

# Sector Approaches in Agriculture and Rural Development

October 2008

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## ABBREVIATIONS

<b>ARD</b>	Agriculture and Rural Development
<b>ASDP</b>	Agriculture Sector Development Programme (Tanzania)
<b>CSO</b>	Civil Society Organisation
<b>CSP</b>	Country Strategy Paper (EC)
<b>DGIS</b>	Directoraat Generaal International Samenwerking (the Netherlands)
<b>GDP</b>	Gross Domestic Product
<b>GDPRD</b>	Global Donor Platform on Rural Development
<b>M&amp;E</b>	Monitoring and Evaluation
<b>MFI</b>	Micro Finance Institution
<b>MTEF</b>	Medium-Term Expenditure Framework
<b>NAADS</b>	National Agricultural Advisory Services
<b>PBA</b>	Programme-Based Approach
<b>PEAP</b>	Poverty Eradication Action Plan (Uganda)
<b>PFM</b>	Public Finance Management
<b>PMA</b>	Programme for the Modernisation of Agriculture
<b>ProAgri</b>	Agriculture Sector Programme (Mozambique)
<b>PRS</b>	Poverty Reduction Strategy
<b>PRSP</b>	Poverty Reduction Strategy Paper
<b>PSD</b>	Private Sector Development (Ghana)
<b>SA</b>	Sector Approach
<b>SBS</b>	Sector Budget Support
<b>SIP</b>	Sector Investment Programme
<b>SP</b>	Sector Programme
<b>SPA</b>	Strategic Partnership with Africa
<b>SPSP</b>	Sector Policy Support Programme
<b>SRA</b>	Strategy for the Revitalisation of Agriculture
<b>SWAp</b>	Sector-Wide Approach
<b>SWAP</b>	Sector-Wide Approach Programme
<b>WDR</b>	World Development Report

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[http://ec.europa.eu/europeaid/what/natural-resources/rural-agricultural-development/index\\_en.htm](http://ec.europa.eu/europeaid/what/natural-resources/rural-agricultural-development/index_en.htm)

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# 1. Executive summary

As awareness builds up of the contributions that agriculture and rural development (ARD) can make to poverty reduction, ARD is again becoming central to national and international development agendas. In line with this, European Commission (EC) support for these sectors has increased substantially. Where possible, the EC favours the use of sector approaches in support of nationally owned sector development programmes. Whereas good results have been recorded in health and education, sector approaches in ARD have proved more challenging, in particular because of the importance of private investment and the essential role private/non-state actors play in the field of input and service provision and ARD's inherent dependency on natural resources. By building further on the EC Guidelines on Support to Sector Programmes this Reference Document offers guidance on how to introduce the necessary flexibility in the use of sector approaches in ARD and on how this may benefit sector development and outcomes.

## 1.1 Basic concepts and definitions

Conceived as a process that leads to closer partnerships between government, development partners and other key sector stakeholders, sector approaches most importantly seek to broaden government and national ownership over public sector policy and resource allocation within the sector. Effective management, sustainable sector development through increased coherence between policy, spending and results and – where relevant – the reduction of aid-related transaction costs are important concerns for the successful implementation of sector approaches.

A major advantage of sector approaches is that a thorough assessment of seven areas is carried out in order to capture the sector 'broad picture' and overall outlook: (i) the sector policy and strategy, (ii) the sector budget, (iii) sector coordination, (iv) institutions and capacities, (v) performance monitoring, (vi) the macro-economy and (vii) public finance management, with the first five areas considered as the core elements of a sector programme and forming the basis for this Reference Document.

When conceiving a sector approach the first crucial question concerns the size and scope of the sector (*'How wide is 'sector-wide'?'*). Though already a demanding question when dealing with the agricultural sector it becomes even more challenging when rural development is considered as the appropriate scale of involvement. By linking the concept of 'sector-wide' to the original purpose of 'what needs to be addressed together to avoid fragmentation and increase efficiency and output', the paper aims to offer the necessary guidance. This also means that 'sector-wide' at policy level may be wider in scope than what is aimed for at implementation level: agriculture or rural development policies need to capture inter-sectoral constraints and opportunities but at some point overarching policies may well need to be broken down into mutually supporting and coherent (sector or sub-sector) programmes to become workable.

Sector approaches and sector programmes can be supported by donors through various financing arrangements: sector budget support, pooled funds or project support or a combination of these. Sector budget support may for example be well suited to assist government in its endeavour to improve 'public good'-type outputs whereas non-state actors may best be supported through project support to strengthen rural services delivery. It should also be clear that the project mode, when used in the framework of a sector development programme, will be different in purpose from conventional and stand-alone projects.

## 1.2 What is different in agriculture and rural development?

One of the main differences relates to the roles played by private/non-state actors in providing finance, productive investments or even guaranteeing certain key rural services. This need, to operate in a multi-institutional and multi-organisational context, clearly constitutes a second set of challenges for sector approaches in ARD. As solutions have to be adapted to local conditions, the potential for scaling up and fostering best practices cannot easily be realised in ARD. Due to ARD's dependency on natural resources, climate change and sustainable natural resource management will pose a set of specific challenges. Meeting such challenges thus necessarily requires the adoption of a multi-layered and strategic approach to sector development that requires (i) incorporating political economy-type analysis and tools;

(ii) integrating relevant actors' perspectives (as too early or too strong a focus on government may well result in unwarranted crowding-out of key private actors); and (iii) integrating issues to do with local governance and decentralisation; (iv) integrating environmental issues and climate change. Reducing sector approaches to discussions on the use of selected aid delivery instruments may well lead to a confusion of means and ends, losing sight of the fundamental issues at stake and missing out on certain key constraints to sector development (a near-exclusive focus on the public budget as development 'driver' may well become counterproductive for sectors where the government is not a dominant service provider).

### 1.3 Policy and strategic frameworks

Macro-level policy frameworks are important as they stimulate inter- and intra-sectoral coordination; any assessment of sector policy thus has to start with an analysis of the macro-context. At the level of the sector itself, the issue of 'policy alignment' is even more critical. As ARD are influenced by a great many policies, some of which not aligned or even conflicting, it is important to start from what exists to formulate a set of coherent policy principles rather than embarking on an ambitious policy formulation exercise. Applying a 'policy compliance' criterion may be very useful when the sector is characterised by many development interventions (carried out by both state and non-state actors). Rather than designing specific policies down to the last detail, a clear consensus on a common set of policy principles may enhance flexibility and creativity for designing innovative and locally appropriated solutions (e.g. implementation of sector policies by different sets of actors per region). Principles may seek to clarify relationships and responsibilities between government, the private sector and non-state actors or the role of local governments in implementing sector policies. When government, geared towards securing social outcomes, has to play a role well beyond its limited 'public goods provision' role, its actions should be non-distorting in nature while remaining focused on the creation of an environment in which private solutions become viable. The development of specific policies aimed at ensuring pro-poor growth will of course be highly specific to each country.

### 1.4 Sector budget and public finance management

The quality of public budgeting and of spending also constitutes critical factors for agricultural and rural development. As the role of public investment is to leverage and 'crowd in' the private sector, investment should be targeted. Sector Budget Support should accordingly closely relate to agreed government roles, investment priorities and tasks. As support for a specific sector is still frequently provided 'off-budget', governments will have to match resources with sector priorities (a key objective of the sector approach) while progressively bringing this support 'on-budget'.

Another key objective of the sector approach is to strengthen country systems, structures and procedures. This not only requires that country budget processes are respected but also means that the budgeting process as such may need strengthening. Therefore sector financing needs to be aligned to the Medium-Term Expenditure Frameworks (MTEFs) and to the budget process. In the context of multi- or cross-sectoral 'sectors' this essentially means choosing between an 'administratively' delineated budget structure or a thematic, result-oriented budget. Depending on the scope of the sector programme and its budget and the strength of inter-ministerial coordination a number of alternatives can be worked out, from comprehensive but stand-alone all-encompassing sector programme budgets, managed outside country structures and systems, to fully integrated MTEFs.

Support for sector programme budgets should be predictable over the medium to long term and therefore aligned with budget cycles. This holds not only for sector budget support, but also for the other financing arrangements. Overall quality of public finance management (PFM) is also important. It should be assessed at both sector level and macro level as sectoral PFM shortfalls often relate to overall PFM weaknesses. In assessing PFM it is also important to look at the revenue side too; by improving revenue collection systems sector budgets can be 'weaned off' donor support, offering a chance to enhance accountability towards national constituencies.



Finally, in supporting ARD, donors have to accept that building up sector capacity, strengthening local ownership and (economic) growth will take time and that aid can also be effective through fostering new ideas and alternative ‘ways of doing’. In comparison to high public investment sectors, agriculture and rural development are rather considered to be ‘slow disbursement’ sectors with a higher ratio of expertise/money than in other ‘SWAp-able’ sectors (e.g. health and education).

## 1.5 Sector and donor coordination

Coordination has often been difficult during the design and implementation of agricultural sector programmes, but when interventions are extended to ‘rural development’ this becomes even more challenging. Whereas the coordination of many different stakeholders in the framework of a single programme is often highly complex, the coordination of stakeholders around a common vision for the sector is often a more feasible pathway to sector development. The added advantage of starting such a vision is that it can then be captured in a proper sector-wide policy that once formulated will become an instrument for coordinated implementation. Such a policy can then be implemented through a series of programmes that take their orientations from the existing sector-wide policy. Translation of policy into manageable programmes can be done according to (i) *coordination needs*, i.e. the more activities need to be implemented in parallel or sequentially the higher the likelihood that they should be covered by a single programme, and (ii) *coordination feasibility*, i.e. where coordination is a problem, programmes should be made smaller (rather than coordination mechanisms bigger).

For ARD, certain key coordination tasks will likely have to be assumed by central-level government entities (e.g. Ministry of Finance and/or Planning). First, because it is difficult for one technical ministry to coordinate the activities of another one (Ministries of Agriculture have found it notably hard to align Local Government, Trade, Land, etc. behind ‘their’ sector programme) and, second, because ARD programmes are often carriers of political agendas (e.g. privatisation of parastatals, devolution of power) which may run contrary to the interests of the ministry responsible for programme implementation. Only with a strong guiding hand and championship from central level can such programmes be coordinated and carried through.

However much donor coordination mechanisms have their place and purpose in supporting sector development, donor coordination efforts should not overshadow nationally driven sector coordination. Donors operating outside existing sector development programmes should however be brought on board by requiring their interventions to be progressively made compliant with the sector policy.

## 1.6 Institutions and capacities

Institutions and capacities are at the heart of the sector approach: weak sector capacity has a ripple-out effect, be it in policy formulation areas, financial management, sector coordination or performance monitoring. Capacity development should be balanced across these areas: too strong a focus on one aspect (e.g. financial management) may lead to lopsided capacity development processes.

One of the advantages of using an Open Systems Institutional Model is that it fosters the use of an ‘actor perspective’ during the analysis. Working backwards from policy objectives and outcomes towards the delivery of necessary outputs will inevitably lead to detailed characterisation of the actors responsible for those outputs and services. Proceeding this way also helps in averting the risks of narrowing down too soon on a specific actor and a particular set of activities. Neither should capacity strengthening be understood too narrowly as ‘the capacity of the lead institution to implement the sector programme’ or ‘the capacity of the ministry to manage the donor funds entrusted to it’ but rather as a process aimed at building capacity of all actors and stakeholders responsible for sector development. In supporting capacity development attention should be given not only to the supply side (e.g. sector ministry better able to provide quality services) but also to the demand for that capacity to develop (e.g. service users ask government for quality services).

## 1.7 Performance monitoring and accountability

The type of monitoring (for management purposes or for accountability reasons) determines the type of information collected. In the context of government-donor interactions, the purpose of monitoring has to be clear: whereas a focus on sector outcomes will support the quality and depth of policy dialogue, a focus on agreed performance indicators will be oriented towards progress verification and variable or fixed ‘tranche’ disbursements in the context of budget support.

Although policy and conditionality dialogues are interconnected, it may be important to keep them conceptually separate to allow for a frank analysis of progress and to avoid a bias in implementation towards attaining certain ‘trigger’ indicators, and thus confusing indicators with results and objectives. In general, donors must make sure that their monitoring needs do not dominate national monitoring efforts so as to avoid a situation where ‘accountability circles’ in a country are pushed upward and outwards towards donor head-offices rather than downward towards constituencies.

Monitoring systems in ARD programmes tend to display two shortfalls: (i) a ‘missing middle’ (e.g. measuring improvements in service provision) and (ii) a lack of indicators measuring changes to the enabling environment. Where a sector programme is measured chiefly in terms of outcomes (e.g. agricultural production, rural income, food security), it is difficult to establish a link between public investment in the sector (i.e. input) and growth of the sector (i.e. outcome), because the latter is highly dependent on private sector investments as well as external factors such as climatic conditions. Thus, monitoring systems have to follow suit on the necessary steps ‘in between’ to create an enabling environment for private sector initiatives (i.e. by looking at key output indicators). It should thus be remembered that in productive sectors the way in which goods and services are provided is critical to the developmental outcomes to be achieved.

## 1.8 Conclusions

Supporting sector approaches and programmes in ARD will always be a complex exercise. Sector development in ARD means balancing support between public and private sector investments, between government and non-state actors and between central and local levels. Sector approaches in ARD are less about THE programme and THE budget, and more about strengthening government-driven frameworks for private-led rural growth with frameworks to be implemented by a range of state and private/non-state actors.

Time and effort are required to understand a complex and politically charged sector; to build sensitivity and creativity into the design of support programmes that are both flexible and balanced; and to capture momentum where it develops when mobilising a vast group of actors and stakeholders. This may be a tall order, but it is an exciting challenge that deserves to be taken up. Or, as so aptly stated by the World Development Report 2008, *‘where the powers of agriculture and rural development can be unleashed, this will provide high payoffs, towards the Millennium Development Goals and beyond’...*

## 2. Introduction

### 2.1 Background

Agriculture is back on the agenda. The vital role of agriculture in delivering growth and reducing rural poverty has recently been underlined by the World Development Report 2008, which stated that ‘if the world is committed to reducing poverty and achieving sustainable growth, the powers of agriculture must be unleashed’.<sup>(1)</sup> Rural development has to be a prominent part of the development agenda as three out of every four people in developing countries live in rural areas and rural growth has proven to be an important precursor for country development in general. In accordance with three broad types of economy (‘agriculture-based’, ‘transforming economies’ and ‘urban-based’) the 2008 WDR identifies different agriculture-for-development scenarios with their respective development pathways. Agriculture-based economies like sub-Saharan countries are likely to use agriculture as their basis for economic growth by looking for improvements in smallholder competitiveness in medium and higher potential areas while simultaneously ensuring livelihoods and food security. Transforming economies would require comprehensive approaches that pursue multiple pathways out of poverty (e.g. by shifting to high-value agriculture and decentralising non-farm economic activities to rural areas) and urban-based economies would rather focus on linking farmers to modern food markets and booming agricultural subsectors or favour the sustainable provision of environmental services.

EC support for rural development and agriculture has staged a strong comeback, especially in Africa. Support for agriculture and rural development corresponds to 14.2 % of resources in the 10th EDF. This represents a sharp rise from the 9th EDF, where ARD support accounted for only 7.8 %.

The Paris Declaration and the EU commitments on aid effectiveness put strong emphasis on sector approaches as a way to enhance ownership, harmonisation and alignment. EU target one is to channel 50 % of assistance through country systems by increasing the percentage of assistance provided through budget support or SWAP arrangements.

Sector approaches were introduced in the mid-1990s in an attempt to overcome some of the shortfalls of the narrower project approach. So far, these approaches have been most successful in sectors like health and education where a clearly defined institutional system is responsible for large-scale public services. The approach has been more challenging in multi-institutional contexts or in sectors that depend on private sector investment and performance such as agriculture and rural development. The need for cross-sector coordination and decentralised interventions and the wide spectrum of actors involved, make it difficult to capture rural development in a sector-wide approach.

