important than internal control over the levers of power, especially in countries with weak democratic institutions and traditions." De Renzi, P. (2006). "The primacy of domestic politics and the dilemmas of aid. What can donors do in Ethiopia and Uganda?". *Opinions 65*. ODI website: [www.odi.org.uk/publications/opinions](http://www.odi.org.uk/publications/opinions).

changes in ownership and to relate these to the application of the sector-wide approach.

In addition, donors have not always acted consistently with regard to the aim to promote ownership. On the one hand, some donors are trying to better align their aid with the recipient government's policy and financial management frameworks, so devolving more control and accountability for the policy and aid to that government. On the other hand, however, donors – particularly the international financial institutions – are limiting the scope for this by interfering intensively with the PRSP and with macro and sector policies. As a result, a complex system of working groups and sub working groups has come into being around the PRSP and the sector-wide support, for consultation between donors and between donors and recipient governments. Although Dutch policy for the sector-wide approach anticipated that the PRSP would be the most important instrument for securing ownership, this has not happened in practice.

In general, the Netherlands has applied the principles of the sector-wide approach consistently and, whenever possible, has actively contributed to creating conditions to increase ownership. This is particularly apparent from the massive application of programme aid in three of the five case study countries and the high budget support in two of these countries. By so doing, the Netherlands has given the governments of the recipient countries plenty of scope in deciding about aid. However, in the selection of sectors, the Netherlands has been inconsistent in following the principle of demand orientation.

Brown et al. (2001) distinguish three types of ownership in the relationships between the recipient government and donors:

1. Strong leadership by the recipient government, which increasingly determines the decisions made about policy and spending.
2. A coalition of donors, with a core group of politicians and technical experts to implement reforms in the sectors.
3. Weak ownership, so the donors are the prime bearers and drivers of reforms in the sectors.<sup>157</sup>

The sectors that can be assigned to the first category are the education sector in Bolivia, the decentralisation sector in Uganda, and probably also the health sector

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157 Brown, A. Foster, M., Norton, A. and Nachshold, F. (2001). *The Status of Sector Wide Approaches*. OD. Working Paper 142.



in Zambia. But in addition, there has been criticism of the influence originating from the heavy dependency on aid that results in the donors determining the limits to ownership. Many other sectors exhibit characteristics of the second and third variants. The option of agreeing sector reforms with an elite from the governing bureaucracy only, without there being lasting political support for them, brings with it the danger that the results will only be temporary. Examples of this include the health sector in the first half of the 1990s in Zambia and the experience with Dutch support for decentralisation in Bolivia at the end of that decade.

Even if the recipient government is given plenty of leeway, this does not guarantee strong ownership, as demonstrated by the observations of inadequate leadership and implementation capacity in the ministries of education in Burkina Faso and Uganda.

The decision to suspend the budget support in Uganda illustrates the magnitude of the dilemma of ownership for the donors. On the one hand, the Netherlands and other donors are acting in line with the agreed preconditions for budget support and the credibility of their aid policy is at stake; on the other hand, the suspension of the support also indicates that decision making is ultimately determined by the donor community.

In its actions the Netherlands has been consistent with its intention to make technical assistance dependent on demand and thus to appreciably decrease the deployment of Dutch expatriate technical experts. By comparison with other donors, the withdrawal of the Netherlands from capacity building is radical. With the exception of the technical assistance in some sectors (health in Burkina Faso, decentralisation in Uganda) there is now little specific contribution from the Netherlands. Much of the attention paid to institutional strengthening and capacity building is in order to strengthen the macro level, with the result that the sometimes much bigger problems in implementation capacity at meso level and below are still being ignored.

## 6.5 Conclusions

As yet, it is difficult to demonstrate an increase in ownership attributable to the sector-wide approach, for the following reasons:

- a) In many countries, heavy dependency on aid is hampering the development of ownership.
- b) In most countries, the degree to which the aid is actually aligned with the government's policy and financial management frameworks is limited.

- c) There is great donor interference in the creation of the PRSPs and the sector policy. The preconditions laid down for sector financing and general budget support apply to a wide range of policy areas.
- d) Major institutional and capacity shortcomings are hampering the governments of the recipient countries from exercising effective leadership over aid and over the implementation of their policy.

Whereas the efforts of the Netherlands and other donors are directed at increasing the scope for ownership, this is being counteracted by great donor interference in the creation of the PRSPs, the sector programmes and the general budget support, and by donors stipulating additional conditions during the implementation of sector programmes.

At sector level, the application of the sector-wide approach by the Netherlands has contributed to the creation of better conditions for ownership and has given the recipient governments more scope for making their own decisions. In most – but not all – instances in which the principles of the sector-wide approach have been applied to an important extent, the recipient government has increased its leadership of the sector policy and has acquired more control over the allocation of aid (Uganda at country level and in some specific sectors).

The Netherlands has applied the principles of the sector-wide approach consistently by reducing its technical assistance. At macro level it has supported a number of general programmes for institutional strengthening. However, for the most part, it has neglected to contribute systematically to institutional strengthening and capacity building in the sectors selected for Dutch aid – particularly at meso and local levels.

# 7 The sector-wide approach and poverty reduction

## Introduction

In this chapter, the activities and results of sector support and their relevance to poverty reduction are discussed. The emphasis is on the social sectors, because it is there that the sector-wide approach has been applied to the greatest extent. Section 7.1 gives an overview of the characteristics of poverty in the five case study countries. Section 7.2 then deals with the priority given to poverty reduction in the sector policy supported by the Netherlands and the extent to which there have been visible improvements in access to services and the quality of the services provided. Finally, the contributions from the Netherlands to promote the focus on poverty of the sector programmes are discussed.

## 7.1 Context

### *Characteristics of poverty*

When the poverty situation is measured in terms of the internationally applied standard of an income of USD 2 a day (corrected for purchasing power), it turns out that in four of the five case study countries over 70% of the population live below the poverty line. In all five countries, the poverty is predominantly in the rural areas. Four of the five countries are landlocked and so incur high costs for imports and exports. There are also considerable differences between countries in the main causes of poverty. Burkina Faso has very limited potential for development because of the climate and the lack of mineral resources. In Zambia, the decline in copper prices on the world market since the mid 1970s has contributed to a process of impoverishment; the situation has been aggravated by government policy in the 1970s and 1980s. The poverty in Bolivia has an ethnic dimension and primarily affects the Indian population. Underlying the increased poverty in Uganda is a long period of poor governance and civil war, but since the 1990s the economy has been growing strongly and there has been a reduction in poverty. The poverty in Bangladesh is closely linked to the high population density, the



Burkina Faso, Bobo-Dioulasso, 8 December 2003. Cotton exports are an important source of revenue for Burkina Faso. This is Francois B. Traore, chairman of Burkina Faso's National Union of Cotton Producers. Photo: J.B. Russel/Cosmos/Hollandse Hoogte.

limited amount of land and the unpredictable climate. Thanks to strong economic growth since the 1990s based on industrial activity (textiles), and also to remittances from migrants, poverty has been declining.

The most important trends in poverty are:

- a) In Uganda, the number of people living below the national poverty line declined from 56% in 1992 to 35% in 2000. However, the most recent household survey (2002/2003) shows an upturn: to 38%. In Bangladesh, all indicators show a decrease in poverty; this is partly attributable to the rapid expansion in employment opportunities in the textile industry and the remittances of economic migrants. In Bolivia, poverty declined in the second half of the 1990s, when economic growth was strong, but since then it has been increasing again, partly because of the recession that has followed. In Burkina Faso, the percentage of the population living below the national poverty line remained more or less constant between 1994 and 2003. There is disagreement about the interpretation of the figures, however; some calculations indicate a slight decline. In Zambia, there is a long-term (since the 1970s) trend of poverty increase.

- b) In all countries, inequality is increasing and little progress has been made in reducing poverty in rural areas, particularly in regions that were receiving aid directly from the Netherlands prior to the sector-wide approach, such as northern Uganda, the Andes region in Bolivia and the North-Western province in Zambia. An important effect of the inequality in incomes is that the poor hardly profit from economic growth.<sup>158</sup>
- c) With the exception of Zambia, there has been a discernable improvement in the most important social indicators in all countries. Here too, however, the progress in the marginal regions has been extremely slow.
- d) During the period 2002–2004, the political dimension of poverty, measured against the indicators of good governance, worsened in all countries except Uganda.<sup>159</sup>

## 7.2 The poverty focus of the sector programmes supported by the Netherlands

The introduction of the sector-wide approach made achieving the Netherlands' objectives in poverty reduction greatly dependent on the policy of the recipient governments. Progress in government policy aimed at poverty reduction can be assessed using the following criteria:

- a) The aims of the sector policy and specific measures or facilities to allow the poor to profit from the services provided.
- b) The priority given to poverty reduction in the budget and the government's contributions to this.
- c) The improvements in the accessibility of services to the poor and in the quality of the services provided.

<sup>158</sup> See: Sen, B. and Hulme, D. *Chronic Poverty in Bangladesh. Tales of ascent, descent, marginality and persistence*. Bangladesh Institute of Development Studies Dhaka ([www.prcd-bids.org](http://www.prcd-bids.org)): "Over the 1990s, in Bangladesh income inequality has increased at a rapid pace in both urban and rural areas. The Gini coefficient in urban areas soared from 0.28 to 0.41 during the period 1990-2000.. the effects on the poor of rising inequality may have cancelled out any benefits to them derived from economic growth, at least from the perspective of the poor themselves. Inequality results from an 'anti-poor' economic path, such as growth based on the use of abundant 'cheap labour'. The resulting increase in inequality is illustrated by trends in child nutrition that at national level has improved substantially, but at a much slower pace in the category 'severe cases of malnutrition' that is registered in the group of the extreme poor."

<sup>159</sup> Based on Kaufmann's *Voice and accountability indicator*. World Bank Institute Governance Indicators for 1996-2004.



Bangladesh, Dhaka, July 2004. Private schools compete with unsatisfactory public schools. Dieter Telemans/Hollandse Hoogte.

The progress per sector is specified below.

## 1. Education

### *Policy and activities*

In all five countries the central aims of the programmes supported are very similar:

- a) Improved access to primary education, particularly for girls and children from poor families.
- b) Improvement in the quality of the education.<sup>160</sup>

The most important activities that were supported may be summarised as follows:

- a) Enlarging physical capacity by building classrooms and other infrastructure, mainly in existing schools.
- b) Curriculum development, distribution of teaching materials, and training and refresher courses for teachers.
- c) Capacity building, primarily improving management and administration.