### 2.2 Purpose

This Reference Document aims to throw some light not only on the challenges, but also on the opportunities of sector approaches in agriculture and rural development.<sup>(2)</sup> The document thus addresses the interface between the sector and the approach, i.e. between agriculture and rural development on the one hand and the sector-wide approach on the other. More specifically, its purpose is:

- to follow on from the EC Guidelines *Support to Sector Programmes*<sup>(3)</sup> by offering additional guidance or advice with respect to programmes in agriculture and rural development;
- to offer an entry point towards further information on sector approaches and sector programmes in agriculture and rural development.

<sup>(1)</sup> See also section 3.2.

<sup>(2)</sup> In this paper, rural development is to be understood as a multi-sector concept, including agriculture, rural infrastructures, rural water and forestry.

<sup>(3)</sup> Support to Sector Programmes. Tools and Methods Series, Guidelines No 2. Brussels, July 2007.

### Target group

This document is meant for both EC staff and partners involved in such programmes. In particular, it is targeted towards:

- EC Delegation staff in countries where the EC supports programmes in agriculture and rural development;
- partners (governments and other stakeholders) in countries where the EC supports programmes in agriculture and rural development;
- EC staff in general;
- other donors.

## 2.3 Basis and context

The foundation for this Reference Document is the aforementioned *Support to Sector Programmes*. These guidelines have taken stock of experiences, including those with sector approaches in the so-called ‘non-traditional’ sectors. Traditionally, sector approaches have focused on sectors like health and education. These are sectors that have clear institutional boundaries and are characterised by high levels of public service provision and investment. ‘Non-traditional’ sectors are those that are characterised by significant inter-sector aspects and involve many organisations, and where government and public expenditure are less dominant. Examples include agriculture and rural development, but also trade or justice.

The EC guidelines note that the concepts and instruments as used in traditional sectors need to be adapted flexibly to the specific requirements of non-traditional sectors and that ‘learning by doing’ should be informed by promising experiences being gained in this area.<sup>(4)</sup> This Reference Document builds on that basis by highlighting some of these experiences and by suggesting how the principles of the sector approach may be adapted for rural development and agriculture. Its layout is structured on the EC *Sector Programme Support Guidelines*: for each of the seven areas for sector assessment as used by the EC and described in the guidelines, this document discusses the specific challenges and opportunities for agriculture and rural development.

### 3. Basic concepts and definitions

Assessments carried out during the 1990s indicated structural problems with aid delivery and aid effectiveness. In response to these findings there began a move away from projects towards more comprehensive approaches based on local ownership, local capacity and effective country systems. The concept of the Sector-Wide Approach (or SWAp) was introduced around 1997 and, as the name implies, is an approach rather than a blueprint. A review of existing Sector-Wide Approach Programmes (SWAPs) in 2000 showed that 'most programmes, even quite well established ones, are in the midst of a process for moving over time towards broadening support to all sources of funding, making the coverage of the sector more comprehensive, bringing ongoing projects into line with the SWAp'; thus, more important than the end-product is the direction of intended change.<sup>(5)</sup> Although widely used, the acronym may cause confusion as it is used both for the approach (SWAp) and for the programme (SWAP).

In 2001, after the introduction of the first generation of Poverty Reduction Strategies, the term 'Programme-Based Approach' (PBA) was introduced<sup>(6)</sup> as a collective term for approaches that base support on a locally owned programme of development, which can be a SWAp or a 'SWAP-like' intervention. The PBA is defined as 'a way of engaging in development cooperation based on coordinated support for a locally owned programme of development, with four main principles: (i) leadership by the host country or organisation; (ii) a single programme and budget framework; (iii) donor coordination and harmonisation of procedures; (iv) increased use of local procedures over time'. The word 'programme' in the term refers to the programme of a country or organisation.

Depending on the programme that is supported, a PBA can be sector-wide, but it can also operate at sub-sector level (e.g. primary education, agricultural extension, reproductive health) or at multi-sector level (e.g. in support of a Poverty Reduction Strategy). Although most PBAs focus on government, a PBA can also be designed in support of a locally owned programme of development of an NGO or private sector actor. It should be noted that the PBA is essentially an aid delivery concept and as such very much linked to the Effective Aid Agenda.<sup>(7)</sup>

#### 3.1 Sector approach and sector programme

Integrating the main characteristics of both SWAp and the PBA the EC has adopted the following definitions in its new Guidelines on sector programme support:<sup>(8)</sup>

##### *Sector approach*

A **sector approach** is a way of working together between government, development partners and other key sector stakeholders. It is a process that seeks to broaden government and national ownership over public sector policy and resource allocation decisions within the sector. The purpose of the sector approach is effective management and development of the sector through increased coherence between policy, spending and results and (where relevant) reduction of the transaction costs of aid.

##### *Sector programme (SP)*

As a result of following a sector approach, a government progressively develops a sector programme.

**Sector programmes** are based on three core elements: the sector policy and strategy; the sector budget and its medium-term expenditure perspective; and the sector coordination framework through which the sector strategy, action plans and budget are reviewed and updated. A sector programme consists of a set of actions and activities to implement the sector strategy.

##### *Sector Policy Support Programme (SPSP)*

The EC's aid instrument for supporting a sector programme is known as a **Sector Policy Support Programme**.

<sup>(5)</sup> Adrienne Brown et al. (2001), The Status of Sector Wide Approaches.

<sup>(6)</sup> Lavergne and Alba (2003) CIDA primer on Program Based Approaches.

<sup>(7)</sup> Indicator 9 of the Paris Declaration calls for 66% of aid to be provided as PBAs by 2010.

<sup>(8)</sup> EC Guidelines Support to Sector Programmes, p. 11.

Sector approaches and programmes are pursued in particular to support three principal objectives:

- (i) *to broaden ownership of partner countries* (government and key national stakeholders) with respect to sector policies, strategies and spending, and to increase the alignment of external assistance to national policies and priorities;
- (ii) *to increase coherence between policy, spending and results* (regardless of the source of funding) via greater transparency, wider dialogue and a comprehensive view of the sector;
- (iii) *to minimise the transaction costs associated with the provision of external financing*, either by direct adoption of government procedures or through progressive harmonisation of individual donors' procedures.

The sector approach aims to strengthen the links between national and sector plans, between recurrent and capital expenditures and between domestic and aid resources. The approach was initially a response to the weakening of national structures of management and public finance and the realisation that the fragmentation of aid was partly responsible for that. By now placing reliance on these structures, even where these are weak, it is expected that demand for their improvement will be generated. If the channels of democratic accountability (e.g. parliament and civil society) are also strengthened, this can only reinforce the pressure to improve public service.<sup>(9)</sup>

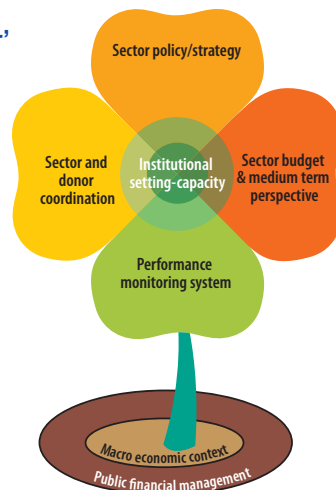
## 3.2 The seven assessment areas

Following a sector approach means adapting to country situations. From country to country or from sector to sector the intent may be the same, namely to arrive at a situation where all public funding, from donors and government, is used in support of a comprehensive sector strategy financed through local systems and implemented by local actors. However, the path towards this aim will differ depending on local capacity, the number of donors in a sector, institutional settings and many other factors. Of key importance, therefore, is that the sector approach is based on and continuously informed by 'the bigger picture' of the country in general and the sector in particular.

To understand this bigger picture, it is usually divided into areas of diagnosis or assessment. The EC has adopted seven areas of assessment that help it answer (i) whether to pursue a sector approach, (ii) whether to support a sector programme by means of an SPSP and (iii) how to adequate SPSP design to sector dynamics. These can be seen as core, key and contextual elements of the sector:

1. The sector policy and strategy	Core elements that define the sector as the 'building blocks' of the sector approach and programme ...
2. The sector budget and its medium-term perspective	
3. A sector coordination framework	
4. The institutional setting and existing capacities	... key elements which make the sector work and keep it on track ...
5. The performance monitoring system	
6. The macro-economic policy	... and contextual elements as the enabling environment for sector performance.
7. The public finance management system	

Fig 1 the 'sector-flower'



During programme identification, an assessment of these seven areas will guide strategic choices in terms of the volume and mode of support. However, the assessment should not be limited to the identification phase but should be used as a baseline of information that is continuously updated and against which trends and progress can be established.

### 3.3 How wide is 'sector-wide'?

A sector approach usually begins with the question 'How wide is the sector?'. This is a difficult question for all sectors,<sup>(10)</sup> but even more so in agriculture and rural development. These sectors cannot be 'put in a box' as they are linked to (and their performance depends on) other sectors such as infrastructure, water, environment, lands, commerce and trade.

The delineation of the 'sector' depends first of all on the purpose of the definition: if the purpose is to define the **sector policy** then the 'sector' may need to be comparatively wide, as a policy needs to capture key inter-dependent linkages for it to have an impact. If it concerns the setting-up of a **sector support programme** then the institutional context will have to be taken into account when defining its scope. Similarly, when the focus lies on **sector-budgeting issues**, an in-depth assessment of existing budget frameworks is of key importance. Translating an agricultural or rural development policy into a single programme with a single budget is probably impossible or ill-advised; the sector programme may risk trying to do too much, thus overstressing programme structures and instruments. Thus, delineating 'sector-wide' for agriculture and rural development (whether at policy, programme, or budget level) is a balancing act between comprehensiveness and complexity: the sector should be wide enough to allow for synergy and value-added between activities, but not so wide as to cause management obstacles or conflicts of interest. In particular, account should be taken of:

- (i) **Country structures.** Programmes need to be based on existing country structures and not the other way round. This means that programme-based instruments of management, funding, coordination and monitoring that override (or substitute) existing country structures should either be avoided, or carefully considered.
- (ii) **Need for cooperation.** Especially along value chains, certain activities need to be implemented in tandem for them to be effective (e.g. agricultural production to be linked to rural infrastructure). It is useful, sometimes essential, to address these inter-related issues as 'packages' at the planning stage (i.e. in the form of a single policy or strategy) or at the implementation stage (i.e. in the form of a single programme) to ensure that the sum is more than the parts.
- (iii) **Scope for coordination.** Coordination difficulties have to be taken into account when delineating the sector programme. Multiple-ministry programme frameworks may need to be broken down into units of fewer players to allow decision making to take place. Coordination of these (sub-) programmes can then be guided by a single policy framework. If the policy is clear on direction and on roles, then programmes under the policy should be mutually supporting.

<sup>(10)</sup> Even for a 'straightforward' sector like education it has to be decided whether the 'sector scope' should include primary, secondary, tertiary, vocational training, etc.



- (iv) **Potential for conflicts of interest.** There is a risk of making programmes in agriculture and rural development too big, in an attempt to have all actors on board. Such mega-programmes suffer from an inherent lack of coherence, diverging interests and institutional logjam. Instead, support for state and non-state actors can be balanced in a series of complementary programmes, each drawing its direction from the same (rural growth) policy framework. Complementary programmes should each consist of a comprehensive set of activities with enough coherence to generate momentum and value-added, yet enough autonomy to ensure that successful components can move forward even when others do not.

Thus, it is advocated here that in delineating the ‘sector’ a practical approach is adopted based on ‘what needs to be put together for development to work?’.<sup>(11)</sup> A theoretical approach where the sector is defined as ‘all that rural development consists of’ may overshoot the need (as well as the feasibility) for coordination by adding components for no other reason than to be all-inclusive.<sup>(12)</sup>

### 3.4 Arrangements for financial support to sector programmes

The different support modalities and their eligibility criteria are discussed extensively in the EC Guidelines on sector programme support, which should always be consulted when designing support for sector approaches and sector programmes (Box 1).

#### Box 1 – Financial support modalities

**Sector Budget Support** (SBS) is the EC’s preferred financing mode where conditions permit. Generally, this means three things: (i) that a well-defined sector policy is in place or under implementation; (ii) that a credible programme to improve public finance management is in place or under implementation; and (iii) that the macro-economic framework is either stable or a stability-oriented macro-economic policy is under implementation. Sector Budget Support involves a transfer of financial resources to the National Treasury of the partner country, in support of the sector programme. The funds thus become part of the national budget and are consequently managed through the country’s own public finance management system.

**Pool Funds** refer to specially designed systems for financing expenditures within a sector programme. Pool Funding joins the contributions of donors into a single basket or common fund, from where money is disbursed according to procedures set up for the fund. The main purpose of a Pool Fund is the harmonisation of donor procedures in order to reduce transaction costs of aid. Pool Funds take many forms and shapes: at the core they entail a bank account into which donor contributions are ‘pooled’ and from where eligible activities are financed. Sometimes these activities constitute the whole of the sector programme, but more often pool funds finance sub-sets of activities as per prior agreement between government and contributing donors.

**EC Project** represents the third financing mode for sector programmes. Three specific situations may require the use of the project mode: (i) as an interim measure, where Sector Budget Support conditions are not met and project support can be used to help build capacity towards these conditions; (ii) to address a transaction cost problem, in the case of activities with high transaction costs (such as large infrastructure contracts) or the contracting-out of activities to non-government agents to provide services planned within the sector programme; and (iii) to accommodate government or legal requirements, where Sector Budget Support is either not legally possible or not favoured by government.

*EC Support to Sector Programmes, pp. 49-64*

<sup>(11)</sup> According to Harrold et al (1995:8): ‘A Sector Investment Programme should cover all expenditure programmes and policies in an area where fragmentation of planning and implementation would seriously reduce efficiency or output’.

<sup>(12)</sup> Much as they are part of rural development, health and education interventions in rural areas are less dependent on interventions in other sectors. For example, a (macro-level) rural development policy objective can be translated under health into more rural health clinics, or the training of community health workers; under education it can mean topping up salaries in remote areas, mobile libraries or distance learning programmes. These activities can take place without needing to be linked to activities in other sectors under a rural development ‘sector’ programme umbrella.



In practice, sectors tend to be supported by a mix of modalities, especially where support comes from different donors and/or where support is needed by both state and non-state actors. Sector Budget Support may still be an instrument of choice where it concerns the public budget and government functions. However, pool funds and project modes should also be considered, in particular where operations are piloted, in support of public-private partnerships and as direct support for non-state actors. Of course, all support, in whatever form, needs to be guided and coordinated by the overall sector policy. Development in agriculture and rural development will always be about gradual change based on local economic and political empowerment. This makes these sectors relatively 'slow disbursement' sectors in comparison to the high spending sectors of education and health. Donors wanting to support rural development need to accept this and not let disbursement pressures get in the way.

### 3.5 From projects to programmes

Typically, and especially in highly aid-dependent countries, a sector approach starts in a context of fragmented project support. There will generally be a period during which the government develops the basic building blocks for a sector programme (i.e. the sector policy, budget and coordinating system) while simultaneously implementing a portfolio of stand-alone projects. The task then is to gradually bring ongoing projects into line with the sector approach, both in terms of being aligned behind the sector policy (as and when it is developed) and being oriented towards developing local capacity for sector (or sub-sector) programme implementation, thereby gradually reducing the reliance on parallel project implementation structures. Table 1 presents the main differences between stand-alone (or non-aligned) projects and those in the context of a sector approach.

**Table 1: Stand-alone projects versus projects integrated in a programme approach**

	<b>Stand-alone (non-aligned) project</b>	<b>Project in the framework of a sector approach</b>
<b>Vision and objectives are based on:</b>	Project's own log-frame.	Government policy for the sector.
<b>Activities supported are:</b>	Those identified in project's work programme.	A sub-set selected from within the sector programme or as being in support of the broad sector policy.
<b>Scope of intervention:</b>	Action-radius of the project.	Sector as a whole.
<b>Funds are disbursed via:</b>	Separate project accounts and disbursement procedures.	Separate project accounts and disbursement procedures.
<b>Financial support tends to be:</b>	'Off-budget', i.e. not reflected in the overview of public expenditure in the sector.	'On-budget', i.e. reflected in the government overview of public expenditure in the sector.
<b>Cycle of operations follows:</b>	Own project cycle oriented towards donor procedures.	Annual budget and reporting cycles of the country.
<b>Use of Technical Assistance is:</b>	Often supply-driven and also used for implementation.	Demand-driven and used for facilitation, incl. capacity building.
<b>Monitoring is:</b>	By log-frame indicators.	Part of the overall monitoring framework of the sector.