In most cases the aid was used to invest in capital goods and knowledge, but in Bolivia and Zambia running costs were also financed, such as teacher salaries and

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<sup>160</sup> Since 2005, the sector support in Bolivia and Uganda has also included secondary and tertiary education.

bonuses; in Burkina Faso and Uganda this also occurred via general budget support.

The sector policy was not focused on a specific target group or on poor regions but on generally improving primary education, on the assumption that this would also benefit the poor. To that end, activities were undertaken within sector policy with the aim of improving the participation of deprived groups in the population, particularly girls. To improve access to education for young people of school age in marginal regions, satellite schools were built. Here, the teaching followed a curriculum adapted to the local situation (in Bolivia and Bangladesh, and for a while also in Burkina Faso). School fees and other financial impediments were scrapped, to lower the threshold for poor families (Uganda, Bangladesh and Burkina Faso). In Bolivia, a parallel programme for providing breakfast in primary and junior schools was set up, to attract pupils from poor families. There was also a special programme that developed bilingual education for the benefit of the Indian population. In Bangladesh, a scholarship scheme was set up to enable children from poor families to go to school, but because of corruption it only reached the target group to a limited extent.

#### Financing

There are major differences between the countries in expenditure on education as a percentage of the GNP: for example in Bangladesh it is only 2.3%, in Bolivia 6.3% (2003/4).<sup>161</sup> The information on total government expenditure on education as a percentage of the total government budget is incomplete. Only in Zambia is a small rise in expenditure identifiable between 1998 and 2003. However, if government expenditure alone is considered (i.e. excluding foreign aid), only two countries (Bolivia and Uganda) have increased their spending on education.<sup>162</sup> In Bolivia and Bangladesh, the two countries on which UNESCO reports, about 44% of the total budget for education is allocated specifically to primary education.

<sup>161</sup> UNESCO Institute for Statistics (<http://stats.uis.unesco.org/ReportFolders/reportFolders.aspx>).

<sup>162</sup> However, these data cannot be extracted from the UNESCO statistics either; they are from the country documents and World Bank country information.

**Table 7.2** Expenditure on education

Country / Year	Government expenditure on education as % GNP		Government expenditure on education as % of total government expenditure		Expenditure on primary education as % of education budget
	1998/1999	2002/2003	1998/1999	2002/2003	2002/2003
Bangladesh	2.4	2.4	15.7	15.5	43
Bolivia	5.5	6.3	25.0	19.7	45
Burkina Faso	n/a	n/a	n/a	n/a	n/a
Uganda	2.5	(4.5)	n/a	n/a	(68)
Zambia	2.3	(4.3)	17.6	18.1	(62)

Source: \*WHO Statistical Information System (WHOSIS) (<http://www3.who.int/whosis/menu.cfm>) and UNESCO Institute for Statistics (<http://stats.uis.unesco.org/ReportFolders/reportFolders.aspx>). The figures in parenthesis are not from UNESCO but are taken from: DFID (2005). *Country RHEP-SAC Reports. Synthesis Report*. Africa Policy Department. DFID. UNESCO uses different quality criteria for the publication of these data. n/a not available

### Focus on poverty

In general, little is known about how much the poor are benefiting from the extra funds. In countries with a relatively homogeneous population of poor people – as is the case in Burkina Faso – it can be assumed that in rural areas it is primarily the poor who profit from the investments in primary education. In the other countries, it can also be assumed that it is primarily the poor who profit from the spending on public primary education, given that middle- and upper-class families send their children to private schools. In a few countries, tracking surveys have been carried out, with the aim of tracking the flow of money from the central level to lower levels (schools, for example). In the case of Uganda it was concluded that at present 90% of the budgeted amounts (direct transfers) do actually reach the schools, compared with only 25% three years previously. In the case of Zambia it was found that of the non-earmarked investment budgets that were distributed via the provincial and district authorities, only 20% actually reached the schools.<sup>163</sup>

<sup>163</sup> Des et al. (2004). *Public and Private Funding of Basic Education in Zambia: Implications of Allocations for Service Delivery*. World Bank. HD. Working Paper 142. 62, IV. For Uganda see: World Bank (2003). *2004 World Development report: making services work for poor people*. Washington DC.



Even if the funds do reach the schools, obstacles (resulting from clientelism and corruption, for example) prevent the poor from profiting from them.<sup>164</sup>

#### *Improvements in access*

In all countries there has been a significant increase in the number of pupils enrolled. The reliability of the figures differs between countries and sometimes ‘ghost pupils’ are used in order to attract more funds or to meet targets. The aim of achieving ‘education for all’ has largely been achieved in two countries (Bolivia and Uganda) and may have been achieved in Zambia. Burkina Faso will not meet the millennium goals within the agreed period (which ends in 2015). In almost all the countries, parity of participation of girls and boys in primary education has greatly increased.

Greater access to primary education has not necessarily meant more pupils from poor families, because priority was given to enlarging existing schools rather than to setting up new schools in remote areas that were unpopular postings among teachers. The biggest successes in increasing the participation of children from poor groups in primary education were achieved in the countries where sector support was coupled with supplementary measures from the government to benefit deprived groups (such as scrapping school fees and reforming the curriculum) and where as well as enlarging and improving existing schools, new facilities were built in marginal regions.

#### *The quality of the education and pupil performance*

The rapid expansion in pupil numbers resulted in widespread concern about quality. In many countries the growth in teaching staff lagged behind the higher enrolment rates and the pupil to teacher ratio rose: in Zambia to 89 and in Bangladesh to 61 (statistics for 2004). The shortage of teachers was especially dire in the rural and poorest areas. In several countries (Bolivia and Bangladesh) it was found that the rapid increase in pupil numbers forced the schools to allow two or even three different classes to use the same classroom during the day – with the result that the average number of hours a pupil spent in class fell dramatically. Teacher

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<sup>164</sup> “For the poor, clientelism is a survival mechanism within the context of very non-responsive public institutions. Thus many people rely on the social connections of their extended families to secure admission to schools, pay school fees, gain employment, be awarded a business contract, or benefit from government services.” Barkan, J. et al. (2004) *The political economy of Uganda, The Art of Managing a Donor-Financed Neo-Patrimonial State*, a background paper commissioned by the World Bank.

absenteeism is generally high. In Zambia and Uganda, HIV/AIDS was an important factor in teacher absenteeism.<sup>165</sup>

Scores for some quality indicators, such as the transition from primary to secondary education (*transition rate*) appear to have improved (see Table 7.4), and there has also been a decline in the numbers of pupils repeating a year or dropping out. However, few data are available on the educational achievements of children from poor families or marginal regions. In all countries, big differences in results remain between schools in rural areas (particularly in marginal regions) and urban schools.

Important causes of the problems in the quality of the education are the absence of teachers, insufficient teacher training and the unavailability of teaching materials or failure to use the materials available. The literature on this reveals that the quality can be improved by means of specific measures, such as financial rewards for teaching staff who perform well, better supervision from inspectors and parents' committees, and by adapting education services to local situations.<sup>166</sup>

**Table 7.3** Quality indicators for primary education

Country / Year	Percentage of pupils completing primary school (boys & girls)*		Transition rate of pupils from primary to secondary school (boys & girls)*		Transition rate of pupils from primary to secondary school (boys)		Transition rate of pupils from primary to secondary school (girls)	
	1998/1999	2001/2002	1998/1999	2001/2002	1998/1999	2001/2002	1998/1999	2001/2002
Bangladesh	55	54	76	89	70	83	82	96
Bolivia	77	82	90	90	89	89	91	91
Burkina Faso	61	71	38	40	39	41	38	39
Uganda	n/a	41	24	42	23	41	24	44
Zambia	64	87	31	54	31	52	32	57

Source: UNESCO Institute for Statistics (<http://stats.uis.unesco.org/ReportFolders/reportFolders.aspx>).

\* Percentage of a cohort of pupils enrolled in the first grade of primary education in a given school year who are expected to reach the last grade of primary education, whether or not they repeat a year.

<sup>165</sup> The quality of the education sector in Zambia was measured in the studies *Value for Money* (2003) and *Teacher Tracking Study* (2002).

<sup>166</sup> For the arguments see Pritchett (2004). *Towards a New Consensus for Addressing the Global Challenge of the Lack of Education*. Center for Global Development. Working Paper 43. Roberts (2003) (see footnote 7) and World Bank (2004). *World Development Report*.

\*\* Transition from ISCED 1 (primary education) to ISCED 2 (secondary education).  
n/a not available

Although the indicators show improvement at national level, little is known about the coherence between the sector programmes and the results. For example, there is no link between changes in government spending on primary education on the one hand and the increase in participation in education on the other. The same applies to the link with the most important indicators that measure the quality of the education.<sup>167</sup>

## 2. Health care

### *Policy and activities*

In three of the countries investigated (Bangladesh, Burkino Faso and Zambia) the government's sector policy was focused on primary health care. The sector policy was aimed at improving both access to health care and its quality. This was achieved by supporting one or more of the following activities:

- a) Infrastructural work: building first aid posts, clinics, etc.
- b) Institutional strengthening of the Ministry of Health and the districts, via training and technical assistance.
- c) Programmes for health care and preventive health care at district level.
- d) Vaccination programmes and programmes to combat specific diseases (malaria, polio and TB).
- e) Supply of medicines and drugs.

In addition, in both Zambia and Burkina Faso new programmes were initiated to combat HIV/AIDS: some of which were integrated into regular health care, whereas others were separate programmes. Some of these were implemented by NGOs. When health care was reformed in the second half of the 1990s in both countries, more attention was paid to basic health care and to improving the organisation and management at district level, with the accent on primary health care. In addition, special attention was paid to the poorest provinces. Some programmes were focused on the poor and the vulnerable. When sector programmes were introduced, attention in Zambia shifted to primary health care in general. The sector programme reduced the focus on poor groups.

<sup>167</sup> Roberts, J. (2003). *Poverty Reduction Outcomes in Education and Health Public Expenditure and Aid*. Centre for Aid and Public Expenditure /Overseas Development Institute.

In the three countries, various shortcomings were identified in the implementation of the plans: policy was not accompanied by the release of sufficient funds, and the implementation structure of the public services at district and community levels remained weak, partly due to insufficient support from the national level.

### Financing

Table 7.4 gives the scores for two indicators of government expenditure on health care.

**Table 7.4** Government expenditure on health care

Country / Year	Total expenditure on health care as % of GNP		Government expenditure on health care as % of total government expenditure	
	1998	2002	1998	2002
Bangladesh	3.1	3.1	5.4	4.4
Burkina Faso	4.3	4.3	8.7	10.6
Zambia	6.6	5.8	11.5	11.3

Source: WHO Statistical Information System (WHOSIS) (<http://www3.who.int/whosis/menu.cfm>)

The only country in which there has been a rise in the expenditure on health care as a percentage of the total government expenditure is Burkina Faso. In Zambia there seems to be a direct link between the increase in the external funding and the fall in the government’s expenditure on health care.<sup>168</sup> The large proportion of external funding makes it difficult to indicate what changes have taken place in the contributions from the recipient government. This is particularly the case when the support originates from HIPC funds or general budget support. Furthermore, these figures exclude contributions from the private sector and from the population. The private sector is responsible for an appreciable part of the health care in Bangladesh.

<sup>168</sup> HIPC Completion Point documentation. 2005. This was confirmed by the World Bank Country Assistance Strategy (2004); according to that document, the government of Zambia acknowledged that expenditure in the social sectors lagged behind the targets set for education and health care. The disparity between policy on poverty and expenditure was previously not limited to the social sectors, but applied generally. The first progress report on the PRSP noted that “one of the reasons, among several, for inadequate disbursements was due to the existence of other competing interests, which were able to exert greater pressure on the budget”. Source: World Bank (2004:57) *Zambia Progress Report*.

### *Focus on poverty*

As it is primarily the poor who make use of public health care, it can be assumed that much of the investment in this care does reach groups of poor people. This is less the case in Bangladesh, where the richest districts receive most funds from the government budget. The fees (both legal and illegal) that need to be paid for services are a major impediment preventing the poor from making use of health care. The government has sometimes decided to make certain services free, but because of corruption, these free services have not functioned properly. The poor have benefited from vaccination schemes and focused preventive programmes, however. Another hurdle for the provision of health care in the marginal areas is the reluctance of medical staff to be posted to these areas. Governments are usually unwilling to overcome this reluctance by offering incentives in wages or otherwise. In Zambia, the Netherlands initiated and continues to support a pilot project on improved terms of employment for medical staff in remote areas of the country.

### *Improved access to health care, and its results*

Table 7.5 shows indicators of access to health care. The mortality of children younger than five years can be used as a proxy for the use mothers and infants make of primary health care. The scores for the three countries show that there is progress according to this indicator. Vaccination is an indicator of access to preventive health care. The statistics from the World Health Organisation (WHO) show that the coverage has improved in Burkina Faso but has declined in Bangladesh. Zambia achieved a relatively high vaccination cover earlier; this has stagnated since 2000. Life expectancy in the African countries remained low, largely because of the disastrous effect of HIV/AIDS (especially in Zambia). The statistics for child mortality show a decline in all three countries. In Bangladesh and Zambia the figures for maternal mortality show a long-term decline, but in Burkina Faso the trend is upward.

**Table 7.5** Improvements in access to health care

Country / Year	Mortality of infants under 5 years (boys & girls) per 1000 live births)		% vaccination cover DTP <sub>3</sub> <sup>1</sup>		% vaccination cover Pol <sub>3</sub> <sup>2</sup>		% vaccination cover MCV <sup>3</sup>	
	2000	2003	1998	2003	1998	2003	1998	2003
Bangladesh	82.0	69.0	78	72	78	72	72	69
Burkina Faso	224.8	207.0	40	84	40	83	45	76
Zambia	184.8	182.0	92 <sup>4</sup>	91	92	89	72	78

Source: WHO Statistical Information System (WHOSIS) (<http://www3.who.int/whosis/menu.cfm>)

1 DTP<sub>3</sub> Third dose of diphtheria toxoid, tetanus toxoid and pertussis vaccine

2 Pol<sub>3</sub> Third dose of polio vaccine.

3 MCV Measles-containing vaccine.

4 1999

**Table 7.6** Quality of the care: life expectancy

Country / Year	Life expectancy in no. of years when born in this year, as % of the total population		Healthy life expectancy in no. of years when born in this year, as % of the total population*	
	2000	2003	2000	2003
Bangladesh	61.6	63.0	52.0	54.3
Burkina Faso	42.8	45.0	35.0	35.6
Zambia	37.0	39.0	31.1	34.9

Source: WHO Statistical Information System (WHOSIS) (<http://www3.who.int/whosis/menu.cfm>)

\* Definitions: 'Healthy life expectancy (HALE) is based on life expectancy (LEX), but includes an adjustment for time spent in poor health. This indicator measures the equivalent number of years in full health that a newborn child can expect to live based on the current mortality rates and prevalence distribution of health states in the population'.

For health care, as was the case for the education sector, it is difficult to demonstrate the relationship between the expansion of the public services and the improvement of the health situation. This is firstly because other factors such as nutrition and the supply of drinking water also influence health and secondly because it is estimated that half of the health care is not supplied by government services.

**Box 7.1** Improvements in the health care in Bangladesh

Evaluation studies on trends in health care report a number of positive results: improved access for women to health services, an increase in the use of contraceptives, and falls in fertility and in infant and child mortality. However, the extent to which these improvements may be ascribed to public health care is debatable. These are the government services that are functioning poorly, and it is primarily the poor who make use of them. A survey in Bangladesh found that 40% of doctors working in public health care were absent during working hours, because many have a private practice in addition to their public health function. Furthermore, doctors pay the personnel service of the Ministry to be able to work in areas in which they can expect to find patients for their private practice – and these are not the poorest areas. The poorest areas therefore generally suffer from staff shortages or have less qualified personnel, so here patients are confronted with long waiting times, a lack of medicines, patchy provision of services and unauthorised fees for services (the latter because doctors and nursing staff have to try to recoup the money they have paid the Ministry). Having to pay for both public and private health care lowers the threshold for seeking private care. This explains why the public health care only actually achieves 35–50% of the target coverage.

**3.** *Decentralisation and agriculture/rural development*

Agriculture/rural development and decentralisation were considered to be sectors in their own right at the beginning of the sector-wide approach. However, as noted earlier, the implementation of the sector-wide approach in these sectors encountered major problems. Moreover, decentralisation and agriculture/rural development were allocated much smaller sums than the social sectors. For these reasons, there was little progress with the implementation of the SWAP and only a few general comments on the relation with poverty reduction will be made here.

*Agriculture and productive rural activities (and the water sector)*

The support given to the agriculture sectors in Zambia and Bolivia was aimed at growers producing for the domestic or export market and less at supporting small subsistence farmers. Agricultural entrepreneurs are increasingly being seen as belonging to the private sector; this is also expressed in the Dutch support to that sector. The assumption is that support to farmers who produce for the market will have an income-generating and renewing effect on small farmers in the vicinity. The poor farmers are not one of the target groups of the programme. In Bolivia, part of the programme has been adjusted for the smaller cereal farmers at high

altitude. The results of such programmes are still largely unknown, partly because the sector programmes supported are still in their early stages and partly because progress is slower than expected (Bolivia).

In the water sector in Bangladesh, projects for the poor were funded, in addition to programmes for institutional strengthening of government organisations and improving of physical infrastructure. This enabled the landless to profit – albeit temporarily – from the employment opportunities created by the infrastructural programmes; furthermore, more land could be made suitable for agriculture.

#### *Decentralisation*

The decentralisation of authority and the strengthening of local government were supported in Bolivia, Uganda and Burkina Faso, the expectation being that provision of services and investments could thereby be better attuned to local needs. The effectiveness and efficiency of the public provision of services and investments were expected to increase because at local level democratic control and accountability mechanisms could be better safeguarded.

In both Bolivia and Uganda there was an increase in the transfer of funds to the local authorities. Changing the criteria for allocation resulted in more funds being allocated to poor regions. Since 2000, Dutch aid has been fitted into a multi-donor programme for the decentralisation policy. As most of the money has been used to relieve the debts of the larger urban municipalities, the poorer (generally rural) local authorities have benefited little. In Uganda there has been a big increase in direct investments in the districts: whereas in 1990 only 4% of total investments went to the districts, in 2002/2003 this figure rose to 34%. The evaluation of the first phase of the Local Government Development Programme came up with a positive assessment for the implementation of projects at local level. On the other hand, critical analyses suggest that the party in government politically misappropriated funds intended for decentralisation.<sup>169</sup> The country studies revealed that many problems are preventing decentralisation from performing as expected, i.e. contributing to more effective and efficient provision of services. The studies confirm the reasons for this reported in the international literature: the lack of political will to carry out decentralisation, weak governance at local level, scant focus on the poor by donor programmes, and the appropriation of the pro-

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<sup>169</sup> An important part goes to pay the wages of local administrators (many of whom are nominated because of their loyalty to the ruling party); the creation of new districts gives the government opportunities to give jobs to party officials. Barkan, J. et al. (2004) *The political economy of Uganda, The Art of Managing a Donor-Financed Neo-Patrimonial State*, a background paper commissioned by the World Bank. p.56.



grammes' benefits by the local political elite. There is some insight into the consequences of decentralisation for the quality of the provision of social services, but in the three countries there is a lack of empirical material for testing the assumption that support for decentralisation has benefited poverty reduction.

### 7.3 The contributions from the Netherlands to poverty reduction in the sector programmes

#### *Dutch sector support and focus on poverty*

When choosing the social sectors it was expected that giving priority to primary education and basic health care would primarily benefit the poor. When the sector-wide approach was introduced, however, there was usually no focused and systematic analysis of how the priority for poverty reduction could be assured. Though the Ministry did formulate general instructions, it neglected to go into detail about the aims of poverty reduction and the ways to achieve them. In 2003, concern about the focus on poverty of the Bangladesh government's policy in the education sector led to the embassy deliberately opting to support the project approach and channelling an important part of aid via large non-government organisations. The embassy believed that compared with the central government, these organisations were better able to reach the poor. After 2003, the embassy in Bangladesh did switch to funding the government's education programme, but without relinquishing the funding of the NGOs. The embassy in Uganda went the furthest in concentrating the aid on large government programmes; it now rarely finances interventions from other actors aimed at direct poverty reduction. In Bolivia, local projects aimed at poverty reduction were at first funded directly by the embassy, but from 2002/03 these were phased out. In Zambia and Burkina Faso, the Netherlands supported a relatively large number of projects focusing on specific groups of the poor and vulnerable that were not being reached by the government.