During the transition from a project to a sector approach and programme, interventions will be somewhere in between the two columns of the table above. What is important is that the direction of change is towards the ‘integrated’ project, in the interest of the three main objectives of ownership, coherence and reduction of transaction costs. There may still be a role for stand-alone projects where these address issues that are not covered by a sector policy and thus lack the framework to integrate into. However, where a sector approach is under way, projects operating within that sector should align with the process to minimise the undermining effect of different agendas, fragmented efforts, parallel structures and procedures.

A next stage would then be to assess to what extent the continuation of the project mode can be justified in the wider context of the sector programme, or whether other modalities (pool funding, sector budget support) would not be more appropriate.

In short, under the programme approach, the project mode is no longer a ‘default’ modality but one of several that may be selected from the programme toolbox as a ‘best fit’ (possibly as part of a balanced mix of modalities) whereby account is taken of the following:

- Where the project modality is used as ‘pilot’ to test interventions, up-scaling has to be an objective from the start and not an afterthought. Preferably, no interventions should be tested that do not have a realistic chance of being scaled up (in terms of cost, time or capacity).
- To ensure that what is done is relevant to the national strategy, projects at field level need continuous two-way communication with national-level decision makers.
- Where the project modality is used as part of a programme approach, the setting-up of parallel structures has to be avoided in line with the key principle of using local systems, building upon capacities of local actors and progressing towards adopting local procedures.
- Technical assistants may be short- or long-term depending on need, but they should have a facilitating role and refrain from ‘running things’, i.e. taking on implementation tasks that they will, ultimately, not be responsible for.

## 4. What's different in agriculture and rural development?

In the current debate on aid modalities, programmes in agriculture and rural development tend to be lumped together into what is becoming known as ARD programmes. From a theoretical point of view, this may be less appropriate, as agriculture can be seen as a (narrower) thematic concept, while rural development is a (broader) geographical concept. However, in practice, there is in fact a lot of overlap between sector programmes in agriculture and those in rural development.

### 4.1 Experiences in agriculture

In the early 1990s, agriculture was a favourite sector in the move towards sector-wide approaches: several of the first Sector Investment Programmes<sup>(13)</sup> were in agriculture. Implementation of these programmes was, however, plagued by disagreements over the role of the state or the sheer unmanageability of programmes that involved many (state and non-state) actors in different sectors (hence the reputation of agriculture and related programmes of being less 'SWAp-able', i.e. less suitable for being supported through this new modality of the sector approach).

To understand the specific challenges of programmes in agriculture, it is helpful to first look at the differences between programmes in this sector and those in a more classical SWAP sector like health and education. Table 2 offers a comparison at a glance.

**Table 2: Programmes in agriculture versus programmes in 'traditional' sectors**

	<b>Traditional sector (e.g. education, justice)</b>	<b>Agriculture</b>
<b>Sector is:</b>	Human and social development.	Production + environmental services.
<b>Natural resources endowment and usage/ climate change:</b>	Low to medium dependency.	High dependency; production of externalities and sensitivity to climate change.
<b>State is:</b>	Main service provider and regulator.	Regulator, facilitator and also service provider.
<b>Main source of investment is:</b>	Public.	Private/public : public funds to leverage private funds.
<b>Government service provision oriented towards:</b>	Mainstream services.	Focus on enabling environment; addressing market failures and delivering core public goods.
<b>Consensus over policy is:</b>	Often there.	Often difficult.
<b>Institutional reform based on:</b>	Re-organisation of responsibilities within the public sector.	Re-division of roles between public and private/non-state actors.
<b>Political backing is:</b>	Easier to achieve.	Often contentious.
<b>Sector is:</b>	Homogenous.	Heterogeneous.
<b>Number of actors/ complexity of interactions:</b>	Lower.	High.
<b>Standardisation &amp; up-scaling is:</b>	Easier.	Difficult.

<sup>(13)</sup> As defined by Harrold et al (1995:xi) 'a Sector Investment Programme (SIP) is (i) sector-wide in scope where a 'sector' is defined as a coherent set of activities, which need to be looked at together to make a meaningful assessment; (ii) covers current and capital sector expenditures; (iii) is based on a clear sector policy and strategy; (iv) local stakeholders, meaning government, private sector and beneficiaries, are in charge; (v) main donors sign on; (vi) common implementation arrangements among financiers; and (vi) reliance upon local capacity rather than long term technical assistance.'

One of the differences concerns the role of the state: in the case of education and health, the state is usually the main source of finance and the main producer of sector output. Since most activities in the agriculture sector tend to take place in the private sphere, the role of the state is essentially to create a favourable regulatory framework in addition to providing key public goods (e.g. research, plant-health services). Much of government responsibility towards creating an enabling environment lies outside the sector ministry: inflation and interest rates, import and export tariffs and exchange rates are of key importance to rural growth, yet are (largely) outside the mandate of the Ministry of Agriculture. This means that sector-wide approaches that were based on the area of responsibility of the sector ministry had more chance of covering key sector interests in health and education, as was the case in agriculture.<sup>(14)</sup>

Agriculture is not only dependent on natural resources such as soils and water but also highly sensitive to climatic factors. As climate change may lead to reduced crop yields, loss of arable land and possible destruction of productive infrastructure the level of risk rural poor will have to face is likely to increase. As two thirds of world's poor live in rural areas, with half of them dependent on marginal lands, this will add to the complexity of designing pro-poor sector approaches for ARD. Ability to take a long term perspective and to deal with uncertainties and changing scenarios will constitute the hallmark of sound sector approaches.

Another feature of the programme approach that proved more difficult in agriculture and rural development was the idea of 'scaling up': in relatively homogenous sectors like health and education, the sector programme offered a useful framework for joining up hitherto fragmented (project) islands of support. Much as the fragmentation of aid was a problem in agriculture too, scaling up proved much more difficult due to the heterogeneous nature of the sector. Successful interventions are often tailored to local context and not as easily up-scaled into a 'programme'.

## 4.2 Recent insights

The introduction of Poverty Reduction Strategies in the late 1990s has changed the framework for agricultural and rural development. Although the first generation of PRSs tended to be vague on growth and strategies towards pro-poor growth, current PRSs rather stress the importance of economic (often rural-based) growth. The multi-sector policy framework and orientation of the PRS has given new impetus to sector-level efforts towards pro-poor rural growth.

A renewed interest in agriculture and the rural economy as vehicles towards poverty reduction is evident also in the international development community. The Global Donor Platform for Rural Development<sup>(15)</sup> was established to advocate the importance of continued attention to rural development at a time when the sector was at risk of being neglected in the rush towards meeting the social service targets of the Millennium Development Goals. More recently, the World Development Report of 2008 on *Agriculture for Development* highlights the importance of agriculture for growth and poverty reduction (Box 2).

<sup>(14)</sup> Mick Foster et al. (2000) What's different about Agricultural SWAPs?

<sup>(15)</sup> See also [www.donorplatform.org](http://www.donorplatform.org) and chapter 6.

### Box 2 – The World Development Report 2008: Agriculture for Development

The World Development Report 2008 calls for greater investment in agriculture in developing countries. At present, although three quarters of the world's poor live in rural areas in developing countries, a mere 4 % of official development assistance goes to agriculture. In Sub-Saharan Africa, a region heavily reliant on agriculture for overall growth, public spending on agriculture is only 4 % of total government spending and the sector is taxed at relatively high levels.

For the poorest people, GDP growth originating in agriculture is about four times more effective in raising incomes than GDP growth originating outside the sector. The recent decline in the poverty rate in developing countries (from 28 % in 1993 to 22 % in 2002) has been mainly the result of falling rural poverty (from 37 to 29 %). More than 80 % of the decline in rural poverty is due to better conditions in rural areas rather than to out-migration of the poor. So, contrary to common perceptions, migration to cities has not been the main instrument for rural poverty reduction.

Fortunately, there is growing recognition among governments and donors that agriculture must be a prominent part of the development agenda, whether for delivering growth or for reducing rural poverty. Successfully doing so will provide high payoffs towards the Millennium Development Goals and beyond.

For the full report go to <http://www.worldbank.org/WDR2008>.

As attention to agriculture and rural economy sectors is growing, so is the debate on how best to address these issues in national policies and in the donor support aligned to these policies. Experiences are being consolidated into lessons learned and best practices. But the body of analyses is still small compared to that on programme approaches in social sectors, and has only just begun to address rural development in addition to agriculture.

## 4.3 Moving from an aid delivery to a sector development perspective

International commitments to making aid effective are important. The changed way of delivering aid, so that it is aligned to national policies and is aimed at making country systems of management stronger, is a key part of this process. However, in pursuing these commitments towards effective aid, it is important to not lose sight of the ultimate aim, which is effective *development*, whereby effective *aid* is no more than a means towards that end.<sup>(16)</sup>

Instruments like donor harmonisation, MTEFs or budget support are important but, ultimately, sector approaches are about effective public administration and about making government and country systems work. Doing this requires a comprehensive and systemic view of the sector as a whole and all of its stakeholders. Table 3 gives an overview of some of the common aid instruments and modalities and their role and place in the wider 'means and ends' hierarchy.

A confusion between means and ends, as happens in the dogmatic pursuit of instruments like single policy and budget frameworks, has far-reaching consequences, especially in a complex, multi-institutional and multi-stakeholder sector like agriculture and rural development: not only does it risk creating huge and complex development programmes, it also risks creating structures and mechanisms that are not in line with existing country structures. For example, a number of national policies will impact upon the prospects for rural growth: pursuing an additional single cross-sectoral rural policy may overlook this and create a parallel (possibly conflicting) instrument that is poorly anchored to the institutional and administrative realities of the country. Similarly, public expenditure in support of agricultural growth or rural development will have to come from any number of ministerial budgets. Wrapping a programme net around these expenditures and pursuing budget negotiations at the level of a programme may result in distracting (and possibly undermining) the regular format for annual budget discussions typically linked to the administrative structure of a government.

<sup>(16)</sup> For a detailed discussion of this argument refer to Boesen and Dietvorst (2007) SWAps in Motion: Sector wide approaches: From an aid delivery to a sector development perspective.

## 4.4 Adopting a political economy and an actor perspective in sector analysis

Reform and change processes towards pro-poor policies often include measures that touch upon vested interests: agriculture programmes often include extensive institutional reform packages, following a more limited role of government in a private sector-led growth sector. The privatisation of state-owned enterprises and the contracting-out of service provision to private players are in many ways about public money becoming private. Rural development is also about grassroots empowerment and rural development programmes often ask for a deconcentration (or devolution) of power from central to local government. Programmes in both sectors may contain elements of hand-outs (or the withdrawal thereof) such as seeds, fertiliser, credit, or relief food, which present strong temptation and myriad opportunities for political interference. Support for sector programmes in agriculture and rural development is not only engaging in a highly dynamic process, it is also engaging in a process of highly political nature.

In agriculture and rural development the question ‘Who does what?’ is equally if not more important than the question ‘What needs to be done?’ As sector performance critically depends on a multiplicity of actors, the role of different actors has to be systematically considered and taken into account. This actor perspective should be adopted not only at the stage of the policy formulation, but should also be considered in the rest of the assessment areas.

## 4.5 Integrating decentralisation

Rural development requires coordinated action under different disciplines (or sectors) such that the ‘value added’ of the different interventions is captured. This may be easier in a decentralised context where local governments allocate funds according to local priorities. Decentralisation efforts usually focus on strengthening local governments, their legitimate role, their capacity, the availability and use of public finance at local government level and local government accountability relations. Generally three dimensions of decentralisation are distinguished: (i) administrative, (ii) fiscal and (iii) political decentralisation. These dimensions are often implemented concurrently, i.e. increased administrative responsibility has to be matched by greater decision-making autonomy and both have to be paired with decision-making power over funds (Table 3).

**Table 3: Dimensions of decentralisation**

	<b>Administrative</b>	<b>Fiscal</b>	<b>Political</b>
<b>What it means:</b>	Transfers decision-making responsibilities and resources from central government to lower levels of government.	Reallocates resources to lower levels including delegation of funds within sector ministries (part of deconcentration).	Transfers (partial) political and political power and authority to (elected) lower level of government.
<b>Considered as:</b>	The ‘narrowest’ form of decentralisation as local institutions are not ‘controlled’ from below (through political representation).	The most traceable type of decentralisation as it is linked to budget practices.	Often perceived as the only true mode of decentralising government.
<b>Benefits to pro-poor local growth:</b>	Enhanced service delivery tailored to local priorities.	Enables focus on equity and inter-regional income redistribution.	Local democracy; participation in local affairs, accountability of local officeholders.

	<b>Administrative</b>	<b>Fiscal</b>	<b>Political</b>
<b>Challenges:</b>	Existence of basic infrastructure; delivery of public services; building of local capacity.	Financial management capacity at local levels as regards expenditure and revenue.	Willingness at the centre to defer power; potentially invasive reform of government.
<b>Applicability:</b>	Wide applicability; often part of civil service reform.	Based on local fiscal management capacity and opportunities for local revenue collection.	Only in countries with strong and proven commitment to decentralisation.

Source: EC Reference Document Supporting Decentralisation and Local Governance in Third Countries.

By bringing government closer to rural people, decentralisation holds the potential to deal with the localised and heterogeneous aspects of agriculture. Decentralisation linked to community-driven development can impart considerable impetus to rural and local economies by focusing on basic services and public goods first, and engaging in income-generating activities once the basic needs have been met.<sup>(17)</sup>

A growing number of countries implement sector programmes as well as decentralisation processes. Decentralisation offers an entry point for rural development, while sector programmes in agriculture often contain elements of deconcentration to lower levels within the sector ministry to make government service provision more demand-driven (Box 3).

### Box 3 Supporting decentralisation and local governance

To help staff involved in direct support for decentralisation and local governance, a Reference Document was prepared that clarifies decentralisation concepts, outlines how support for such processes can be designed and implemented and looks at how sector support provided by the EC can be better aligned to ongoing decentralisation processes.

Usually a key objective of decentralisation is to strengthen local governments. When a responsive and accountable local government works in synergy with a vibrant civil society and private sector, then 'local governance' can be achieved, thus creating the conditions for yet a further step along the path which can be termed 'local development'. Local development is an increasingly popular concept that refers to a process by which a variety of local actors and institutions mobilise and work together to plan and implement sustainable local development strategies in a given territory.

Decentralisation and local governance have become policy priorities, on domestic and donor agendas. This means that in designing packages of country support, a thorough analysis of the extent of decentralisation should be undertaken and CSPs need to provide solid rationale for engaging with or staying out of the process. Experience suggests that carefully targeted aid programmes can help trigger change even in countries lacking a decentralisation policy or a commitment to implement existing reform programmes. In supporting ongoing processes of decentralisation and local governance, there is a clear shift noticeable from a 'single' actor approach (i.e. with support concentrated on either central or local government) to a 'multi-actor' approach, whereby EC support seeks to target the different key players in the decentralisation process. This is reflected in the trend to combine support for decentralisation with programmes aimed at strengthening civil society so that it can participate in local governance.

EC Reference Document No 2: Supporting Decentralisation and Local Governance in Third Countries

Pro-poor rural development can be seen as equitable local economic development in rural areas. ‘Better’ local governance is needed to ensure that growth is equitable. Where vertical, sector-based approaches cross with horizontal, local government-based approaches, the occurrence of overlapping or conflicting mandates at the local level is a real risk. Depending on the strength of local government and the stage of the process, the intention tends to be for local government to subsume sector responsibility at the local level, but where local government capacity is weak, this is often contested or resisted by sector ministries. Arbitration between actors pursuing similar roles may be necessary as a route towards the drawing-up of clear divisions of mandates. Handling this well is especially relevant for rural development and agriculture, as this local cross-point is a potential entry point for local-level harmonisation.

Although decentralisation cannot be termed a ‘sector’ as such, it can be approached as a ‘system’ in which inter-related concerns are addressed by a coherent policy translated into activities implemented by a range of institutions. A sector approach could thus be applied to decentralisation: doing so involves looking at the ‘big picture’ to facilitate the proper prioritisation (and sequencing) of policy concerns and the balanced distribution of (limited) public funds to address these priorities.



## 5. Policy and strategic frameworks

The sector approach requires a basic policy consensus between the government, sector stakeholders and its aid partners in the sector, both about the objectives and, in broad terms, about how these should be achieved. The EC puts specific emphasis on the results that are sought; if these are agreed and jointly monitored, then the government can decide how best to achieve them. The policy process should aim to have key actors and organisations on board. The resulting policy should allow for sufficient flexibility to respond to local needs, especially as standardisation is difficult in areas that deal with natural resources and where solutions have to be adapted to local circumstances.<sup>(18)</sup>

### 5.1 Sound macro and sector policy frameworks

Experiences with sector programme implementation have shown that even the best designed sector programmes can be derailed by a weak macro-economic environment. This is especially true for programmes in productive sectors since macro-economic parameters (inflation rates, exchange rates, etc.) are as important to agricultural growth as the sector interventions proper. Unstable macro-economic environments will scare away private investment, especially from potentially high-risk and seasonal businesses like agriculture or other ventures in rural areas. Sound macro-level policy frameworks are thus crucially important for rural growth to happen.

Macro-level policies should thus include political willingness to foster smallholder and small-scale family agriculture as a route to rural growth, employment and poverty reduction which then needs to be translated into clear policy options with their corresponding means.<sup>(19)</sup> Where macro-level policies combine a rural perspective with an understanding of the systemic problems hampering growth, their translation into policies at the sector level is greatly facilitated. As such, macro-level frameworks can be powerful instruments towards the horizontal, inter-sectoral coordination that is needed in agriculture and rural development. A comparison of experiences in Uganda and Tanzania is a good illustration of how important it is to have a well-developed growth component in the poverty reduction strategy and how useful a pro-poor growth strategy can be in coordinating activities that span across sectors (Box 4). And the ARD sector relies on the state of natural resources either for its own productivity or for the impacts it may induce (soil quality, water availability, forest degradation). Intersectoral coordination is therefore a key element for the success of an ARD programme.

Where at the macro level policy making is biased towards urban (rather than rural) interests or short-term (rather than long-term) agendas, the sector might suffer from excessive taxation, under-investment or bias towards food relief rather than investments in growth.<sup>(20)</sup>

### 5.2 A sector approach to policy alignment

A particular challenge in agriculture and rural development is the extent of policies and legal instruments that deal with the sector. In fact, a 'sector' as wide as rural development may find itself within the remit of practically every second policy or Act in the country. In an ideal scenario, all of these will have been derived from the pro-poor policies at macro level and thus all point in the same direction and stimulate mutually supporting action towards that objective. In practice this often is only partially the case: important policies may pre-date the Poverty Reduction Strategy, others may ignore it. Policies may overlap or even undermine each other. In such cases, it is necessary to identify a set of key policies relevant to the sector and to assess the extent to which these are aligned.

An outcome of such an exercise may be the conclusion that an umbrella (rural or agricultural) policy framework is still needed, but whatever policy formulation is undertaken, it should always build on existing sector-relevant policies. A sector approach to agriculture or rural development can be an impetus for such an exercise.

<sup>(18)</sup> EC Guidelines on Support to Sector Programmes, pp. 19 and 29.

<sup>(19)</sup> In many countries the Poverty Reduction Strategy is such an overarching policy framework, but it may also come in the form of a National Development Plan or similar document.

<sup>(20)</sup> According to the WDR these policy biases are to blame for the fact that 'despite its well established record as an instrument for poverty reduction, agriculture has been vastly underused for development' (pp. 6-7).

#### Box 4 – Anchoring sector strategies in macro-level policy frameworks

Uganda's Programme for the Modernisation of Agriculture (PMA) emerged directly out of the country's national poverty reduction strategy (Poverty Eradication Action Plan or PEAP). The initial impetus for the PMA did not come from the Ministry of Agriculture, but from the Ministry of Finance in its role as coordinator for the PEAP. In fact, the institutional set-up, with a central ministry in the lead, means that the PMA is not an agricultural programme *per se*, but rather a government-led framework for reducing rural poverty using a multi-sector approach. This coordination from the centre has allowed the PMA to engage policy actors beyond the Ministry of Agriculture, including six other line ministries, as well as local government.

The story in Tanzania has a similar beginning in that the Agriculture Sector Development Programme (ASDP) is also directly derived from the country's poverty reduction strategy. However, in Tanzania, the growth component of the PRS was less clear, especially with respect to the roles of public and private sectors, an issue that became a long-standing policy disagreement between the government and donors supporting the ASDP. Limited strategic leadership at the central level meant that insufficient guidance was available to direct policy discussions at the sector level.

*Evans et al (2007); Greeley et al (2007); Hesse (2006); Bakema (2007)*

#### Box 5 – Mutually supporting programmes coordinated by rural policy in Honduras

The Department of Agriculture, together with stakeholders, formulated the State Policy for the Agrifood and Rural Sector 2004-2021 (PESA). In 2006 the policy was translated into the Operational Strategic Plan for the Agrifood Sector 2006-2010 (PEO). To bring the PEO to implementation, it was decided to first design a series of four sub-SWAPs in strategic areas of potentially greater impact, each based around a particular national institutional system. These were: (i) the National System for Agrifood Research and Technology, promoting the development of technology to increase smallholder production, (ii) the National Service for Food Health and Quality, which is responsible for plant-health standards and for procedures and regulation of agrifood production and products, (iii) the National Forestry Programme to develop and consolidate forestry product chains as well as ensure the sustainable use of forest resources and (iv) the National Agrifood Development Programme, which aims to promote modernisation and competitiveness in areas of high potential.

Positive lessons learned in Honduras were (i) the importance of developing a long-term policy framework in a participatory manner and (ii) the usefulness of adopting a gradual and prioritised process starting with well-selected and less complex sub-sectors where the Department of Agriculture has greater autonomy. Also useful was the fact that territorial aspects were integrated early on, not only in the policy but also in the institutional reform process.

Each of the sub-SWAPs had its technical team and one recommendation was to have facilitators working within each team who would be independent from donors and from government so that SWAPs could be given a 'neutral' design to maximise inter-agency support.

*Anson and Pfaumann (2006)*

Even when macro-economic policy frameworks are not conducive to rural growth, this does not mean that all work at the sector level should be suspended until they are. Work at the sector level should however maintain a clear line of sight and communication to the macro level so that macro-level dialogue can be related back to sector-level dialogue. Similarly, where alignment at the sector level is a problem, it may still be necessary to work on an improved policy that can act as an umbrella behind which fragmented (sub-) sector-related policies can then be aligned.

What the best focus and sequence of the policy dialogue is depends on the situation in the country. What is needed always, though, is an overview of the policy framework (upstream-downstream as well as across) at the start of the process. Continuous policy monitoring along a limited number of basic questions helps in making policy dialogue productive: Are policies endorsed by domestic actors? What is the parliament's role and how does it function? Are policies public and disseminated? Is there a clear understanding of why past policies have failed? Do policies draw on the views of producers and service users? Are policies feasible, in terms of finance and capacity? Are policies implemented as planned? What are the tools used for monitoring policy implementation? Do policies matter? Does policy failure have political consequences? <sup>(21)</sup>

### 5.3 Policy and legislative frameworks for private sector-led agricultural growth

Recent decades have changed the context for agricultural growth, with the advent of dynamic new markets and far-reaching innovations in the fields of communication, research and technology. These developments are associated with new roles for the state, the private sector and civil society based on an emerging vision towards pro-poor rural growth building upon smallholders as the main producers. However, improving the productivity, profitability and sustainability of smallholder farming as a main pathway out of poverty requires an array of policy instruments. <sup>(22)</sup>

A sector-wide perspective in assessing existing policy and legislative instruments may help identify key policy needs or constraints, especially when this assessment is supported by an analysis of the impact of current policy along important value chains (Box 6).

#### Box 6 – Adopting a commodity approach as part of policy assessment in Tanzania

Following a commodity approach, smallholders were assisted from producing all the way to marketing premium coffee in global markets. The support for backyard coffee production made clear how much taxes and levies were eating away at the smallholders' profit. This was an eye-opener for the Ministry of Agriculture, as it collected only a small portion of these taxes (most were levied by local government), and prompted the Ministry to remedy the situation, but also to analyse the state of affairs for other important smallholder commodity chains.

*Dietvorst (2004)*

Typically, the private sector consists of a wide and varied spectrum of actors that includes smallholders as well as commercial farmers; small and medium-sized enterprises as well as global players; and producers as well as traders. In such a heterogeneous group, conflicts of interest are not only likely, they are inevitable. Designing and implementing a policy and legislative framework that offers an enabling environment for private sector-led growth and at the same time makes sure that this growth is equitable requires sophisticated capabilities on the side of government. <sup>(23)</sup> Rather than spending a lot of effort in drawing up detailed strategies for government-driven private sector growth, it is important that the cornerstones of policy and legislative reform are put in place. Doing this means balancing two government tasks: (i) easing administrative and legislative hurdles to growth (including stifling taxes), and (ii) fostering the institutional and market structures that act as conduits to growth. Broadly, policies should:

<sup>(21)</sup> EC Guidelines on Support to Sector Programmes, pp. 69-70.

<sup>(22)</sup> World Development Report 2008, pp. 8-10.

<sup>(23)</sup> For a detailed discussion see the Oxford Policy Management report *Stimulating private investment and market development for agriculture: new approaches and experiences* by Joffe and Jones (2004).

- *strive for a right balance between taxation and incentives*

As an important economic sector agriculture provides resources for the growth of the overall economy. Conversely, heavy exploitation (e.g. through taxes or overvalued exchange rates) coupled with a lack of meaningful investment may cause this growth engine to falter. Policies that reduce biases against agriculture can have a strong multiplier effect on overall economic growth: the recent surge in Sub-Saharan agriculture has been induced, in part, by improved price incentives from macro and sectoral reforms.<sup>(24)</sup>

- *foster strong institutions*

Policies need to make room for the emergence of strong institutions as the backbone for private sector-led growth: institutions that improve market functioning (such as risk management instruments and financial institutions), institutions that secure property rights (so as to motivate investments with a longer-term payoff<sup>(25)</sup>), institutions governing land and land usage rights and collective action organisations that reduce transaction costs (e.g. effective farmer organisations that connect farmers to markets and improve their bargaining position).

- *streamline legislation*

Fragmented legislation, cumbersome bureaucratic procedures, illogical regulation and delays in property registration are ubiquitous hurdles to growth in poor countries. Such bottlenecks increase the time and cost involved in doing business and are sometimes so stifling as to make even otherwise viable commercial opportunities impossible. Judicial reform can be instrumental in creating an enabling environment for business: adequate protection of property, enforcement of contracts and speedy resolution of commercial disputes all help make investment risks more manageable. Streamlining the available legislation makes doing business a lot easier (Box 7).

### **Box 7 — Judicial and legislative reform to make ‘doing business’ easier**

In Kenya, private investment in agriculture was governed by 300 to 400 pieces of legislation. The Ministry of Agriculture embarked on a programme to streamline this under a limited (five to ten) number of umbrella laws. At the macro level Kenya’s government launched a licensing reform programme aimed at simplifying the country’s 1 800 licences; 110 business licenses were scrapped and another 900 are being rationalised. In Ghana, pervasive corruption and delays in contract enforcement were acknowledged to be major obstacles to business. This led to the decision to establish a Commercial Court. Delegations of judges from Ghana undertook study tours to commercial courts in Uganda, Tanzania, Denmark and the UK which allowed them to ‘cherry-pick’ best practices as critical input in devising the regulatory structure of the Ghana court. Commercial disputes can now be resolved much more quickly and confidence in the investment climate has improved.

In 2007, both Kenya and Ghana were voted among the ‘global top 10 performers in business climate improvement’ by the Doing Business Reformers Club.

*International Finance Cooperation (2007); Cofie (2007)*

<sup>(24)</sup> World Development Report 2008, p. 21. The WDR further states that agricultural policies have historically shifted from taxation to subsidies as per capita income rises. Low-income countries tend to impose high taxes on export farmers (as an important source of fiscal revenue) while high-income countries tend to heavily subsidise farmers. This creates a policy bias against the poor in domestic and international markets (p. 96).

<sup>(25)</sup> See also section 7.8.

- *improve efficiency and accessibility of markets*

Globalisation increases the opportunities for trade. Governments can strengthen existing favourable trade agreements and negotiate new ones. Regional economic communities can be made (better) use of to improve regional cross-border trade.<sup>(26)</sup> But favourable international trade agreements will only work when domestic obstacles to trade are also removed: tariffs, distance from large markets coupled with poor infrastructure greatly increase the cost of goods or prevent trading altogether. Reliable public-sector service delivery in areas like infrastructure, energy, telecommunications and water are key to making domestic marketing more efficient. Market efficiency could further be improved by setting up stakeholder-managed Market Information Systems, by creating Warehouse Receipt Systems (the receipts for deposited commodities could thus improve access to financial services) or by introducing Grades and Standards to improve access to high-quality markets and increase market transparency.

- *attract more and better investment in agriculture*

Investments in core public goods – science, infrastructure and human capital – combined with better policies and institutions are major drivers of agricultural productivity growth. To create a favourable investment climate for the private sector the state thus has a key role to play in setting up efficient, independent institutions and generating transparent rules and regulations but also in guaranteeing the sustainable management of its national natural resource base so as to preserve longer-term productivity growth perspectives and reduce negative environmental impacts.

For the sector approach, the above means mainly two things. First, a policy dialogue merely at the level of the sector is not sufficient for creating the required framework for sector growth. Instead, governments and donors have to look beyond sector boundaries and take account of relevant or required policy directions at macro level and in related sectors. Second, policies need to be underpinned by appropriate legislation: sometimes the policy is changed but the legislation is not adapted. Shortfalls in legal instruments are not necessarily brought to the policy dialogue table and are only uncovered when implementation stalls because of them. Bearing in mind that legislation is not changed easily (and should not be changed lightly) it may be necessary to conceive interim legal instruments (e.g. by-laws, Memoranda of Understanding).

Proper recognition of the essential role of agriculture as an engine for growth favours the overall economic growth of agriculture-based economies.<sup>(27)</sup> However, as rapid growth on its own will not necessarily induce a process of sustainable poverty reduction, specific policies will have to be designed so as to ensure that the poor participate in the growth process.

## 5.4 Policy ingredients that enhance the pro-poor effects of agricultural growth

A policy environment conducive to agricultural growth is necessary for poverty reduction but for agricultural growth to reduce poverty substantially, smallholder farming must be competitive and sustainable. Local needs and circumstances should determine which policy ingredients<sup>(28)</sup> are needed to foster pro-poor growth. Policies could thus:

- *foster small-scale and family agriculture*

The efficiency of smaller production units has been demonstrated in most developing countries. Small producers often achieve higher land productivity with lower capital intensities than larger units; household workers are typically more motivated and more readily exploit labour-intensive technologies that increase land productivity. In poor, labour-abundant economies, the fostering of small production units can be a win-win for growth and poverty reduction<sup>(29)</sup>. Small producer households also have expenditure patterns that favour the growth of the local rural economy (incremental income creating additional demand for labour-intensive goods and services produced in local villages and towns).

<sup>(26)</sup> Regional communities such as ECOWAS, COMESA or the SADC can be the means towards regional tax-free zones, improved exchange of information and more efficient regulation of movements of people and goods (e.g. faster procedures for visas and work permits; swift and transparent customs and clearance procedures).

<sup>(27)</sup> World Development Report, 2008.

<sup>(28)</sup> The set of 'tried and tested' ingredients described below should thus been seen as an indication rather than a strict guide.

<sup>(29)</sup> The integration of environmental sustainability criteria in – for example – the development of agroforestry systems constitutes an effective approach to strengthen family-based agriculture.

- *support smallholder organisations*

Fostering the capacity of organisations such as farmer unions, producer associations and commodity associations can have far-reaching impact by enabling farmers' organisations to better capture opportunities offered by the market (access to inputs and better prices for traded products) and as a means of empowerment whereby farmers' demand for quality services is increased and providers are held accountable.