At sector level the Netherlands was actively involved in the design of sector programmes and their accompanying strategies. It is not easy to identify the specific influence of individual bilateral donors. The country studies reveal that in all five countries the Netherlands participated intensively in the discussions on the plans for education and health care, often on the basis of expertise gained through project assistance. The Dutch contribution included strengthening the focus on poverty and improving the position of women and girls. Sometimes, the Dutch input (whether alone, or together with other donors) resulted in plans being modified, more attention being given to poverty reduction, and the promotion of

equality between men and women becoming a more integral part of sector policy. When the funds from the Local Government Development Programme were being allocated in Uganda, the Netherlands made great efforts to promote priority treatment for the poor districts. In a number of sector-wide working groups and in consultations with the government, the Netherlands played an active role in promoting more focus on poverty in policy. There are indications that the Netherlands and other donors influenced governments to modify their policy for the social sectors: in health care more attention is being given to primary health care in rural areas; in education, more attention is being given to primary education, particularly to better access for girls.

### Overview of results

The provision of aid that was less earmarked was tied to agreements about activities and results. It is for this reason that the quality of the sector policy and the monitoring of the results are important. In the five countries, the Netherlands has actively participated in the six-monthly or annual sector reviews carried out jointly by the government and consortium of donors. The reviews differ in their purpose and detail: short visits by a large group of donors to some rural villages (Burkina Faso, health), a report prepared by the Ministry and discussed with the donors (Bolivia, education), or more comprehensive studies reporting on the activities implemented and the outcomes/outputs (Uganda and Zambia, education). External and independent evaluations in the sectors are exceptions rather than the rule.<sup>170</sup> In the five case study countries there had been nine evaluations in 2002 and in 2003; in both years, only four were on the sectors supported.<sup>171</sup> In recent years the Netherlands has not performed any evaluations in the social sectors, because the Dutch embassies concerned believe this would contravene the agreements made for joint evaluations in the context of harmonisation.<sup>172</sup>

There is still little insight into how reforms and policy changes at national level impact at local level. There are few reports on this from the Dutch embassies and

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170 The only sector for which there has been a broad multi-donor analysis is the education sector. Netherlands Ministry of Foreign Affairs, 2003 *Joint Evaluation of External Support to Basic Education in Developing Countries*. The Netherlands played a leading role in this, via IOB.

171 In the partner countries as a whole, 54 evaluations were done in 2002 and 43 in 2003. The comparable figures for the 19+3 countries were 28 and 29. Most of the evaluations were of concrete projects. The joint reviews were not usually considered to be evaluations; the exceptions were Bangladesh (nutrition and education, 2003) and Burkina Faso (education and HIV/AIDS evaluations in 2002). For more information and an assessment of the quality of the evaluations, see: IOB/R. Tesselaar & R. Rodts (2004) and (2005). *Onderzoek naar de kwaliteit van in 2003 (2004) afgeronde evaluaties*.

172 Exceptions are the evaluation studies done in Bolivia under the leadership of the Dutch embassy: the evaluation of the PSAC programme and, earlier, a study of the results of capacity building at local level. For sources and other data, see the country document on Bolivia.

the instruments available for monitoring and evaluation are rarely used. The fact that there are few direct contacts with the local level any more (via project aid, for example) means that the target groups have often literally disappeared from view.<sup>173</sup> As a result, the motto of the policy for the sector-wide approach ‘think micro and act macro’ has remained largely theoretical. Furthermore, the monitoring is still usually done for management purposes, with the emphasis on policy implementation and the supply of agreed inputs. The shift from output to outcome indicators (i.e. from what has been promised to what has been achieved) that is assumed in the policy for the sector-wide approach has, in practice, rarely occurred. As a result, the relation between concrete outcomes of the activities and the targets of the poverty strategies remains vague. Despite their attention to management, members of the consortium, including the Netherlands, have done little research into the flow of policy and funds from central to district and local level. The appropriate instruments for this (such as a public expenditure tracking survey) have seldom been deployed. And with regard to content, the Netherlands has not been very insistent that specific instruments be used to promote and monitor the focus on poverty in the sector policy.<sup>174</sup> To monitor the budgetary processes at national level it has largely used the tools developed by the World Bank, such as Public Expenditure Reviews (PER). With a few exceptions, the technical and financial contributions have had no specific Dutch input or expertise and the analyses important for the focus on poverty have mostly been carried out by the World Bank.<sup>175</sup>

#### 7.4 Conclusions

Since the introduction of the sector-wide approach the Netherlands has increasingly relinquished accountability for poverty reduction to the central government. Support to national sector programmes has also enabled the rapid expansion of enrolment in primary education. As many sector programmes are general in scope, the services and investments of the central government are not adequately focused on reaching groups of poor people. In most of the social sectors supported, special supplementary measures are being taken to improve the access to services for the poor.

173 As evidenced by the frequent complaints from embassy staff that nowadays there is very little time for field trips. At present, most time is taken up in administration, managing the programme and intensive discussions with donors and the government.

174 Such as household and community surveys (analysing services and the cost/benefit ratio) or surveys of the provision of services (analysing why population groups do or don't use services). A survey of the latter type has been done in Uganda.

175 Exceptions are the health sector in Zambia and water in Bangladesh.

Although poverty reduction is the main aim in Dutch policy, within the framework of the sector-wide approach the policy has neither been developed further nor been operationalised for implementation.

Though the Netherlands has contributed to promoting a perspective on poverty at sector level, insufficient systematic attention has been paid to deploying instruments and mechanisms that ascertain a focus on poverty in the services and care provided. The same is true of the monitoring and evaluation of sector support, with the result that the Ministry has little idea of how much of the aid and government investments are reaching poor regions or specific groups of poor people.

The link between macro and micro relationships that is emphasised in the wording of the policy is difficult to trace in practice. The ample attention paid to interventions at macro level relies little on the information on how the sector support impacts at micro level. By increasingly abandoning project aid and interventions at meso and local levels, the Netherlands is losing sight of development from below.

## 8 Concluding remarks

### Introduction

The ultimate aim of the sector-wide approach was to help achieve more effective and more sustainable poverty reduction. In Section 8.1 the findings of the preceding chapters are drawn on to answer the main question of this evaluation: has the sector-wide approach created better conditions for sustainable poverty reduction? Section 8.2 discusses how the sector-wide approach has impacted on the changes in the focus on poverty reduction in Dutch bilateral aid. The final section reiterates some of the issues to be borne in mind for future policy.

### 8.1 The sector-wide approach and the conditions for effective poverty reduction in the five case study countries

The expectation that the sector-wide approach would help improve the effectiveness of aid was based among other things on the assumption that unlike traditional project aid, interventions at macro and sector levels would contribute structurally to poverty reduction.

Criticism of project aid was one of the reasons the sector-wide approach was introduced. In the past, reports by the IOB and others frequently commented that project support usually delivered reasonable to good results in the short term, particularly by supporting activities to benefit production and raise incomes. But it was also noted that a crucial condition for success in the longer term was a stimulating government policy. Even where projects produced reasonable to good results, the sustainability of these results was limited if the macro-economic pol-



Ethiopia, Awasa, 20 July 2004. Government buildings and signs in Amharic script, Photo: Reinout van den Bergh/Hollandse Hoogte.

icy environment was unfavourable – a problem that cannot be resolved at project level.<sup>176</sup>

The sector-wide approach started a trend to replace project aid by support to the central government’s sector programmes; in a number of countries (about half of the selected priority countries), project aid was replaced by budget support. Even in countries where the sector-wide approach has made little progress, the trend is to align aid more with government policy. The expectation that this approach would enable the problems at macro level to be tackled structurally has been largely fulfilled. The support to sector policies has shown that an integral approach to the issue of poverty reduction is possible. In most sectors, donor support was for a broad programme of reforms in the entire sector or subsector. In addition, an attempt was made at supra-sectoral level to remove obstacles to the implementation of sector policy, such as salary and national personnel management policy for civil servants. Furthermore, it was found that sector aid has poten-

<sup>176</sup> Inspectie Ontwikkelingssamenwerking te Velde (1995). *Bevindingen en aanbevelingen 1984-1994. Focus op Ontwikkeling 3*. IOB. (1999). *Algemene bevindingen uit IOB rapporten 1984-1998, een actualisering van bevindingen uit 1994 op basis van recente IOB-rapporten*. Sterkenburg, J. and van der Wiel, A. (1999) *Integrated Area Development. Experiences with Netherlands aid in Africa. Focus on Development/10*. Ministry of Foreign Affairs. For the Andes region of Bolivia: IOB (1998). Bolivia (1998). *Evaluation of the Netherlands Development Programme with Bolivia*.

tial to achieve impact on a broader scale than project aid. Thanks to the focus of sector support at macro level and on aspects of policy, it has also been possible to greatly expand the provision of public services, particularly in education.

Whether this approach also contributed to effective poverty reduction, however, depended on three conditions:

- a) The policy of the recipient government did indeed focus on poverty reduction, as evidenced by explicit priorities embedded in a strategy to combat poverty, translated into a funding plan, and expressed in the budget.
- b) The administration of public finances was qualitatively good and transparent.
- c) The government had sufficient capacity to actually implement the policy focused on poverty reduction.

The sector-wide approach attempted to contribute to the fulfilment of these conditions. In collaboration with other donors, the Netherlands sought to encourage the use of the PRSP as a route map for poverty reduction. Via budget support and the associated consultations, the Netherlands also wished to contribute to improving the management of public finances. Finally, the Sector-Wide Approach policy document emphasised the significance of strengthening institutions.

The findings reported in earlier chapters reveal the extent to which this has been achieved.

#### a) *Commitment to poverty reduction*

The PRSP has been a guiding instrument for poverty reduction in only a few countries. The most important impediments to its use have been the lack of the recipient government's ownership of the strategy to combat poverty, the PRSP's ambitious character and failure to implement the PRSP. Moreover, for the time being it appears to be difficult to secure the recipient government's financial commitment to the aims of the PRSP. In many countries, the way the budget is drawn up makes it difficult to track expenditure on poverty reduction. Furthermore, the spending on the social sectors has indeed increased in most countries, but disbursements for poverty reduction have been largely funded from foreign aid. With a few exceptions, governments have done little to increase their funds for poverty reduction.

*b) Improvements to the management of public finances*

In those countries that have received general budget support and in which donors have invested in training and institutional strengthening in this area, there have generally been positive reports about improvements in the management of public finances. The funding of the activities of the line ministries has been integrated more in the budgetary process, thereby increasing the transparency of that process. Many studies have described the links between PRSP, funding policy, and budgetary process as weak, however, so therefore there is still little insight into the coherence between government expenditure and poverty alleviation.

*c) The government's capacity to implement poverty reduction*

The recipient government's implementation capacity frequently falls short of the demands made by the new sector policy and the rapid expansion of the provision of services. With a few exceptions, sector ministries are experiencing major problems in implementing policy – especially policy focusing on the poor – and plans. Strongly centralised planning and budgetary processes are very common (and usually subsumed in the Ministry of Finance), with little attention for the policy implementation at local level.

The balance sheet of the progress made in achieving the stipulated conditions shows positive results for the occasional country and for some sectors, but across the board the fulfilment of two of the three is minimal or unclear. The limited progress is attributable not only to domestic problems in the recipient countries, but also to constraints that prevent donors from modifying their policy and procedures. At the beginning of the sector-wide approach, the Netherlands frequently neglected to systematically assess the institutional capacity to take on for the anticipated transfer of responsibility. Moreover, much of the aid given by donors for capacity building was fragmentary and focused strongly on financial management and on strengthening the economic and financial institutions. In addition, capacity building was frequently concentrated at central level and much less at regional and local levels.

The extent to which the three conditions have been fulfilled has repercussions on the prospects for more effective poverty reduction. Although the poor have profited from improved access to services, the quality of the provision of services has improved little if at all, and getting sector policy to focus more on the poor and on poverty reduction is still beset with huge problems. The impediments include the following:



- a) The funding and provision of services do not reach local level sufficiently and policy is not sufficiently focused on reaching the needy.
- b) Public institutions at local level have a limited implementation capacity and are functioning imperfectly. There are insufficient incentives to focus the provision of public services on the poor.
- c) To increase the effectiveness and efficiency of the provision of services it is necessary to make a clear distinction between the public and private domains and to adjust government's policy and organisation accordingly. However, the public sector reforms needed to achieve this are generally not carried out beforehand, but instead are carried out concomitantly or not at all.
- d) Political factors influence the financing of the provision of services and also the access to these services. Political loyalty and clientelism often play an important role when funds are being allocated to regional and local levels. At local level, the poor depend on local authorities for access to services. Corruption may also play a role in this. In this sense, lack of access to government services is also a political problem.

These factors help explain why the application of the sector-wide approach currently offers few prospects for solving a number of intractable problems to do with poverty reduction. The poor in marginal regions remain outside the view of the provision of public services, because national policy is supply-driven, focuses strongly on supplying inputs, and has been designed to serve all strata of the population. In the framework of the sector-wide approach, attention has primarily focused on the problems at macro level and far less on those at local level. Recent publications on public services, however, emphasise the need for greater accountability to and control by the users of the services; too little attention has been paid to this when implementing the sector-wide approach.

The sector-wide approach was intended not only to make poverty reduction more effective, but also to make it more sustainable. It was assumed that aid would be more sustainable if the efforts to reduce poverty were made under the control of the governments of the recipient countries.

In certain countries and sectors, it is clear that the government's ownership of policy and aid has increased and that this has benefited the sustainability of aid. Sector policy and the reforms in the implementation structure have been continued for a longer period. But there are also examples of sector policy in which an increase in ownership has not led to more sustainability and there has been a relapse. In these cases, the main reasons for failing to achieve the expected

increase in ownership are the dependence on aid, the lack of implementing capacity and the influence of domestic politics. Furthermore, there are grave doubts about the financial sustainability of the sector support, not only because of the great dependence on foreign aid but also because of uncertainty about whether the running costs arising from the growth in capital investments in the social sectors can be financed by the country's tax revenues and benefits from economic growth.

## **8.2 The sector-wide approach and poverty reduction in bilateral development cooperation**

The introduction of the sector-wide approach as the guiding principle for bilateral aid drastically altered the overall approach to poverty reduction in terms of the selection of priority countries for Dutch aid, the selection of sectors, and also the application of aid modalities.

When selecting the priority countries, mean income was used as an indicator of poverty. This is a poor yardstick for measuring the extent of poverty and the gravity of the poverty issue. The selection of countries in 1998/99 resulted in the termination of development cooperation with eleven least developed countries. In the country selection of 2003, the relative importance of poverty declined even more: only two of the fourteen partner countries added came from the group of least developed countries.

Opting for the social sectors has led to a sharp decrease in the attention paid to the economic dimension of poverty, even though in all countries this is considered to be the central problem. When the poverty situation is measured in terms of the internationally applied standard of an income of two US dollars a day (corrected for purchasing power), it turns out that in many priority countries over 70% of the population can be characterised as poor. The lack of improvement in the incomes of the population threatens the sustainability of the investments in the social sectors. In all countries, poverty reduction greatly depends on the extent to which the poor can profit from economic growth.

Where previously a 'two-track policy' was applied by supporting direct interventions in poor regions as well as the economic-growth policy of the central government, aid is now increasingly being concentrated on the central government. In countries where aid is increasingly being provided in the form of budget support, donors are no longer directly intervening to compensate for the government's failure to alleviate poverty. The choice of aid modalities is directed largely at sup-

porting all or part of the central government's budget. Although the sector-wide approach does not preclude this, in practice little support is given to other actors, such as regional or local governments, NGOs and other civil society organisations. Furthermore, as there is little systematic monitoring and evaluation from the micro perspective, the embassies have less direct contact with the local level. In the policy documents for the sector-wide approach the emphasis was on 'thinking from the micro level' and 'acting at the macro level'. The starting point for the support to the sector policy should have been the situation of the poor, but in practice this was often not applied systematically.

The speed at which in some countries the Netherlands has adjusted the programme more towards sector support and general budget support has taken little account of the reservations about the recipient government's political commitment and implementation capacity. This rapid change has moreover been based on the expectation that government policy could be influenced through dialogue and by setting agreed performance targets for sector and budget support. To date this has only partly been the case. Owing to the persistent corruption and because poverty reduction is regularly made subordinate to domestic politics and the economic interests of those in power, the basis of trust on which the new policy rests has been severely tested. Though there are great advantages to budget support



Uganda, Kampala, February 2006. Photo: Sven Torfinn/Hollands Hoogte.

from the perspective of alignment, there are only very indirect and, for the time being, slight indications of its relevance to poverty reduction.

### 8.3 Points to be borne in mind for future policy on poverty reduction

The foregoing considerations yield the following points specifically relating to sector support and poverty reduction that should be borne in mind for future policy.

#### 1. *The sector-wide approach and poverty reduction*

The interaction between macro and micro levels that is given such heavy emphasis in the policy for the sector-wide approach has receded to the background both in policy and in practice. The question now is how sector aid can be better geared to more penetration to regional and local levels. Moreover, more attention needs to be given to the obstacles and impediments hampering the implementation of the sector policy at meso and local levels. It therefore remains important to strengthen the administration at regional and local level.

#### 2. *Mix of aid modalities*

The difficulties identified in reaching the poor by giving support to the central government's sector policy are no justification for falling back on project aid that preceded the introduction of the sector-wide approach. Much of the argument for striving to better align the aid with the policy and financial management frameworks of the recipient government is still valid. More strategic deployment of project support in order to achieve innovation, policy development, and, where necessary, to compensate for the central government's limitations to reach the poor should be considered, particularly in countries in which progress is being made in implementing the sector-wide approach. Furthermore, project aid can help to investment in a bottom-up sector approach and to keep in touch with the impact of national policy at local level. Project aid would then have to be an integral component of sector development.

#### 3. *Priority for social development*

There are various reasons why the priority for aid to the social sectors needs to be reconsidered:

- a) Within the donor community, offers of aid for the social sectors are increasing – partly in response to the millennium development goals. In most countries, this increase is not the result of clear agreements between donors about a division of labour.

- b) Now that more donors are focusing on the same social sectors, the limited absorption capacity of the central governments of the recipient countries is becoming increasingly apparent.
- c) There are doubts about the sustainability of the investments in the social sectors, because of the lack of prospects for internally financing the running costs of the investments and because the social sectors are heavily dependent on external financing.
- d) As the income of the poor is not improving (or not improving fast enough), there are currently no prospects of contributions by the local population.

It is necessary to take a fresh look at the economic dimension of poverty in poor regions. In the new generation of PRSPs and national development plans, more priority is expressly being given to the productive sectors and economic development. This could be a suitable basis for donor support. However, support to the productive sectors requires the government's task to be clearly delineated: high priority must be given to institutional support for this. Subsequently, donors must strengthen government organisations to carry out their responsibilities effectively.



# Annex 1 IOB

## About the Policy and Operations Evaluation Department

### Objectives

The Policy and Operations Evaluation Department (IOB) meets the need for independent evaluation of policy and operations in all policy fields falling under the Homogeneous Budget for International Cooperation (HGIS). Its evaluations enable the ministers to account to Parliament for policy and the allocation of resources. In addition, the evaluations aim to derive lessons for the future. Efforts are accordingly made to incorporate the findings of evaluations into the Ministry of Foreign Affairs' knowledge cycle. Evaluation reports are used to provide targeted feedback, with a view to improving both policy and implementation. They enable policymakers to devise measures that are more effective and focused.

The IOB also advises on the planning and implementation of non-central evaluations commissioned by policy departments and embassies.

### Approach and methodology

IOB has a staff of experienced evaluators and its own budget. When carrying out evaluations, it calls on the assistance of external experts with specialised knowledge of the topic under investigation. To monitor its own quality, it sets up a reference group for each evaluation, which includes not only external experts but also interested parties from within the Ministry.

### Programme

IOB has a rolling multi-year programme which is updated every two years. This programme is devised using an internal selection process based on an assessment of the political, social, policy-related and financial implications of all possible

themes, as well as on a number of broad consultations within the various parts of the Ministry. Once adopted, the programme is submitted to Parliament by the Minister of Foreign Affairs and the Minister for Development Cooperation.

### **An organisation in development**

Since IOB's establishment in 1977, major shifts have taken place in its approach, areas of focus and responsibilities. In its early years, its activities took the form of separate project evaluations for the Minister for Development Cooperation. Around 1985, evaluations became more comprehensive, focusing on sectors, themes and countries. Moreover, IOB's reports were submitted to Parliament, thus becoming public.

1996 saw a review of foreign policy and a reorganisation of the Ministry of Foreign Affairs. As a result, IOB's mandate was extended to the Dutch government's entire foreign policy, in which development cooperation occupies an important place. In recent years, it has also sought to extend its partnerships with similar departments in other countries, for instance through joint evaluations.

Finally, IOB also aims to expand its methodological repertoire. A recent example is the application of statistical methods of impact evaluation.

IOB's history shows considerable changes in the approach and methodology of its evaluations. However, its strict independence has remained constant. This, combined with its thorough approach and professional evaluations, ultimately forms the rationale for IOB's existence.