Interventions in support of smallholders include farmer-based networks (or farmer organisations); retailer-based networks (or commodity associations); market studies; or the facilitation of contractual arrangements (incl. outgrower schemes) based on a secure supply of inputs (including extension) against an agreed return of harvested commodity.

- *secure land and land usage rights*

For most of the rural poor in developing countries, land is the primary means for generating a livelihood and a main vehicle for investment, accumulation and intergenerational transfer of wealth<sup>(30)</sup>. Unequal ownership of land creates and maintains differences between women and men and the pace at which they can accumulate capital (especially in the context of the HIV/AIDS epidemic)<sup>(31)</sup>. Different experiences aiming at securing land rights should be explored, for example land rental markets, new approaches to land reform and decentralising land administration institutions.

- *Integrate environmental sustainability challenges and issues*

Frequently natural resources constitute the main available growth 'capital' available to rural dwellers. Sustainably managing the environment and its resources (e.g. land, water, biodiversity, ...) thus becomes a de-facto requirement in fostering pro-poor growth processes in rural areas. Moreover, as many rural inhabitants live in marginal areas that are highly vulnerable to extreme climate variability and change, strengthening resilience and adaptive capacities will be an important challenge in the coming years and sound environmental and ecosystem management will be key in this respect. Taking a broader view<sup>(32)</sup> of natural resources and systems (the ecosystems perspective) is thus particularly indicated when formulating agriculture policies and plans. Where people suffer from the effects of desertification, deforestation, flooding or soil degradation, community-based approaches to natural resource management are a promising way to start dealing with these issues. Sound natural resource management will also help reduce conflicts and tensions related to access to resources like land and water. The viability of such efforts, however, depends on the quality of local governance, the political voice of producer organisations and their power to hold policy makers and implementing agencies accountable.

- *increase public investment in agricultural research for pro-poor technologies*

Better technologies for soil, water and biodiversity management as well as more sustainable and resilient agricultural practices are important for subsistence-oriented farmers. Public investment in technical training (from mid-level up to high-level technical education) will be essential for the consolidation of productive clusters and value chains. As development and adoption of such technologies depends on collective action by farmers and communities, decentralised and participatory approaches are required.

- *facilitate access to input markets*

Public interventions in seed and fertilizer markets have often failed; yet 'market-compatible'<sup>(33)</sup> subsidies can help overcome market failures such as high costs of inputs compared to farmers' income, allowing volumes to increase and farmers to increase their production, and eventually reducing the need for subsidies.

<sup>(30)</sup> For further reference see also the EU land policy guidelines and annexes (SEC(2004) 1289 together with communication COM(2004)686 'Orientations de l'UE visant à soutenir l'élaboration de la politique foncière et les processus de réforme de cette politique dans les pays en développement' ([http://ec.europa.eu/development/icenter/repository/EU\\_Land\\_Guidelines\\_Final\\_12\\_2004\\_en.pdf](http://ec.europa.eu/development/icenter/repository/EU_Land_Guidelines_Final_12_2004_en.pdf)).

<sup>(31)</sup> Transparency in land tenure regimes is also key for stabilising agricultural frontiers, enable effective buffer zone management and strengthen protected areas conservation.

<sup>(32)</sup> By looking at resource usage effects but also by taking in account existing interlinkages between agricultural production, landscape management and rural development.

<sup>(33)</sup> Public support measures that foster the development of private sector-led input markets.



### Box 8 – Strategic Environmental Assessment (SEA)

To ensure that the environmental consequences of proposed policies, plans and programmes (PPPs) are fully considered and appropriately addressed at the earliest stage of formulation and decision making (consistent with the country's and EC's environmental policy objectives) the realisation of a Strategic Environmental Assessment constitutes an essential step. The SEA will provide recommendations that seek to minimise environmental impacts while strengthening development outcomes. By considering the level and quality of environmental integration in policy frameworks, assessing environmental expenditure and availability of resources for mitigation/optimisation measures or evaluating sector performance indicators the SEA will provide essential environmental entry points not only for the SPSP identification and formulation but most importantly to deepen strategic policy dialogue.

The SEA study comprises several stages including the realisation of an environmental baseline, the identification and assessment of the potential environmental impacts, the formulation of proposals to mitigate negative impacts and optimise positive impacts, a sector policy and programme consistency analysis as well as an environmentally integrated performance monitoring proposal.

*EC Environmental Integration Handbook, 2007*

- *improve smallholders' access to markets for high(er) value products*

Investments in market and value-chain infrastructure need to be linked to specific measures to upgrade farmers' ability to meet value-chain standards and requirements. Producer organisations need to be supported to capture economies of scale, reduce transaction costs, deal with market risks and become competitive players. 'Niche' opportunities can be made use of to link small-scale farmers in remote areas to international and profitable markets, for example through organic labels or labour-intensive products such as essential oils or wild-harvests of honey and herbs. Capturing these opportunities often means upgrading quality standards to internationally accepted ones. Linking grading facilities to certification allows producers to get optimum prices. Those opportunities appear as 'win-win' options where development opportunities can be reconciled with environmental protection and sustainable management of natural resources.

- *facilitate the provision of adapted financial services for smallholders*

Improved access to saving and credit facilities, insurance services and support for financial transactions will increase efficiency and welfare gains from agriculture for poor households. An appropriate legislative framework will enable financial service providers to expand their activities. Lack of land titles, land titles available only to men, or long delays in the processing of land titles makes it difficult to obtain collateral and thus limits access to credit. Alternative forms of collateral, such as warehouse receipt systems, should be explored.<sup>(34)</sup>

- *strengthen decentralisation processes so as to stimulate local economic development*

Decentralisation and local governance are profoundly political processes, touching upon the core foundations of power balances and processes in a country. In order to plan and implement sustainable local development strategies in a given territory, local economic development will have to mobilise a wide variety of local institutions and actors. Pro-poor rural development can be seen as equitable local economic development in rural areas.

<sup>(34)</sup> See also Box 23.

## 5.5 Clarity of roles as a minimum requirement

There is now general agreement that the state must invest in core public goods, such as agricultural research and development, rural roads, property rights, and enforcement of rules and contracts. Public policy should promote poverty reduction and equity, including gender equity, by building public infrastructures and providing safety nets. Although outsourcing and partnering with the private sector and civil society can reduce the burden of the state in implementing the agenda, agricultural ministries need new skills to facilitate, coordinate and regulate effectively. Strengthening the capacity of the state in its new role of coordinating across sectors and partnering with private sectors and civil society is urgently needed. In most countries, ministries of agriculture are in need of far-reaching reforms to redefine their roles and develop new capacities <sup>(35)</sup> (Box 9).

### Box 9 – Public goods and public intervention

Sector programmes in agriculture often seek to remedy the disappointing, or even dysfunctional, record of public intervention. They do this by a re-division of responsibilities between public and private sectors, whereby government responsibilities are limited to the provision of what are known as public goods. Public goods are usually defined as being provided for all (non-excludable and non-rival <sup>(36)</sup>) and include things like a clean environment, national defence and street lighting. In agriculture, there is a consensus that appropriate public goods are physical infrastructure, research, and some forms of extension and the prevention and control of gazetted crop and livestock diseases (to protect public safety or national economic interests). The redrawing of government roles around public goods is often linked to privatisation of agricultural markets, with programmes aimed at dismantling parastatals and withdrawing subsidies on credit and inputs. However, redrawing the boundaries between the public and the private sector should not mean that government cannot intervene in private good areas. In fact, intervention may often be necessary especially in situations of market failure. But where the state does intervene, it needs to do so in a non-distorting manner, with the aim of fostering equitable growth and with implementation through a constructive dialogue with the private sector.

*Joffe and Jones (2004)*

In sectors where government is only one of many players, policies should be as clear as possible on roles and responsibilities between the public and the private sector. Especially where a re-drawing of boundaries is envisaged, the policy should be clear on which responsibilities are retained and which are released by government, or, as may be the case in rural development, what is the role of central government versus that of local government. In creating an enabling environment for the private sector to operate, a distinction can be made between three levels of public intervention related to three main government roles: (i) government as a facilitator; (ii) government as a provider of public goods; and (iii) government as an implementer. In reality, there will often be a mix of these roles required or at work and they can thus be seen as points on a sliding scale, plotted along a progressively active role by government in market development. Table 4 offers an overview.

<sup>(35)</sup> World Development Report, pp. 22-23.

<sup>(36)</sup> A good is *excludable* if people (ordinarily people who have not paid for it) can be prevented from using it. It is *rival* if one person's consumption of a good necessarily diminishes another person's consumption of it.



**Table 4: Roles taken up by the public sector to favour economic growth**

Government is:	<b>Regulator and facilitator</b>	<b>Provider of public goods and services</b>	<b>Implementer of public interventions</b>
<b>Focus of activity is:</b>	Policy, legislation, regulation.	Protection of people and property; protection of the environment and sustainable natural resource management; control and prevention of diseases.	Support for time-bound interventions that stimulate an effective private sector response.
<b>Examples of support for private sector development include:</b>	Macro and sector policies favouring private-led growth; legislation governing investment and trade; regulatory framework for financial institutions; transparent public procurement services.	Effective contract enforcement services; research; large-scale public investment in technology & infrastructure.	Investments along a specific marketing chain aimed at reducing transaction costs and building sustainable commercial relationships.
<b>Sector approach and programme relevance:</b>	To uncover (i) potential contradictions between macro-level and sector-level policies; (ii) regulatory bottlenecks, 'coordination failure'.	(i) facilitate sector-wide capacity development based on definition of roles and responsibilities; (ii) capture cross-sector synergies.	Set up pilots under a (sub-) sector programme within a proper scaling-up strategy.

Questions related to 'who does what?' are likely to raise more controversy than the issue of 'what needs to be done?'. Failing to tackle this issue, however, leads to policies that ascribe functions to government that exceed public sector capacity or stifle private sector growth. Within a context of ongoing decentralisation the degree of clarity between mandates of central and local government will also determine quality of service delivery. These are areas where guidance and coordination by central government and macro-level policies is indispensable (Box 10).

#### **Box 10 – 'Policy compliance' as a guide to 'who does what?'**

With agriculture and rural development being as wide as they are, it is not possible to capture and control all that is needed and all that is done in a single government-led sector programme. What must be assured, however, is that different efforts in the sector, whether by government, donors or NGOs, do not undermine each other. This is true especially as regards the division of responsibilities between the public and the private sectors. In Uganda, the PMA requests that agricultural extension and parts of agricultural research are private-supplied and demand-driven. To give the private sector space and time to grow, the government requests any action in the sector (e.g. by donors or NGOs) to be screened for its 'policy compliance' with the PMA, with special reference to public-private roles. According to the PMA Secretariat, about a third of the requests for actions are sent back as being insufficiently private sector-led. After hearing of the Uganda experience, the Kenyan Strategy for the Revitalisation of Agriculture (SRA) adopted this concept as a coordinating tool for each of the thematic sub-groups (e.g. research, agricultural inputs, markets) and screened actions in each area for their 'SRA compliance'.

In assessing this aspect of the sector policy, the EC Guidelines propose a series of useful questions: <sup>(37)</sup>

- Is the role of government in the sector well defined? And is the rationale for this role clearly presented? Has a distinction been made between a regulatory (including the provision of key public goods) and an interventionist role?
- Have different options for government action been considered and weighed? For example, direct service provision by the government versus the outsourcing of service contracts to the private or NGO sector? Related to this and in terms of government responsibility, has a distinction been made between the financing and the delivery of public services?
- Where government plays a role in working towards social objectives (e.g. alleviation of hunger and poverty), are target groups clearly specified and has a feasible strategy for reaching them been devised?
- Taken as a whole, is the sector policy based on an appropriate, affordable and feasible vision of the role of government?

## 5.6 Taking account of winners and losers at the policy stage

The pervasive heterogeneity in agriculture and rural society has deep implications for public policy as any policy reform is likely to have winners and losers. <sup>(38)</sup> To be effective, support for pro-poor policies has to take account of this from the programme design stage.

One category of potential losers is that of disadvantaged areas: where government-supplied services have been privatised, areas that are commercially unattractive may experience a ‘service gap’ after a government withdrawal. Policies should address the plight of remote areas and be based on a commitment by government to address market failure without undermining the framework conditions for private sector development. They may do this by incorporating geographical dimensions in determining the balance between public and private roles coupled with a strategy that makes optimum use of opportunities for disadvantaged areas (Box 11).

### Box 11 – The ‘duality’ of the agricultural sector in Zambia

During implementation of the Agricultural Sector Investment Programme (ASIP) of Zambia it was noted that private sector development, despite being a key policy objective, was stifled as government first released, and later reclaimed fertiliser distribution on the grounds that remote farmers were not getting any, thereby nullifying considerable private sector development in infrastructure and investments. Part of the problem was the lack of recognition of the ‘duality’ of the agricultural sector: after privatisation, some areas had attracted commercial interest due to their better infrastructure and accessibility, while other, more remote areas, had lagged behind and the regional gap had increased as a consequence of sector programme implementation. Strategy options were identified that would protect vulnerable areas, while at the same time being consistent with commitments towards private sector growth. Strategies identified were (i) three-tier fertiliser provision based on geographical classification with subsidies for private sector transportation to remote regions; (ii) support for niche products for remote areas (e.g. high value–low volume crops like organic produce, herbs and spices); and (iii) the issuing of government packages of (vaccination) contracts to veterinarians on condition that they settle in remote areas.

*Mwape (1998)*

<sup>(37)</sup> EC guidelines on Support to Sector Programmes, pp. 70–71.

<sup>(38)</sup> World Development Report 2008, p. 6.

Ironically, another category of losers may come from amongst policy implementers themselves: where the service provision role by the government is to be reduced, sector ministry staff may boycott the implementation of their own programme for fear of losing their job in the process. However, even redundant staff continue to represent an asset that may still be useful to the sector as a whole, albeit not in their civil servant capacity: where programmes can link public sector exit strategies to private sector entry strategies, their chance of success may be increased.

A third 'winner-loser' scenario might occur in the context of decentralisation: decentralisation and local governance are profoundly political processes, touching upon the core foundations of power balances, and people at the centre may perceive that they 'lose' from such policies. Often, a major gap can be observed between stated policies on decentralisation and commitment to their effective implementation. Pilot approaches can prepare the ground and trigger change even in difficult contexts by demonstrating the benefits to local development and building up domestic constituencies that demand genuine decentralisation.<sup>(39)</sup>

In general, policies that are about change and reform processes will take time to materialise: capacities and confidence at local level need time to mature and non-state actors need time to fill the gap after a withdrawal of government service provision. Sometimes, quick wins can help protect against 'policy U-turns'. These may include repair of dilapidated market infrastructure (shades, storage, water supply), mending a feeder road or an exchange visit between local governments.

## 5.7 Policy ownership and non-state actors

Policy ownership lies with government but policies need to be endorsed by domestic stakeholders. Questions such as: 'Which conditions attract private investors to the rural sector?', 'Which conditions scare them away?' are best answered by the private sector itself. Government needs the input from those who are responsible for sector output (i.e. the producers, processors and traders) to design agricultural development strategies that will create a conducive environment for the private sector and civil society. The active participation of the Private Sector Foundation of Uganda during the policy formulation process for the Plan for the Modernisation of Agriculture (PMA) is one of the reasons why the PMA has been more effective in stimulating growth than other programmes. Producer organisations can give political voice to smallholders and hold policy makers and implementing agencies accountable by participating in agricultural policy making, monitoring public expenditures, and engaging in policy implementation. Fortunately, governments are increasingly responsive to this and the private sector and civil society have become regular attendants at the policy table.

Respecting domestic policy ownership means for donors that although they can support policy dialogue (and at times provide policy advice), they have no influence over the parliamentary scrutiny and passing of policies. Where public-private interaction is problematic, donors may act as neutral brokers to foster constructive exchange. Policy making and especially the design and enactment of laws are prolonged processes (among other things because of the need to harmonise with existing policies and legislation). This means that if a sector programme depends on the passing of a new policy or a new law, then donors have to be prepared to be in for the long haul (Box 12).

## 5.8 Key issues regarding policy and strategic frameworks

**Help strengthen macro-sector linkages.** Clear and conducive macro-level policies are needed to drive and coordinate sectors that are complex and cover multiple institutions. Sector policies have to be anchored onto clear pro-poor rural growth poverty reduction strategies.