# Annex 2 Terms of reference of the evaluation study on the implementation of the sector-wide approach in bilateral aid

## 1. Introduction

The 2003-2007 programming for the Policy and Operations Evaluation Department (IOB) states that bilateral development cooperation is a key area for IOB and that a new and coherent evaluation programme will be worked out for it. It also identifies the sector-wide approach as a priority and announces that it will be evaluated. The Minister for Development Cooperation, Agnes van Ardenne, announced the evaluation during the debate on the Ministry of Foreign Affairs' budget on 17 December 2003.

Evaluation is desirable for several reasons. The policy changes made upon the introduction of the sector-wide approach prompted a great deal of discussion both inside and outside parliament. The sector-wide approach also had consequences for the organisation and structure of bilateral aid in the recipient countries. Now that four years have passed since the policy's introduction, the evaluation can contribute to reporting on its implementation and results to parliament, and to the development of bilateral aid policy.

## 2. Aim of the evaluation and evaluation questions

### 2.1 Aim and evaluation questions

**The aim of the evaluation** is to help account for the disbursement of Dutch bilateral aid funds in the 19+3 countries in the period 2000–2003 and in particular for the extent to which the policy intentions and desired results of the sector-wide

approach were achieved. The evaluation will concentrate on whether and to what extent the introduction of the sector-wide approach has improved conditions for achievement of the main objective of Dutch development policy, namely poverty reduction. To this end, the following key questions have been formulated:

- 1) *To what extent have the desired changes in Dutch policy been achieved and what explanatory factors can be given for the findings?*
- 2) *To what extent have the desired changes in the aid recipient country been achieved and what were the most influential factors?*

### 1. Policy changes

The main desired policy changes can be identified from a reconstruction of the policy. The evaluation of the policy changes will concentrate whether they have actually been achieved or not.

The following questions have been formulated to determine whether the desired policy changes have been achieved:

- 1.1 **Selectivity:** Is aid being granted to the poorest countries that meet the criteria for aid effectiveness?
- 1.2 **Concentration on countries:** Is bilateral aid being concentrated on a more limited number of countries?
- 1.3 **Concentration on sectors:** Is bilateral aid being concentrated on a maximum of three sectors in the 19+3 countries?
- 1.4 **Choice of sector and sectoral support:** Are the choice of sector and the sectoral support in line with the preferences and priorities of the recipient country's government?
- 1.5 **Fewer earmarked forms of aid:** Is sectoral programme aid increasing as a proportion of total sectoral aid?
- 1.6 **Donor coordination:** What is the scope and intensity of the Dutch efforts at donor coordination within the sectors?
- 1.7 **Donor harmonisation:** Is the conditionality of Dutch financing being reduced in favour of a joint approach and the transfer of donor responsibilities to the recipient government?
- 1.8 **Long-term commitment:** Is the desired long-term commitment being shown to the 19+3 countries?

A quantitative study would be a good source of general answers (i.e. for the 19+3 countries) to these questions. The study will be comparative in that the values awarded for each indicator will be compared with each other over time. *Selectivity*

(1.1) will be evaluated by determining whether the criteria were appropriate and applied consistently. The values awarded for each criteria will be checked and compared with the values awarded for indicators from other international databases. The values awarded to the selected countries will be compared with those awarded to other groups of countries, e.g. countries that have not been selected or the Least Developed Countries. The relationship between the values awarded for the indicators and the allocation of resources will also be studied.

The *concentration* (1.2 and 1.3) of aid on countries and sectors will be determined by analysing the changes in the commitment and expenditure in the selected countries and sectors.

A more qualitative approach will be needed to evaluate the concurrence between the *choice of sector and sectoral support* (1.4) and the recipient government's priorities. The extent to which and the way in which the missions made the required preparations for the choice of sector and sectoral support will be studied. The choice of sector and allocation of the aid within the sectors will be compared with the priorities set in the recipient country's sectoral policy and other policy documents and in the PRSP.

The use of *fewer earmarked forms of aid* (1.5) will be evaluated by calculating the amount of sectoral programme aid as a proportion of total sectoral aid and the decline in project and earmarked programme support.

*Donor coordination and harmonisation* (1.6 and 1.7) will be evaluated by means of indicators developed during IOB's study of donor coordination and sectoral support in Uganda. The amount of joint financing as a proportion of sectoral support will be an important quantitative criterion.

*Long-term commitment* (1.8) will be determined by analysing expenditure, commitments for 2000–2003 and projected allocations for subsequent years.

## 2. *The required changes in the recipient country*

An important assumption in the sector-wide approach is that placing ownership with the recipient government (subject to certain conditions) will facilitate poverty reduction. This will require an increase in the recipient government's capacity to formulate and implement poverty reduction policy. This assumption underlies the formulation of the questions that will be used to evaluate the desired changes in the recipient country.

- 2.1 **Promoting ownership:** To what extent have responsibility for decision-making on and the management of Dutch aid in the sectors supported by the Netherlands been assumed by the recipient country's government and how can their quality be evaluated?
- 2.2 **Strengthening the recipient government's implementation capacity:** Has there been an increase in the recipient government's capacity to formulate and implement sectoral policy in the sectors supported by the Netherlands?
- 2.3 **More efficient management of aid:** Has the desired increase in aid efficiency been achieved?

The question on promoting *ownership* (2.1) relates to the transfer of responsibility for Dutch aid. To what extent is Dutch aid consistent with the recipient government's procedures, regulations and management frameworks? In part, this can be expressed quantitatively. The quality of management can be expressed by giving scores on a number of indicators of the quality of reports and the monitoring of sectoral support.

*Strengthening the recipient government's implementation capacity* (2.2) can be evaluated by means of Public Finance Expenditure Reviews, and existing indicators and criteria taken from manuals on the monitoring of the PRSPs. Important criteria for this will be expenditure and the policy's poverty focus.

The *efficiency* (2.3) of aid management will be evaluated, as in the aforementioned IOB evaluation in Uganda, by studying changes in the transaction costs of the aid. The extent to which those changes increase the aid's effectiveness should be reflected in changes in the policy's poverty focus and expenditure in the sectors being evaluated.

## 2.2 The evaluation framework

As noted above, the sector-wide approach and its application are fairly narrowly defined. For some parts of the policy, such as the use of different forms of aid, concrete verifiable criteria are available. They were used in a preliminary study to work out a provisional evaluation framework.

If a log frame approach is preferred, the policy can be treated as input, the policy changes as outputs and the desired changes in the recipient country's government as outcomes. The questions can then be answered by indicating the extent to which the changes in the recipient country (the outcomes) are due to the changes in policy (the outputs).

The evaluation framework determines how the desired changes can be evaluated and what sources of information are required. Wherever possible, the precise descriptions and definitions are taken from existing policy documents. On completion of the policy reconstruction and the analysis of available information, the evaluation framework can be worked out in further detail, particularly with regard to the outcomes.

### 2.3 Evaluation criteria

The applicable evaluation criteria are effectiveness and efficiency.

*Effectiveness:* to what extent can the identified outcomes be attributed to the outputs of the intervention? In evaluating effectiveness it will frequently be impossible to separate the Dutch contribution from that of other donors. This need not be a problem if the scale of the Dutch contribution to the activities and financing undertaken jointly with the other donors can be specified.

*Efficiency:* The implementation of Dutch policy can be evaluated by studying changes in transaction costs. The outcomes will be evaluated in the same way by studying the changes in aid transaction costs for the recipient country's government.

In view of the relatively short period of time in which the sector-wide approach has been implemented the evaluation will not consider its *impact*. Moreover, a different evaluation structure and approach would be needed to consider impact, with the results being evaluated at the level of the target groups and preferably in cooperation with other donors. The findings of this present evaluation are expected to form an important reference point for the planning and organisation of a future evaluation of effectiveness and impact in terms of poverty reduction.

## 3. Evaluation methods and definition

### 3.1 Methods and structure of the evaluation

The evaluation's structure and approach will have three components.

#### a) Policy reconstruction

The first stage of the evaluation will consist of a more detailed reconstruction of the policy. Attention will also be paid to development of the policy. The policy can be reconstructed by studying relevant policy documents and interviewing members of staff. It is also proposed that a workshop be organised to discuss a draft of

the policy reconstruction with the former members of the now defunct Sector-wide Approach Support Group and other members of staff at the ministry who were involved in policy formulation and implementation.

*b) Study of the implementation of the policy in the 19+3 countries*

Selectivity will be studied by means of a quantitative analysis using existing databases. The results of this analysis will be verified by interviews and talks with policy officers who were involved in the selection and country screenings. To evaluate implementation of the policy changes, a database has been constructed with relevant quantitative data on all 22 countries. A standard fiche will be made for each country showing the most important scores and complementary qualitative assessments. This database can serve as a starting point to evaluate concentration, allocation, aid forms and long-term commitment. This study will be principally a desk study; the information on each country can be verified with the missions by means of email. Where possible, staff who were actively involved in the sector-wide approach at the missions during the period in question will be interviewed.

*c) A number of case studies of the policy implementation process and the desired outcomes.*

Country studies have been chosen so that attention can be paid to the influence of environmental factors on achievement of the desired results and the concurrence between the sector-wide approach and the development of policy in the recipient country. Factors that influence more than one sector should also be considered, as should the macro level. Fungibility is an important theme and the extent to which changes in the government's budget are a result of aid being concentrated on a limited number of sectors must be determined. The decision to use country studies does not mean that sector-specific analyses cannot be made and the findings compared where possible with those from other countries. At a later stage, the terms of reference for specific countries will determine whether the study of the desired outcomes should be limited to one or more sectors.

The country studies will be organised around the following themes:

- 1) context and environmental factors that have a direct bearing on achievement of the aims of Dutch bilateral aid;
- 2) aims and composition of bilateral aid in the period before the introduction of the sector-wide approach;
- 3) the implementation process and the achievement of the desired policy changes on the part of the Netherlands;
- 4) the achievement of the desired outcomes.

A substantial part of the general information on the desired outcomes can be derived from existing sources, many of which are available electronically. Much of this material was collected during the preliminary study.

Missions lasting several weeks have been planned to carry out the following activities for the country studies:

- a) a desk study of Dutch policy and its implementation;
- b) background talks and interviews with embassy staff to obtain further information and to verify preliminary findings;
- c) a study of available budget analyses of the sectors supported by the Netherlands and, where necessary, additional studies;
- d) the collection of supplementary information on policy and its implementation per sector;
- e) a limited number of interviews with key informants at other donors, government policy officers and civil society organisations.

When the preparations have been completed, separate terms of reference will be drawn up for the organisation and methods of each country study.

### 3.2 Definition and selection of country studies

#### *Number of cases*

Five case studies will be carried out: four field studies and one desk study. This number has been chosen for two reasons:

- a) the evaluation must consider a sufficient number of cases for it to cover a significant proportion of expenditure: 20–25% of the total;
- b) the evaluation's feasibility, based on the estimated time and effort required. Some questions might be answered using the results of other evaluations (such as those carried out by other donors and the products of joint monitoring and evaluations, e.g. the joint sector reviews and the public finance expenditure reviews) so that the evaluation to be carried out in the countries concerned can concentrate on the Dutch role and contributions.

#### *Selection criteria*

The countries were selected on the following criteria:

- a) an uninterrupted aid relationship during the period evaluated: the introduction of the sector-wide approach was not seriously impeded by violent incidents;
- b) a spread of countries receiving varying degrees of sectoral programme aid (as a percentage of total aid);

- c) geographical spread: two countries in Africa (one in West Africa and one in East Africa), one in Latin America and one in Asia;
- d) diversity of the sectors.

This resulted in the following selection.

Provisional list of countries for desk and case studies

Country/ Sector	H	E	RD	GG	Water	Other sectors	Sectoral programme aid as a percentage of total sectoral aid	Amount of sectoral aid 2000–2002 in millions of euros
1. Zambia	x	x	x (ec dev.)				57%	67.6
2. Bolivia		x	x	x			47%	45.2
3. Bangladesh	x	x			x	Rural electrification	23%	61.6
4. Burkina Faso	x	x	x				10%	48.3
Desk study: Uganda		x		x		Legal sector	82%	49.9
<b>Total</b>	<b>3</b>	<b>5</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>2</b>		<b>272.6</b>

Key: H = Health, E = Education, RD = Rural Development, GG = Good Governance

The evaluation will concentrate on the period since 2000. It will consider previous years if necessary to make comparisons with the situation before the introduction of the sector-wide approach.

### 3.3 Representativeness

Since the evaluation is made up of several components, all relating to different indicators and groups of countries, its desired representativeness can be summarised as follows:

- a) the evaluation of selectivity will consider the 19+3 countries as a whole;
- b) with regard to the quantitative indicators, the evaluation of policy implementation will consider all sectors in the 19+3 countries. For a number of indicators, information is available on only a smaller number of sectors and/or countries;



- c) a comprehensive and qualitative analysis of the implementation can be made only as part of the case studies. In this case, the findings will relate to 16 of the 68 sectors in total and to 24% of the sectoral expenditure in the 19+3 countries;
- d) the evaluation of the desired changes in the recipient countries will consider a combination of countries, sectors and entities. Precisely how many sectors the case studies will cover will be decided at a later stage. In view of the great diversity between the countries, it will only be possible to generalise the findings on the outcomes per country to a limited degree, if at all. Depending on the underlying evidence, the findings on Dutch policy and its implementation may be indicated in more general terms.

## 4. Structure of the evaluation

### 4.1 Implementation and assistance

The Policy and Operations Evaluation Department (IOB) will be responsible for organising and carrying out the evaluation. The inspector will be responsible for the evaluation's design and implementation and for the final report. A research officer has been appointed for the evaluation. A preliminary study of the country selection and allocation will be carried out by the Institute of Social Studies.

A senior consultant from the SEOR research institute has been appointed to coordinate and conduct the country studies. Together with the inspector, he will be responsible for planning, implementing and reporting on the country studies. The senior consultant will be involved in at least three of the four studies. Another consultant will be engaged for the individual country studies. A reference group has been appointed to monitor the evaluation. It has two external members and two members from the ministry. The United Nations and International Financial Institutions Department (DVF), the Social and Institutional Development Department (DSI) and the missions in the countries in which the case studies will be conducted will be regularly consulted on the evaluation's findings.

### 4.2 Reporting

The evaluation's findings will be set out in a final report. Working documents will be issued on individual studies where possible.

### 4.3 Planning

The aim is to begin preparations for the country studies as soon as possible once the terms of reference have been approved. The start of the first country study is

planned for April 2004. The study will be completed as far as possible in the opening months of 2005. The draft final report can then be expected around mid-2005.

# Annex 3 The study's set-up and organisation

## 1. The perspective of the evaluation

The sector-wide approach was intended to improve the effectiveness and sustainability of the aid. Strictly speaking, an evaluation of the sector-wide approach should first establish the results of the policy in which the approach has been applied and then compare them with the results in countries, sectors, or periods in which the approach has been applied less or not at all. It is doubtful whether such an evaluation would be methodologically feasible. By comparison, the present evaluation was less ambitious in set-up and scope. It aimed to establish whether the policy has been implemented and, where this has been done extensively, whether this has contributed to the desired effects. In addition, where possible, comparisons have been made with the policy prior to the application of the sector-wide approach. With regard to the aim of poverty reduction, the evaluation only examined how the application of the sector-wide approach has affected the prospects of achieving this aim. It therefore did not consider the impact of the sector policy that was supported. The evaluation may therefore be seen as paving the way for follow-up studies that will primarily examine the effects and impact of sector policy. In 2006 such studies got under way on primary education, drinking water and sanitation.

## 2. Mode of operation

The evaluation comprised the following components:

### 1. *Selectivity study*

This was primarily a qualitative study of the selectivity in Dutch aid policy during the period 1998–2004. The central research question was whether there is empirical support for the role played by the prescribed criteria in the selection of countries and the allocation of funds. First, therefore, an attempt was made to deter-

mine which factors might explain whether countries were or were not selected as priority countries by the Netherlands. This was followed by an analysis to identify the variables that can explain the distribution of Dutch aid. Finally, the difference between the priority countries and the countries that were not selected by the Netherlands was examined, using scores for the criteria and certain related core characteristics.

## 2.     *Case studies*

Five case studies were conducted, in Bangladesh, Bolivia, Burkina Faso, Uganda and Zambia. The first – at that stage, a reconnaissance – was in Burkina Faso. The experience gained was used when drawing up Terms of Reference for the other studies. All the case studies considered: a) the country context, b) an analysis of Dutch aid prior to the introduction of the sector-wide approach and the composition of aid after the introduction, c) the specific trends per sector d) ownership and e) the approach to poverty reduction.

Each country study was prefaced by a short preparatory visit to the embassy in question. In the second phase, files and literature were studied. In the third phase, the research was done in the country concerned: on average, 15 days were usually reserved for this. An important part of the research entailed archive research and background discussions in the Dutch embassy; in addition, supplementary information was assembled by the ministries relevant for the sectors, and by NGOs and other donors. Each country mission comprised two Dutch consultants plus one or more local consultants. A somewhat different procedure was followed for Uganda: here, a working document was first prepared on the basis of the available information, after which the visit to Uganda was mainly used for verification and to find specific missing information. Each mission concluded with a meeting with embassy staff, for feedback of the findings. The first draft of each country report was presented to the embassies; all took advantage of the opportunity to add comments. As many of the comments as possible were incorporated into the second draft. That draft also elicited some comments which were incorporated into the definitive text.

## 3.     *Policy reconstruction and database*

Policy was reconstructed on the basis of background discussions and a study of the files. This entailed consulting the sector-wide approach archive in DGIS, the parliamentary documentation, internal memos and the relevant policy documents.

The database on disbursements in the 22 countries was constructed from the programme aid correspondence, the embassy annual reports and the Ministry's information system MIDAS that in 2003 was replaced by Piramide. The transition from one system to another gave rise to many problems when collating data series through the years, because data from the old and new systems were often incompatible. Furthermore, the switch to the new system resulted in a serious (though temporary) backlog in the input of data which coincided with the research. Piramide has greatly improved the transparency of the figures. The classification of SBEs (types of accounts) now corresponds to the classification of sectors according to policy content. The reliability of the data on the aid modalities is still variable, but has improved since 2003, when the embassies verified the data and checked the classifications supplied. Sometimes problems were encountered when compiling the database, because data from different sources did not always correspond. It was occasionally necessary to correct the figures in light of the research in the embassies in the five case study countries.

#### 4. *The framework of the evaluation: criteria and indicators*

The overview below gives details on the framework used for the evaluation and of the criteria and/or indicators used to answer the questions used for the evaluation.

### Overview of research questions and of how criteria and/or indicators were verified

Evaluation theme	Research question	Verification criterion	Indicator
<b>a. Policy changes in Dutch policy</b>			
1. Selectivity	Have the evaluation criteria been applied consistently?	The 22 countries scored better on the selection criteria than the countries not selected.	<ul style="list-style-type: none"> <li>a) No. of countries with per capita GNP above the IDA threshold.</li> <li>b) No. of Least Developed Countries selected.</li> <li>c) Scores on selection criteria: countries selected versus countries not selected.</li> <li>d) Score for variables other than the selection criteria.</li> </ul>
	What was the quality of the criteria?		<ul style="list-style-type: none"> <li>a) Scores for the criteria used, compared with alternative criteria &amp; databases.</li> <li>b) Changes in the score over time.</li> </ul>
	Do scores for selection criteria influence the allocation of funds?		Correlation between size & growth of disbursements on the one hand & scores for selection criteria on the other.
2. Concentration	Is the aid more concentrated in the selected countries?		<ul style="list-style-type: none"> <li>a) Disbursements to 22 countries as % total ODA.</li> <li>b) Disbursements to 22 countries as % total bilateral ODA.</li> <li>c) Disbursements to 22 countries as % total delegated bilateral ODA.</li> </ul>

**Overview of research questions and of how criteria and/or indicators were verified**

Evaluation theme	Research question	Verification criterion	Indicator
3. Sector selection	Is the aid within the selected countries concentrated more in the priority sectors?	The sector selection is in agreement with the priorities of the recipient country.  Sector selection is in agreement with national policy priorities / draft or final PRSP.	<ul style="list-style-type: none"> <li>a) % of the aid spent in the sectors.</li> <li>b) % disbursements on exit, other &amp; supra-sectoral themes.</li> </ul>
	Has the number of activities decreased?		<ul style="list-style-type: none"> <li>a) No. of activities with expenditure (from &gt; NLG 100,000) per country &amp; per sector in 1999 &amp; 2004.</li> <li>b) No. of new activities started in 2003 &amp; 2004.</li> </ul>
	Is the sector selection demand-oriented?		<ul style="list-style-type: none"> <li>a) Formalised consultation has taken place.</li> <li>b) The sectors chosen have priority in the PRSP/national plans.</li> <li>c) The results of deliberations on sector selection have been set down in an agreement.</li> </ul>