**Acknowledge existing policies:** At the start of a sector approach, allow time for comprehensive mapping of relevant and sector-related policies. This can provide the basis for delineating the scope of an eventual sector policy or programme(s) and it highlights potential policy conflicts and the need for 'sector-wide alignment' action.

<sup>(39)</sup> EC Reference Document Supporting Decentralisation and Local Governance in Third Countries, pp. 8 and 39.

### Box 12 – Land reform in Namibia

For the preparation of the Land Reform Policy an all-Namibian advisory board was established in 2003 initiated by the Minister of Lands (later President) and supported by development partners. Members included central and sector ministries, academia as well as representatives from the (largely white) commercial farmers' union and from the (largely black) communal farmers union. Over a period of three years, the board carried out widespread stakeholder consultations and country-wide in-depth studies on land quality, usage and distribution patterns. From the start, the process was linked to a Cabinet Committee. By 2006 a policy proposal was put forward to Cabinet, which was endorsed by Parliament in 2007. The policy has been translated into a three-year strategic rolling plan, from which are derived the work programme of the Ministry of Lands and components in work programmes of other ministries contributing to its implementation. The policy is not only widely known but also owned by the stakeholders concerned. Both commercial and communal farmer unions refer to the policy as a useful guide towards land reform. Donors too now agree that the outcome has been successful given the potential political hazards; however, according to the Director of Planning of the Ministry of Lands, this four year-long programme has had to withstand continuous pressure from donors waiting to disburse.

*Ndala (2007)*

**Use sector-wide policy dialogue to understand and address inter-dependent constraints.** The programme approach looks at the big picture. In the case of agriculture and rural development this needs to be multi-sector wide. This allows an understanding of linkages across sectors and the formulation of (mutually supporting) programmes such that inter-dependent constraints are addressed in different sectors (e.g. production of marketable surplus linked to feeder roads development).

**Foster clarity on public and private roles.** A minimum requirement is that policies are clear and unambiguous about the division between public and private roles (esp. in agriculture) and between central and local responsibilities (esp. in rural development). They also need to remain clear in the long term: strong analytical foundations, widespread ownership and quick wins may all help to protect against policy U-turns. Private sector development needs policies that are stable in the long term.

**Help strengthen the analytical work underpinning policies.** A weighing of the cost, feasibility and long-term impact of different government- or private sector-driven service delivery scenarios should be at the root of policy formulation in productive sectors. With respect to past policies, an understanding of what worked, what didn't and why is a prerequisite for future policy making.

**Ensure Environmental sustainability.** Necessary analytical work should also address environmental dimensions<sup>(40)</sup>. To ensure that environmental issues are appropriately addressed, on par with economic and social considerations, ARD sector approaches should benefit from an SEA at an early stage (optimally prior to Policy, plan and programme formulation)<sup>(41)</sup>.

**Foster 'policy compliance'.** Aligning behind a policy also implies remaining policy-compliant 'on the ground'. Thus, donors should avoid subsidising government to perform tasks that are meant to be undertaken by the private sector. Donors themselves should refrain from service provision where this is not 'policy-compliant'. Donors and NGOs who do not fund the sector approach may still need to be *included in the policy dialogue, or at least their actions need to be 'policy-compliant'*. Ensuring 'policy compliance' allows government-led coordination of wide-ranging interventions under a sector policy whilst also allowing flexibility for actions to be adapted to local circumstance.

<sup>(40)</sup> Environmental integration Handbook for EC Co-operation-EuropeAid-2007.

<sup>(41)</sup> In order to integrate climate change challenges in ARD a set of tools is in process of being finalized.

**Government role not limited to public goods measures.** Conventional approaches based on ‘public goods’ measures for government (and donor) support to expand markets are likely to lead to poorly designed support. Especially in rural areas of developing countries, market failure and government failure combine to create such pervasive and complex obstacles to marketing that it is unrealistic to assume that the ‘free’ market can provide adequate solutions to the problem.

**There is a private sector role even in ‘public good’-type services.** Even in traditional public responsibilities such as marketing information and standards and grades a role can be played by the private sector by ensuring that information and grades reflect concerns and needs of the market.

## 6. The sector budget and public finance management

Reinforcing the policy-budget link is one of the key objectives of the sector approach. They have to be strengthened in tandem because non-funded policies are powerless while budgets spent on poor policies are ineffective. In fact, budget outturn can be a more truthful reflection of policy priorities than the policy itself. Where there are large discrepancies between policy priorities and budget outturn, this is an area that needs to be addressed early on. This may be related to lack of commitment to policy objectives, but may also be caused by poor public finance management.

### 6.1 A public sector budget that mirrors sector policy and government tasks

The sector approach motto of ‘putting the public budget back to the centre of policy making’ holds true, even in agriculture. But more in terms of using the budget process as a basis for tackling fundamental issues concerning the scale of government involvement in the sector. Appropriate and hard budget ceilings should underpin the choices being made. When linked to strategic planning, a medium-term budget becomes the instrument by which government ambitions are scaled to the agreed priorities and to the available resources<sup>(42)</sup>.

The public budget should cover the responsibilities for government as laid out in its sector policy, balancing the support needs of state and non-state actors. As funding non-state actors through the public budget represents a transaction cost and developing the capacity and building the awareness of these actors will also raise issues of conflicts of interest, donors might opt to support non-state actors directly. This should be done in accordance with sector policy and strategy. This means that support to the sector, whether it passes through the government treasury or not, should be reflected in the overall sector-wide budget to allow government to make an optimum connection between the policy priorities and the available resources in the sector (Box 13).

High PFM standards and good PFM practice are key ingredients to target and implement such interventions in such a way that they are non-distorting, market-oriented and capable of generating net benefits to the poor over the long term. Such innovative uses of public finance to stimulate pro-poor growth, however, require considerable analytical and managerial capacity.

### 6.2 Aligning sector programmes to country structures

The success of the ‘leverage role’ played by the public budget for agriculture and rural development depends not only on the leadership and capacity of the Ministry of Finance and the sector ministry, but also on whether a number of other challenges are met, including:

- (i) *Coordinating different levels of government.* Where decentralising processes are ongoing, local- and central-level budgets need to dovetail and may have to be recombined to get an overview of public sector efforts.
- (ii) *Monitoring of spending across different public budgets.* Where funds towards a certain policy objective come from different sources (e.g. multiple ministries and different levels) it becomes difficult to assess the contribution of any one budget or to identify from which budget a shortfall occurred or which of the occurring shortfalls has been most responsible for the observed underperformance at sector level.

**Box 13 – Sector-wide or sector-narrow**

In practice, SWAps have come to be perceived by many donors and governments not as a multi-stakeholder process, but much more narrowly as a specific public expenditure programme funded by a group of donors. As such, the sector as a whole tends to get identified with the policy and budgetary framework established by central government. In reality, a sector is not a policy or a budget, but a diverse and complex set of actors at all levels. Government policies and funding can create enabling conditions, but it is the combined actors who achieve, or fail to achieve, development results. Sector reform policies usually focus on tasks and services delivered by the state. Rarely is the sector strategy based on a clear concept of the complementarity of public and private providers or provides for the allocation of resources to non-state service providers. Thus, donor-funded government programmes tend to benefit public service providers mainly, even in situations where poor people rely on other providers like churches, NGOs or private entrepreneurs. However, increased money for public services does not always translate into more access or better service quality for poor people.

To compensate for a lack of service delivery to the poor, many donors continue to finance non-state service providers in parallel to the government's sector programmes. Sometimes donors prefer doing this instead of trying to reach for a more pro-poor focus in government budgeting. A way forward could be for donors and recipients to be transparent about the amount of funding going into such non-state organisations. The challenge for the government is to acknowledge the contribution to sector development of these organisations and to integrate them into the sector strategy. To help develop countervailing power in partner countries, support for NGOs and CSOs that focuses on lobbying, advocacy and empowerment is essential. In some countries, multi-donor funding mechanisms have been established to provide harmonised financial and capacity building support to such organisations.

*van Reesch (2007)*

The key here is to try and find a 'best fit' between policy objectives and country structures. Where coordination between budgets and across agencies is likely to be difficult, it may be best to divide a multi-sector programme into units that are aligned to administrative structures. Where the budget framework of a country allows for effective cross-sectoral coordination as well as monitoring (e.g. through a programme classification in the budget) then a single sector programme can be implemented by different agencies concurrently (Box 14). Whatever option is chosen, it is important to never lose sight of the objective of strengthening country structures.





### 6.3 Linking sector budgets to medium-term expenditure frameworks

The sector approach aims for a comprehensive budget that includes all resources available to the sector (including aid) and all expenditures made in the sector (capital and recurrent). Annual spending needs to be conditioned by a medium-term perspective on resource needs and resource availability. Ideally and eventually, this would take the form of a Medium-Term Expenditure Framework (MTEF).<sup>(43)</sup> The move towards a medium-term planning perspective as part of a sector approach has particular relevance for agriculture and rural development. First, pro-poor rural growth is a slow and gradual process that needs a medium- (to long-) term perspective in policy and budget making. Second, a country-wide MTEF from which sector-level MTEFs are derived provides a powerful mechanism to address cross-sectoral issues.

Where a national MTEF and sector MTEFs exist (or even where these are still being developed) they should be regarded (and pursued as) long-term and country-own structures to which a programme budget should be aligned. The reason is that the budget required to fund a sector programme may not encompass the whole sector or the whole mandate of the lead institution, or it may cut across various agencies without covering all of their mandates.<sup>(44)</sup> This is especially true when the programme is about agricultural development or rural pro-poor growth. Thus, creating a single programme budget and a single programme MTEF that cuts across different ministries and agencies may divert a lot of attention towards what may be a temporary, programme-specific instrument at the cost of strengthening the standard budget and MTEF structure. Box 15 presents an overview of three types of sector-budget/MTEF arrangements.

#### Box 15 – Different sector budget/MTEF scenarios

Depending on the scope of the sector and on the organisation of government, different arrangements can be distinguished between the sector programme and its budget on the one hand and the line ministries leading the programme and their budgets on the other:

**1. *The sector budget/MTEF is only rooted in the line ministry***

This is the simplest and often preferred set-up: there is one line ministry leading the sector programme, and the sector programme covers the entire mandate of that ministry. In this case the budget and MTEF of the sector programme equals that of the line ministry.

**2. *Line ministries' budgets are derived from a sector-wide budget/MTEF***

This happens when sector programme responsibilities are divided over several line ministries but where one public expenditure programme has been drawn up for the sector programme as a whole. In such cases, the responsibilities in preparing and implementing the components of the sector programme MTEF need to be defined clearly; the sector should be clearly identified in the country-wide (or global) MTEF and a procedure should be in place to ensure that the sector programme MTEF complies with the financial constraints given by the global MTEF.

**3. *The sector budget/MTEF is constituted by different line ministry budgets/MTEFs***

This refers to the situation where the sector programme does not have a separate budget of its own, but is funded from within the budgets and MTEFs of implementing (line) ministries. In this case, it is important that funds to implement the sector programme are protected within the contributing MTEFs to enable synchronised implementation across sectors (for example through 'ring-fencing'). For this scenario it is necessary that the national budget is administered by 'programme classification'. This means that expenditures are classified according to 'programmes' that are designed to meet particular objectives. In its purest form a programme classification will cut across the administrative structure of a government.

See also: *EC Guidelines Support to Sector Programmes*, pp. 77-79

<sup>(43)</sup> Pursuing a sector MTEF in the absence of a credible annual budget process is not useful. In such cases, attention should be given first to the budget process itself. *EC Support to Sector Programmes*, pp. 20-21.

<sup>(44)</sup> Boesen and Dietvorst (2007).

Where ‘the sector’ concerns agriculture, the first of these three scenarios will hardly be possible. Of course, it is possible to design a programme of development based on the mandate of the Ministry of Agriculture (i.e. to make it a more effective player towards stimulating agriculture growth), in which case the ‘sector’ programme budget could equal that of the Ministry. However, a sector-wide approach to agriculture as a whole would also need to address issues that are outside the mandate of the Ministry of Agriculture, possibly even outside that of government, making options 2 and 3 more realistic scenarios.

Where the sector approach is aimed at rural development, then scenario 1 is even more unlikely due to the multi-institutional nature of the sector. Scenario 2 would be an option if a high degree of inter-ministerial coordination is possible. Where this is not the case, then a ‘rural development MTEF’ becomes less realistic and scenario 3 may be the more practical option.

## 6.4 Assessing the macro-economy and public finance management

Both the macro-economic policy and the public finance management (PFM) system are important determinants of success at the sector programme level, because they set out the overall context in which the sector programme performs.<sup>(45)</sup> Experiences have shown that even the best designed sector programmes can be derailed by a weak macro-economic environment<sup>(46)</sup>. The macro-economic context is not always stable and economic circumstances can turn. It is therefore important to consider the consequences of macro-economic change on the programme: what would be the resilience of the programme in such a situation? The severity of impact will depend on the capacity to manage and mitigate risks, which can be reduced by diversification at sectoral and operator levels, and also on the intrinsic design of the programme. Thus, a programme entirely focused on the external market will be less resilient than a programme focused on national peasantry.

A good PFM system ensures that policy priorities are reflected in budget allocations and that actual expenditure is in line with the approved budget. Regrettably, experiences from sector programmes in agriculture suggest that often a significant proportion of the agriculture investment portfolio is inconsistent with the principles and priorities set out in the government strategy for the sector. (Box 16).

### Box 16 – Public spending in agriculture: leverage or liability?

A large share of public spending has been used to provide private goods at high cost. Public expenditure reviews suggest that agricultural budget allocations to private goods are high: 37 % in Argentina (2003), 43 % in Indonesia (2006), 75 % in India (2002) and 75 % in Ukraine (2005). Transfers to parastatals and subsidies in Kenya in 2002/03 accounted for 26 % of total government expenditures in agriculture. In Zambia, in 2003/04 about 80 % of non-wage spending went to subsidies to farmers for fertiliser and maize prices. Allocations to subsidies often divert funds from high-return investments in public goods. In Zambia, only about 15 % of the 2003/04 agricultural budget was spent on research, extension services and rural infrastructure — investments that have shown high pay-offs, especially in the developing world, where investment in research has shown an average rate of return of 43 % per year.

*WDR 2008, pp. 115 and 165*

<sup>(45)</sup> This is why in the EC Guidelines on support to sector programmes, these two elements represent the soil in which the sector-flower is rooted.

<sup>(46)</sup> As specified in the EC Guidelines on the Programming, Design & Management of General Budget Support (01/2007) ‘Macroeconomic stability is a pre-condition for growth and poverty reduction. A stability oriented macro-economic environment that avoids volatility and promotes sustainability in key economic aggregates is going to reduce uncertainty and risk, encourage investment and confidence in the future, and thereby contribute to growth, a necessary condition for poverty reduction and ‘stability oriented macroeconomic policies contribute to ensuring that budgeted expenditures conform to budget allocations’.

Systematic recording of sector expenditure would help ensure that future expenditure flows to the sector are more closely matched to sector priorities. To make public financial reporting more transparent and to help policy makers determine appropriate sectoral budget allocations, diagnostic tools have been developed that include Public Expenditure Reviews (PERs), Country Financial Accountability Assessments (CFAAs) and Public Expenditure Tracking Surveys (PETS). This is especially the case of Public Expenditure and Financial Accountability<sup>(47)</sup> (PEFA), promoted by all donors, including the EC. The use of this instrument should be promoted when it exists. It should be reflected through a sectoral point of view to identify all sectoral recommendations that may emerge.

It may also be useful to see if there are some public expenditure reviews by sector (produced by the IMF). If this is not the case, the introduction of such a review could assess the approximate costs of guidelines and objectives adopted by the sectoral programme.