### Overview of research questions and of how criteria and/or indicators were verified

Evaluation theme	Research question	Verification criterion	Indicator
4. Harmonisation	How much has the Dutch aid been harmonised with other donors?	<ul style="list-style-type: none"> <li>a) Nature &amp; extent of aid harmonisation in the sectors: exchange of information, operational collaboration &amp; silent partnerships.</li> <li>b) No. of aid modalities in which harmonisation has been applied.</li> <li>c) The Netherlands is in the core group of donors with a sector-wide approach.</li> </ul>	
5. Alignment	How much has the Dutch aid been aligned with the government's policy and financial management frameworks?	<p>Priorities of national &amp; sector policy are supported.</p> <ul style="list-style-type: none"> <li>a) Sector selection is in agreement with PRSP (see 3).</li> <li>b) Aid goes to the sector priorities determined by the government.</li> <li>c) Aid is part of a national sector policy plan.</li> </ul> <p>Does the Netherlands follow the government's tendering procedures?</p> <p>Increase in less earmarked aid modalities.</p>	<ul style="list-style-type: none"> <li>a) Programme aid as % of total delegated bilateral aid per country &amp; per sector.</li> <li>b) Sectoral programme aid as % of total delegated bilateral aid per country &amp; per sector.</li> <li>c) Budget aid as % of total bilateral aid per sector.</li> </ul>



**Overview of research questions and of how criteria and/or indicators were verified**

Evaluation theme	Research question	Verification criterion	Indicator
<b>a. Expected effects in recipients country</b>			
6. Ownership	How much has ownership increased at national level?	a) Ownership of the PRSP based on the following criteria: <ul style="list-style-type: none"> <li>• Initiative &amp; motive rest with the national government</li> <li>• Key persons in the decision-making process display commitment &amp; conviction</li> <li>• There is broad political support</li> <li>• There is broad social support</li> <li>• The PRSP is implemented &amp; institutionalised &amp; a link has been made with the budgetary process.</li> </ul> b) There is leadership & initiative for improving the harmonisation & alignment: <ul style="list-style-type: none"> <li>• The government takes the initiative</li> <li>• There is structured consultation led by the government</li> <li>• There is a harmonisation plan</li> <li>• Financial commitment</li> </ul> c) Financial commitment of government d) Implementation capacity	Disbursements for Poverty Reduction.

### Overview of research questions and of how criteria and/or indicators were verified

Evaluation theme	Research question	Verification criterion	Indicator
7. Poverty reduction	How much has ownership increased in the sectors?	Increased autonomy in decision-making about externally financed aid & disbursements.	% aid for which decisions are largely taken by government (budget aid).
	What has the sector-wide approach contributed to ownership?	<ul style="list-style-type: none"> <li>a) Increase in less earmarked aid.</li> <li>b) Decrease in extent of conditionality &amp; shift from content to process, from in advance to retrospectively &amp; from output to outcome of conditionality.</li> <li>c) PRSP is the route map for external funding.</li> <li>d) Institutional strengthening is being given.</li> </ul>	
	Ownership and dependence on aid	Long-term prospects of reducing dependence on foreign aid.	<ul style="list-style-type: none"> <li>a) ODA per capita aid as % GNP.</li> <li>b) ODA as % government budget (investments/capital &amp; running costs).</li> </ul>
	Is there more focus on poverty in sector policy & is this thanks to Dutch efforts?	<ul style="list-style-type: none"> <li>a) Special measures are being taken to promote equal access.</li> <li>b) Increased expenditure on poverty reduction.</li> </ul>	<ul style="list-style-type: none"> <li>a) Total expenditure on health &amp; education as % of GNP 1998–2002/3.</li> <li>b) Government expenditure on health care &amp; education as % of total government expenditure 1998–2002/3.</li> </ul>

### Overview of research questions and of how criteria and/or indicators were verified

Evaluation theme	Research question	Verification criterion	Indicator
	<p>Has access to provision of social services improved in the social sectors supported by the Netherlands?</p> <p>Has the quality of the provision of social services improved in the social sectors supported by the Netherlands?</p> <p>Contributions from the Netherlands to improve focus on poverty.</p>	<p>a) PRSP used as starting point for aid?</p> <p>b) Active input to improve focus on poverty in sector policy.</p>	<p>a) Gross &amp; net enrolment in primary education 1998–2003.</p> <p>b) Mortality of infants under 5 years old per 1000 live births 1998–2003.</p> <p>c) % coverage DTP, Pol3, MCV vaccinations 1998–2003.</p> <p>a) % pupils completing the final year of primary school (1998/99–2001/2).</p> <p>b) Transition from 1st to 2nd year of secondary education, by gender.</p> <p>c) Life expectancy at birth % total population.</p> <p>d) Healthy life expectancy at birth as % total population.</p>

#### 5. Participation of those involved

In order to reconstruct policy, files were consulted and background discussions held with, among others, the former Deputy Director-General for International Cooperation, ex-members of the Sector-Wide Approach support group, DEK (Department for Effectiveness and Quality) and staff from country and policy theme departments. A separate meeting was held with DEK in order to verify the most important findings on the aid modalities. At the end of 2005 DEK incorpo-

rated some of the findings in the first draft of a memorandum on the sector-wide approach. Discussions were held with a large number of staff from the embassies in the five case study countries.

## 6. Organisation and implementation

The accountability for the implementation of the evaluation rests with IOB inspector N. van Niekerk.

The studies on selectivity were conducted by W. Hout and D.J. Koch of the Institute of Social Studies (ISS). The chief consultant for the country studies was Willem Cornelissen of SEOR (Foundation for Economic Research, Rotterdam). Alexander Morren was responsible for the document studies and for setting up the database on disbursements and aid modalities.

Preparatory missions were carried out by the inspector accountable for the study (N. van Niekerk) in Bolivia, Bangladesh and Burkina Faso, by Dr. J. Sterkenburg in Zambia and by A. Leliveld in Uganda.

The country studies were conducted by:

1. Burkina Faso: M. van der Linde (SEOR) and F. Terwindt of Health Research for Action (HERA).
2. Bolivia: N. van Niekerk (IOB), W. Cornelissen, C. Toranzo and F. Ruiz.
3. Bangladesh: W. Cornelissen (SEOR), D. Frans, M. Guhathakurta and R. Rodts.
4. Zambia: W. Cornelissen (SEOR), V. Chisala (Centre for Development Policy and Research School of Oriental and African Studies, University of London) and J.K van Donge (ISS).
5. Uganda: A. Leliveld (Afrikastudiecentrum) with assistance from J. Sterkenburg.

The reference group for this study met three times and commented orally and in writing on the study's set-up and implementation and on draft reports. The members of the reference group were: P. Hoebink of the Centre for International Development Nijmegen (CEDIN), A. Helmsing (ISS), A. Pieper (former ambassador), P. Litjens (ex-member of the Sector-wide Approach Support group and also Head of the Africa Department of the Ministry of Foreign Affairs), M. Brouwer and E. van Reesch (respectively DEK director and policy officer in DEK).

The final report was prepared jointly by the chief consultant W. Cornelissen, consultant J. Sterkenburg and the IOB inspector accountable for the evaluation: N. van Niekerk. The report was written by N. van Niekerk with contributions from

W. Cornelissen and J. Sterkenburg. J. Sterkenburg reviewed and commented on the various drafts, Marit Kuyper coordinated the production of the final report.

T. Kliest and F. van der Kraaij of IOB read through the report.



## Annex 4 Policy reconstruction: schematic overview of the most important changes in policy development before and after the introduction of the sector-wide approach

### Comparison of the most important differences in policy intentions before and after 1998

<i>Policy intentions 1991–1997</i>	<i>Policy intentions 1998–2002 sector-wide approach</i>	<i>Policy intentions after 2002 versus 1998</i>
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#### *Opinions on the role of the aid and poverty reduction*

Aid as a catalyst for change. Aid should aim to remove impediments to development. The crux is the policy for target groups.	The sector-wide approach is primarily intended to influence processes that reduce poverty; interventions to alleviate the poverty of target groups are less important.	Heavy emphasis on effectiveness and contributing to Millennium Development Goals.
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#### *Selectiveness and the selection of countries*

Aid to very many countries, even if macro-policy is unsatisfactory. No prior selection based on good governance.	Concentration of the bilateral aid in 22 countries and theme countries. Country selection based on preconditions for the effectiveness of the aid: good governance and good policy.	Good governance is not an absolute criterion. More weight given to the intention to have good governance. No. of countries further reduced.
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Policy intentions 1991–1997	Policy intentions 1998–2002 sector-wide approach	Policy intentions after 2002 versus 1998
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### Conditionality

Aid is intended to change, influence and make use of conditionality.	Conditionality ex ante doesn't work; better to encourage and reward good policy.	No change compared with previous policy.
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### Supra-national regional approach

Concentration on regions.	Concentration on regions abandoned; regional support to be justified in terms of country's interests.	Regional approach & regional policy for two regions in Africa & the Balkans.
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### Concentration within the countries

Numerous interventions, levels of intervention & themes.	Concentrate aid within the countries in 3 sectors.	Concentrate in 2 or a maximum of 3 sectors, but expand priority themes.
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### Aid modalities

Preference for programme aid, but v. tolerant of different aid modalities, incl. project aid.	Aim to achieve sector-wide programme aid, with preference for budget support; drastically reduce (even eliminate) project aid.	Preference for budget support maintained, more flexible deployment of aid modalities.
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### Good governance

Good governance as an objective.	Good governance as a precondition & remedy.	Support the intention to have good governance.
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Policy intentions 1991–1997	Policy intentions 1998–2002 sector-wide approach	Policy intentions after 2002 versus 1998
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### Demand orientation and partners

Collaboration with government & many other partners & channels. Decisions on this dependent on aim of aid activity & situation in each country.	Aid within policy & financial management frameworks of central govt. as much as poss. (but acknowledging that ownership is broader than government).	Emphasis on public/private collaboration & partnership – esp. with the business community.
Scope for donor's own priorities & themes.	Starting point should be the recipient government's priorities.	Expansion of Dutch priority themes.

### Ownership

Importance of ownership is mentioned, but conditional on good structure for receiving it. Heavy emphasis on ownership of those involved/the people.	Ownership & commitment primarily rest with national govt.; acknowledgement of the participation of civil society (social dialogue).	The emphasis is on partnership instead of on ownership.
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P.O. Box 20061  
2500 EB The Hague  
The Netherlands

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November 2006  
ISBN 90 5146 000 7