Lastly, it could be worthwhile referring to the Policy Analysis Matrix (MAP) if it exists. The MAP is a simple summary representation generally used to evaluate policies in sectoral studies. It is a useful tool to evaluate the impact of economic reforms on costs of and incomes from agricultural production, for example. This tool could be used to analyse the financial and economic viability of the agricultural sector programme.<sup>(48)</sup>

To overcome the poor performance of public finance in agriculture and rural development sectors, these tools should be used to determine favourable patterns of funding between (i) central and local levels; (ii) sub-sectors; (iii) investment and recurrent costs; and (iv) efforts to raise agricultural productivity and those aimed at reducing marketing costs (e.g. investments in rural infrastructure and market development may have more growth impact than investment in agriculture itself).

## 6.5 The importance of the revenue side in public finance management

In assessing PFM systems, it is important to pay due attention to the revenue side, rather than looking only at how money is spent. Poor PFM at local levels can just as easily stifle local economic growth, for example by excessive taxing and levying of markets and trade. This is a risk especially where central to local-level disbursements are dwindling and local governments try make up the gap by increasing their local revenue to cover basic expenses like salaries.

Productive sectors offer opportunities for non-tax revenue that is levied on marketing and trade, or on the harvesting and processing of natural resources. The collection of such non-tax revenue can be an important contribution to local government finances. Records of revenue collection can act as a monitoring tool offering proxy-indicators of growth trends in the sector. In addition, local revenue collection can provide incentives for performance and accountability between service providers and service users<sup>(49)</sup> and motivate local governments to use their funds in ways that help create an enabling environment for local businesses and the local economy to grow. Revenue collection systems that are poorly organised in terms of incentives or transparency can lead to corruption and a net loss of resources to the sector.

Support for PFM should be based on the realisation that attention to the revenue side is a prerequisite for developing domestically accountable and sustainable systems (Box 17).

<sup>(47)</sup> PEFA ([www.pefa.org](http://www.pefa.org)) aims to support integrated and harmonised approaches to assessment and reform in the field of public expenditure, procurement and financial accountability.

<sup>(48)</sup> The EC's 'Financial and Economic Analysis of Development Projects' manual (EcoFin Manual) proposes to this end a methodology for the MAP and is available on the EC website: [http://ec.europa.eu/europeaid/multimedia/publications/documents/tools/europeaid\\_adm\\_manual\\_ecofin\\_fr.pdf](http://ec.europa.eu/europeaid/multimedia/publications/documents/tools/europeaid_adm_manual_ecofin_fr.pdf)

<sup>(49)</sup> Revenue authority programmes supported by donors have had an impact on poverty reduction and have built stronger institutions (DFID Evaluation of Revenue Projects quoted in OECD-DAC, 2006).

**Box 17 – Challenges for revenue collection: the forestry sector in Tanzania**

In Tanzania, forests and woodlands cover around 40 % of the land area and support the livelihoods of about 87 % of the population in rural areas. The forest sector is an important source of domestic income, but massive potential revenues have been lost by rural communities, district councils and central government. Revenue lost by district governments reached up to 96 % of the total amount of potential revenue. Substantial revenue is lost also at export level: trade statistics show that China imported ten times more timber than appear on Tanzania's own export records. The policy and legislative framework of the sector is sound and if implemented would lead to far more sustainable and equitable forest management. Problems are in the areas of law enforcement and corruption and the incentive structures for revenue collection.

Revenue is collected from registration and harvesting fees by District Forest Officers. This is sent upward via the sector ministry to the Treasury. Although a retention scheme exists by which 70 % of this revenue is to be reinvested in the forest sector, in reality less than half is returned. A second revenue collection system runs via District Councils based on a levy on forest products. This money goes to the District Council's pool of funds and is then redistributed according to their priorities. Most is used for health and education and only very little is ploughed back into forest management, thus causing forest depletion. Turning the tide requires a sustained commitment to rooting out corruption and improving governance, law enforcement and transparency in the forestry sector. A review of the revenue system to improve the incentives to collect and re-invest is under way.

*TRAFFIC (2007); INDUFOR (2007); Tanzania Development Partners Group (2007)*

**6.6 Choosing the right financial support modalities**

When supporting sector programmes, a decision needs to be made on the type and mix of financial support modalities between sector budget support, pool funds or EC project procedures.

Whether sector budget support is an option depends on a satisfactory assessment of the macro-economic situation in general as well as at sector level. Besides macro-economic stability, another eligibility criterion for budget support is that the country has sound PFM. An assessment of PFM should look at two things: (i) the quality of the PFM system and (ii) the existence and quality of the PFM reform process. The PFM system can be assessed at the general country-wide level and at the sector level. A PFM assessment at the general level is a must, even where budget support is considered only at sector level. This is so because weaknesses in sector PFM often have systemic causes that are rooted in the overall PFM system and can only be addressed at country-wide level. Where a country already receives general budget support, the eligibility criterion has been met also for sector budget support should this be considered. Assessments of sector PFM then serve to inform the package of support, for example on whether and what kind of capacity development in PFM may be needed at the sector level.<sup>(50)</sup>

Sector budget support is the EC's financing modality of choice in support of sector programmes, including those in agriculture and rural development. However, budget support is limited to the public budget and the public budget should be limited to government responsibilities. Where the sector policy or programme also indicates a need for support for non-state actors (e.g. developing the capacity of NGOs, farmer unions, or private entrepreneurs), then capacity constraints at government level or diverging interests should be taken into account as they could lead to considering other modalities, such as a common pool fund or project mode. Disbursement channels for these funds need to be chosen carefully.

Options include:

- (i) *through the government budget* in support of a sector programme that clearly stipulates, and is measured against, support for non-state actors;
- (ii) *to non-state actors directly*, but reflected in the sector-wide budget (i.e. 'on-budget' but not through the treasury); or
- (iii) *directly to non-state actors*, aligned to the sector policy but not reflected in the sector budget (i.e. 'off-budget').

Clearly, in the interest of achieving an optimum 'match' between policy objectives and resources in the sector, the more donor financial assistance is 'on-budget' the better it is. Whatever modality is chosen and in support of whatever actor (public or private), the important thing is that support for rural and agriculture sectors is predictable in two ways: (i) over the long term and (ii) within the year to tally with budget cycles. Where funds support government, these have to be aligned to the budget cycle and commitments have to be made early enough in the budget year to be integrated into the planning around the agricultural cycle.

## 6.7 Balancing financial and other support

Rural development has to grow via a slow, incremental and locally driven process of technical and political empowerment. From the point of view of the public budget, agriculture and rural development are slow disbursement sectors. This means that, for some donors, a tension may occur between the need to disburse and the need for a patient, long-haul, locally driven and incremental approach, required for rural growth (Box 18).

### Box 18 – Rethinking aid: balancing between ideas and money

Financial aid works in a good policy environment where it has proven to lead to faster growth, poverty reduction and gains in social indicators. In countries with sound economic management, aid has acted as a magnet and has 'crowded in' private investment by a ratio of almost US\$2 to every US\$1 of aid. In these countries, aid has increased the confidence of the private sector to invest. In highly distorted environments, however, aid 'crowds out' private investment.

In countries with sound economic management, more aid can be in the form of budget support, which would simplify administration and reduce overhead costs. In countries with basically sound policies but weak capacity for delivering services, project aid should be a catalyst for improving the efficacy of public expenditures. Countries without good policies, efficient public services or properly allocated expenditures will benefit little from financing. However, aid can nurture reform, even in the most distorted environments, but it requires patience and a focus on ideas, not money. In some of the poorest countries, government is not providing effective policies or services, which is why government-to-government transfers have yielded poor results. Still, there are often champions of local or sectoral reform and successful assistance here has helped reformers develop and test their ideas. In these contexts, typically, ideas will be more useful than large-scale finance. Donors' ability to work in these environments has been hampered by an 'approval and disbursement culture' that does not value small-scale, staff-intensive activities. In the past, agencies have too often focused on how much money they disburse and on the narrow physical implementation measures of the projects that they finance. The evaluation of development aid should focus instead on the extent to which funds have contributed to sound policy environments and institutional changes that lead to better outcomes.

Source: World Bank (1998) *Assessing Aid: What works, what doesn't and why?*

Therefore, in supporting agriculture and rural development programmes, it should be remembered that ‘money can solve a problem, only where money is the problem’. Where poor governance lies at the root of underinvestment or misguided investment, more donor aid will yield value-added only when this problem is addressed simultaneously. Ongoing processes of democratisation, civil society participation, public sector management reforms, decentralisation, corruption control, as well as the rising weight of agri-businesses, increase the prospects for overcoming governance problems.<sup>(51)</sup> Financial support to the sector may (in some cases) be usefully balanced with support for improving sector governance, as well the processes that underpin it.

## 6.8 Key issues regarding sector budgets and public finance management

**Public finance management should be addressed at country level first**, and at sector level only after. This is because a lot of the PFM weaknesses at sector level can only be addressed at country-wide levels. However, even if existing PFM systems are regarded as weak, countries can accede to budget support if they can evidence commitment to implement policies that provide pertinent answers to identified PFM weaknesses<sup>(52)</sup>.

**Fund government for government tasks** and avoid making government responsible for funding policy objectives such as strengthening farmer associations, organising commodity associations and building capacity in the private and civil society sectors. Putting support for state *and* non-state actors into one programme under government management may result in tensions.

**Look for ‘best fit’ scenarios to link sector policy to sector budget/MTEF.** Where sector performance depends on different ministries as well as actors outside the government, a weighing of options for the budget that funds the sector policy is required. Whether the budget is divided over different agencies and actors (e.g. in the form of sub-programmes), or whether the budget stays intact but different agencies and actors can ‘draw’ from it (e.g. in the form of a budget classification system) is a decision that needs careful consideration on a case-by-case basis.

**Pay due attention to revenue streams** including non-tax revenue systems. Improvements in the collection or use of revenue collection can boost government resources while improving domestic accountability. Local revenue collection that is linked to local budgets can provide an impetus for local growth based on clear and short links between service use and service fees.

**Avoid focusing too heavily on the central level and on government.** Sector approaches can display re-centralising tendencies by their focus on government and the public budget as main vehicles towards poverty reduction. In productive sectors, drivers of pro-poor growth are found close to the ground, e.g. smallholder farmers, small and medium-sized enterprises and local government. Sector approaches need to be aware of this and balance support between state and non-state actors and between national and sub-national levels.

**Public support may need to be provided by donors directly** to the private sector, especially when support via government encounters capacity constraints or diverging interests. Where donors support private actors directly, this should be non-distorting and aligned with the sector policy.

**Balance support between money and ideas.** For productive sectors, public budgets have often not been used optimally and may thus not have acted as a leverage to stimulate private sector growth. More money is unlikely to do more good when policy and institutional frameworks have not been improved first. Public finance management in agriculture linked with ongoing decentralisation processes is also very challenging; capacities will thus have to be strengthened first.

<sup>(51)</sup> Unfortunately, governance problems tend to be more severe in agriculture-based countries where the state is especially important for addressing market failures. In these countries development assistance is already a large part of the agricultural budget: for 24 Sub-Saharan countries, ODA averages 28 % of total agricultural spending; for Mozambique, Niger and Rwanda, ODA averages more than 80 % of total agricultural spending (WDR 2008, pp. 245 and 257).

<sup>(52)</sup> EC Guidelines on the Programming, Design & Management of General Budget Support, pp30-31.



## 7. Sector and donor coordination

Coordination processes comprise two basic mechanisms: (i) coordination of government and other domestic stakeholders and (ii) coordination of donors active in the sector. Although these two dimensions overlap, it is important to keep them conceptually separate in order to protect domestic accountability and ownership.<sup>(53)</sup>

### 7.1 Coordination at policy level

The coordination of sector players is especially challenging in multi-sector and multi-stakeholder sectors such as rural development. Even in agriculture, programmes that have tried to incorporate several ministries under one programme framework have found coordination a major stumbling block.

Establishing a common vision and purpose for the sector is feasible, however, at the level of the *policy*. When this is achieved, the alignment of activities to the sector (or macro) policy can provide the foundation for coordinating state and non-state actors in the sector. The importance of a clear overall vision, translated into a coherent framework across sector policies cannot be overstated for sectors whose performance depends on effective cross-sector linkages. Once such a framework is there, interventions in the sector can be checked for their policy compliance; new projects can be given guidelines to help ensure that they are aligned. And donor alignment also becomes possible only once a clear policy framework is in place.

### 7.2 Coordination during programme implementation

Coordination at the level of the sector *programme* is more difficult. Sophisticated coordination mechanisms may be able to produce a common vision at the start of programme design between government, donors, private sector and civil society, but experience has shown that all-encompassing sector programmes inevitably lead to conflicts of interest, conflicts that are not easily ‘coordinated away’: the first Kenyan Agriculture Sector Programme ground to a halt trying to coordinate 11 ministries along with the relevant non-state actors. The current Strategy for the Revitalisation of Agriculture aims to coordinate six ministries and associated non-state representatives. Consensus building takes a long time and decision making is much watered down to protect the interests of all involved.

A more practical approach is that of mutually supporting *programmes* under a single sector policy (Box 18). Where (sub-) sector programmes are government-led, coordination of the programme should be government-led, and include non-state actors where relevant. Where programmes are led by non-state actors, the actor in charge is responsible for coordination, and coordination mechanisms may include government actors where relevant. It is important to let the feasibility of the coordination around programme activities be one of the determining factors for the size and scope of the programme or the sub-programme. In other words: *where coordination is a problem, make sector (sub-) programmes smaller, rather than coordination mechanisms bigger.*

### 7.3 The importance of central-level government involvement

A key coordinating role lies with central-level government, i.e. Ministries of Finance and/or Planning, National Planning Commissions, etc. This is the case especially where sector output depends on the successful coordination of activities between different line ministries. Experience gained by units coordinating agriculture sector programmes<sup>(54)</sup> suggests that one of the reasons for stalling programme implementation is the lack of a clear coordinating mandate of the Ministry of Agriculture vis-à-vis its ‘sister’ sector ministries. Getting programme coordination right requires active endorsement by and/or involvement of the central government level, e.g. in the form of the chairmanship of a programme coordinating unit, not by a line ministry, but by the Ministry of Finance and/or Planning, or the Office of the President, Vice President or Prime Minister.

<sup>(53)</sup> EC guidelines on Support to Sector Programmes, pp. 21-22.

<sup>(54)</sup> Most agriculture sector programmes have coordinating units attached to them. These come under different names, but whether they are called Secretariat (Uganda), Executive Secretariat (Burkina Faso, Niger), Desk (Malawi, Ghana), Advisory Group (Zambia) or Coordinating Unit (Kenya) their role is essentially the same: to advise and coordinate programme implementation.

A second reason for the strong involvement of the central level is that programmes in agriculture and rural development often carry a political (reform) agenda, while sector ministry-based coordinating units (sometimes with junior staff) do not have the clout to see such an agenda through.

## 7.4 Donor coordination to support (and not overshadow) sector coordination

The effective aid agenda as set out in the Rome and Paris Declarations is a key driver of the donor coordination efforts, with achievements such as increased joint missions, joint assessments and a growing number of donors buying into national policy agendas: achievements that are welcome especially in aid-dependent countries. Yet it is critical not to lose sight of the fact that donor coordination is a *means* and not an end in itself. Thus, it is important that domestic sector coordination comes first and that donor coordination is seen in the context of this (Box 19).<sup>(55)</sup>

### Box 19 – The challenges of sector coordination: the case of PRORURAL in Nicaragua

PRORURAL is a relatively new programme, introduced in 2005. It covers the rural productive sector, including agriculture but also forestry, aquaculture and even non-farm rural income. In Nicaragua, the public agencies that are concerned with agriculture and rural development are part of a collective called SPAR. One of the aims of PRORURAL is to modernise and strengthen the institutional framework of SPAR and the agencies belonging to it. The lead agency regulating the sector is the Ministry of Agriculture and Forestry (MAGFOR). A key bottleneck to development of the sector was coordination: within SPAR, there was little communication between agencies. The situation was exacerbated by the fact that the Institute for Rural Development took up about 70% of resources in the sector, but reports to the Presidency and not to MAGFOR. Since PRORURAL, coordination in the sector has improved: SPAR agencies exchange information more effectively and have even joined hands in drawing up the annual plans for the sector. However, on the whole, it appears that the effort needed just to get coordination within SPAR and with the donors has been so great that there has been little left over for coordination with the rest of government. No less than 17 donors are collaborating on the strategy.

*Steven Wiggins et al. (2007); Anson and Pfaumann (2006)*

In practice, a sector approach often starts with a focus on donor coordination, especially where fragmented donor agendas are seen as a major stumbling-block to development. In aid-dependent countries and sectors, the magnitude and complexity of the task of coordinating donors may initially overshadow coordination of domestic stakeholders in the sector as a whole. The task is then to ensure that donor coordination efforts do not ‘crowd out’ domestic sector coordination, but instead prepare the ground for it, especially by strengthening domestic systems, processes and procedures. In this way, donor coordination (even if it was an objective in its own right initially) can still become a means towards an end (Box 20).

## 7.5 Coordination with non-state actors

In productive sectors it is essential that government obtains the views of all stakeholders if it wants to become an effective facilitator of growth. For this purpose coordinating mechanisms set up in these sectors often invite representatives from farmer unions, commodity associations, traditional leadership, women’s groups and other representatives of the private sector and civil society. Examples are District Agricultural Committees under Zambia’s Agriculture Sector Investment Programme (set up in 1996 and still operational!) and the provincial Multi-Stakeholder Agriculture and Rural Development Councils set up under ProAgri in Mozambique. Although much needed, it should be remembered that these mechanisms are not the only route towards stakeholder consultation. Government-led consultation and coordination



### Box 20 – The Common Fund Flow Mechanism in Mozambique's ProAgri

One of the eight components of ProAgri is concerned with institutional reform of the Ministry of Agriculture (MINAG). Much of the attention during the first (1998-2003) and again during the second (2005-2009) phase has been devoted to this component. The Ministry is supported by a Sector Budget Support programme, to which eight donors contribute. A central element of the support programme is the 'Common Fund Flow Mechanism' (CFFM), which finances commonly agreed expenditures consistent with ProAgri's eight principles. In order to enable the CFFM, donors have agreed on a common planning and budgeting framework; a common financial reporting and monitoring mechanism; common procurement procedures; joint external audits; common results monitoring; and a common structure for dialogue with the Ministry. Donor coordination is via the ProAgri Partners Group (PPG), to which also donors not contributing to ProAgri or to the CFFM are invited. The CFFM was set up as a partially on-budget basket fund, but evolved into the country's first fully fledged sector budget support.

Although the CFFM started around donors aligned behind a particular programme and funding method, the process has provided capacity and continuity to the institutional processes of the sector as a whole and has gradually become embedded in strengthened domestic systems as donors have progressively aligned to government systems and procedures and away from their own. This has helped the gradual alignment of ProAgri with overall government planning, budgeting and public finance management, which in turn has paved the way for General Budget Support. In fact, GBS is now increasingly the driver for further harmonisation and alignment in the agricultural sector. This experience shows that even when the impetus for coordination is from donors and the reason for coordination is aid effectiveness, the process can still ripple out into the sector as a whole and with sector development as its objective.

*Millecam (2006); Evans et al. (2007)*

mechanisms tend to promote a supply-driven notion of coordination. Effective agriculture and rural development also needs a demand-driven notion of coordination, e.g. via lobby groups that have grown around shared interests and who demand that their voice be heard. Space, and sometimes support, is needed for these to emerge and develop (Box 21).

### Box 21 – Non-state actors and the aid effectiveness agenda

The current tendency is to think of aid effectiveness in terms of enhanced partnerships between donors and recipient governments, with an implicit focus on government-to-government approaches and explicit attention to certain government functions, such as planning and programming, public financial management and procurement. While there is little danger of the private sector being forgotten in development discourse, greater attention should be given to the various roles that civil society can play. Also missing from the international aid effectiveness agenda is clearer recognition that change is political in nature and requires active, diverse and vibrant non-state actors to ensure good governance, domestic accountability and respect for human rights. Although improved governance is at the core of the international aid effectiveness agenda, much more needs to be done to operationalise this aspect of the agenda.

*Lavergne and Wood (2006)*

This near-exclusive focus on partnerships between donors and recipient governments is especially risky in agriculture and rural development. These sectors often depend on local solutions that are less easily up-scaled into country programmes and whose success depends to a large extent on non-state actors. In these sectors non-state actors could be involved especially at three levels:

- (i) *as a donor*, i.e. NGOs or private actors like farmer unions, political parties and the media in developed countries supporting civil society, NGOs or private organisations and entrepreneurs in developing countries;
- (ii) *as a country-based partner-in-development*, i.e. NGOs or private actors to be consulted in policy and programme dialogue or contracted in policy or programme implementation, e.g. to carry out public functions (out-sourced by government) or non-public functions (contracted by donors) that are important to sector development and in line with sector policy;
- (iii) *as a recipient of development assistance*, whereby support to a sector policy is divided across state and non-state actors to allow balanced implementation of the sector policy.

## 7.6 Donor coordination: from a programme to a sector perspective

Donors should align behind a government-owned sector policy, but the policy need not be translated into a single programme. Where a sector ministry takes on a key (sector) programme, donors can provide (budget) support to enable the sector ministry to carry out its responsibilities under the sector policy. Where the sector policy requires additional programmes managed by other actors, additional donor support could be provided to those, state or non-state, actors.

Where donors prefer (or are limited to) the use of a specific aid delivery instrument, donor coordination can help identify best-fit scenarios. Donors that prefer to use budget support may be best placed to support government functions. Others may support non-state actors, provided that such support is in line with the overall policy and adheres to the principles of strengthening local (country) systems and developing the capacity of local actors. For example, where government withdraws from certain areas of service provision that are better handled by the private sector or NGOs, then capacity development for these actors is likely to be a pre-requisite for effective policy implementation.

The coordination of donors active in the sector should not be limited to those supporting the government-led programme. Failure to coordinate donors that work outside the government may have far-reaching effects in agriculture and rural development in a situation where many other activities are ongoing outside government-managed development programmes.<sup>(56)</sup> But this kind of donor coordination, i.e. donor coordination across the sector as a whole as opposed to limited to a programme or funding mode, is hard work. The Global Donor Platform on Rural Development helps by coordinating international donor policy in agriculture and rural development. In addition, the platform also offers hands-on assistance at country levels (Box 22).

## 7.7 Key issues regarding sector and donor coordination

**Strengthen the role of central government in sector coordination.** This is particularly important in multi-sector contexts, and where sector ministries do not have a clear coordinating mandate over sister sector ministries. Second, it is important for those programmes or programme components that deal with politically sensitive issues such as institutional reform, privatisation of parastatals and the deconcentration or decentralisation of power and resources.

**Support the involvement of non-state actors.** In their role as donors, by extending donor coordination mechanisms in order to include also non-governmental donors who work in the sector, but also in their role as partners-in-development (contracted by government or donors), and even as recipients of direct support, provided this support is aligned to the national policy for the sector and abides by principles of strengthening local (country) systems.

<sup>(56)</sup> For example, it is hard to explain to one village that they should contribute to a borehole because cost recovery is national policy, when the village next door gets one drilled for free by an NGO.

### Box 22 – The Global Donor Platform on Rural Development

The Global Donor Platform on Rural Development is a joint donor initiative and was established in 2004. It unites major bilateral and multilateral organisations in a coordinated endeavour to get the rural agenda right and improve aid effectiveness. The platform works in line with the Paris Declaration on Aid Effectiveness and the Rome Declaration on Harmonisation. The platform's outreach is through a network of Focal Points in each of the member organisations (mostly people who are heading rural development and/or harmonisation units), all connected through the Platform Secretariat. North-South exchange is intensified through the platform's four partner countries (Burkina Faso, Cambodia, Nicaragua and Vietnam) where a harmonisation and alignment agenda is being carried through at country level. A recent platform activity was a desk and country review on Analysis of Sector Wide Approaches in Agriculture and Rural Development.

For more information see: [www.donorplatform.org](http://www.donorplatform.org)

**Support the elaboration of a shared 'policy compliance' concept** and its mainstreaming in all operations to coordinate actors within the sector programme but also beyond. This possibly allows for smaller and more feasible programmes, whose joint policy direction ensures that the sum is more than the parts.

**Avoid parallel sector programme coordination structures that override country structures.**

Coordination mechanisms that cut across existing country structures may divert attention from existing systems. This should be avoided at all costs as programme-based mechanisms in all likelihood have only a temporary existence.

**The feasibility of coordination should be a determinant of the size of the sector programme.**

Coordination difficulties have to be taken into account when delineating the sector programme or sector sub-programmes. Multiple-ministry programme frameworks may need to be broken down into units of fewer players to allow decision making to take place. Coordination of these (sub-) programmes can then be guided by a single policy framework, rather than a single programme framework. If the policy is clear on direction and on roles, then programmes under the policy should be able to support each other.

**Foster demand-driven coordination.** For example by creating awareness, supporting access to consultation platforms and information sources and building capacity among interest and lobby groups of importance to sector development. When supporting stakeholder consultation, do not only focus on surveys, policy fora, and client monitoring (as supply-driven mechanisms) but also look at supporting farmer unions, commodity organisations and similar organisations around (sector) stakeholder concerns (rather than around programme implementation mechanisms).

**View donor coordination as a stepping stone towards improved sector coordination** (do not let donor coordination 'crowd-out' sector coordination). For example in aid-dependent countries, where donor coordination is both urgent and complex, much attention may need to be devoted to this in the initial stages of a sector approach. However, by allowing donor coordination to move towards country systems (through increased alignment) it can be made to serve the ultimate objective of stronger country systems and better performing sectors.

## 8. Institutions and capacities

The sector approach is about taking a systemic view of the sector as a whole in order to address weaknesses in sector management, be it in terms of policy, finance or activities. By taking a holistic view, the sector approach aims to address priorities first and, among these, inter-related activities simultaneously. Where the sector lacks a clear definition and vision, these are priorities without which it would be difficult to move forward. However, spending a long time on developing a near-perfect sector policy is not useful when at the same time human or financial capacities fall short of an ability to actually implement the policy. Thus, a number of issues need to be addressed ‘in tandem’ to allow the sector as a whole to move forward.

Making systems and actors able to better govern, manage, and move a sector is therefore central to the sector approach. In fact, the development of ‘sector capacity’ can be seen both as a means and as an end: greater sector capacity is a means towards sector development, but building sector systems is at the same time an objective of the sector approach. This is why the EC Guidelines on Sector Programme Support place the area of ‘institutional setting and capacity’ at the heart of the sector-flower.<sup>(57)</sup> Capacity should not be seen as a separate area, but rather as a core component of each of the four others, thus enabling these components to link up and be joined from the centre. This also means that building up the right set of capabilities has a ripple-out effect in the sector as a whole. Efforts to improve sector capacity need to avoid too strong a focus on one specific area as this will possibly lead to a lopsided process, such as a funded policy that leads nowhere because there is no capacity to coordinate its implementation or monitor its impact.

### 8.1 Change and capacity development processes

It is worth emphasising that capacity cannot be developed by donors or other outsiders. Its development may be supported from outside, but the development itself has to come from inside and capacity development processes therefore should be based on the demand from and ownership of those concerned. Where weak sector capacity is an important obstacle to sector performance, capacity development should be a central objective of the sector policy and not an add-on to the sector programme.

The institutional analysis and the assessment of existing capacity have to be the basis for capacity development processes that are both feasible and appropriate. Knowing what capacity is available and what can feasibly be developed should impose limitations on the level of ambition in sector policy or programmes. Situations where sector programmes are formulated more around ‘what needs to be done’ than around ‘what can feasibly be achieved’ should be avoided: identifying the capacity gap does not mean that it can be filled. Understanding the causes of existing levels of capacity, including those in the wider political economy, helps in setting more realistic capacity development goals and should lead to more feasible sector programme design. Capacity development efforts need to be very clear on especially two things:

- (i) **Capacity for whom?** This refers to the importance of linking capacity development to the roles and mandates of the various actors in sector development as laid down in the sector policy and the legislative framework.
- (ii) **Capacity for what?** This refers to the linking of all capacity *development* efforts to clear outputs. Capacity *development* will result in actual capacity only once it is used. Training for training’s sake (or allowance-driven training) should be avoided. It is possible that a closer look at the utilisation of capacity within an organisation points to deficiencies in human resource management. Where this turns out to be the case, it may be better to first invest in areas of capacity *management* rather than capacity development.

<sup>(57)</sup> EC guidelines on Support to Sector Programmes, pp. 85-86. See also the EC Reference Document *Institutional Assessment and Capacity Development*.

## 8.2 The assessment process

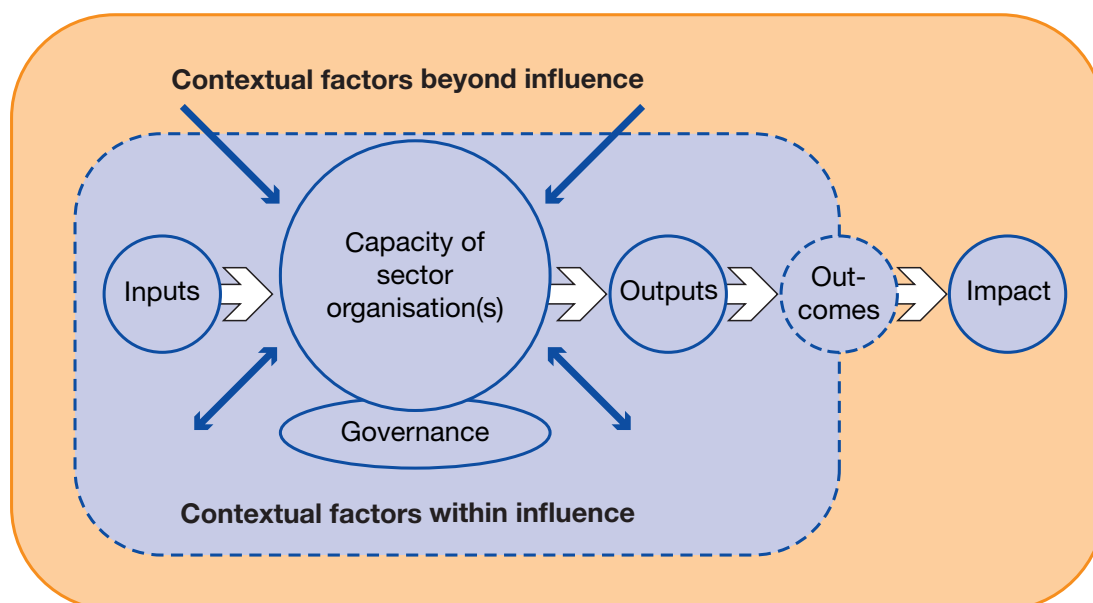
With the institutional setting and capacity at the heart of the 'sector-flower', an assessment of this area may be spelled out referring to the four surrounding core elements of the sector, i.e. the capacity to formulate and implement a policy and a sector budget with a medium-term perspective, the capacity to coordinate key actors around and in support of a sector policy and the capacity to set up and manage a performance monitoring framework.<sup>(58)</sup> In starting an assessment of capacity and institutional setting, three key points stand out:

- (i) **Look at the sector as a whole.** Even where the early phases of a sector approach are characterised by intensive government-donor dialogue, it is important to remember that these represent only two categories of 'drivers' in the sector. This means that where government institutions are the subject of an assessment, their functioning needs to be assessed in relation to (and in terms of their interaction with) others, including the private sector and civil society.
- (ii) **Ensure joint assessments owned by the organisation being assessed.** Capacity assessment processes are not only valuable, they are also highly sensitive. The outcomes of such processes can provide a foundation and the incentive for change and development within the organisation. This can happen when the organisation that has been assessed owns the process. Donors may be joint partners, but not the drivers of capacity analyses.
- (iii) **Focus on what is there** rather than on what appears to be lacking compared with the ideal. This will give the assessment a more positive undertone and will also provide a clearer picture of opportunities upon which to build subsequent sector capacity support.

## 8.3 The Open Systems Model<sup>(59)</sup>

Any organisation can be viewed as a system of interacting elements, which is embedded in a context from which the organisation obtains inputs (e.g. resources) and for which the organisation produces outputs (e.g. products, services). The survival and growth of the organisation depends on how well it produces outputs that are valued by external stakeholders but also on how well it influences or adapts to the changing environment around it (Fig. 2). This framework for capacity assessment can be applied to any system of operation, whether it is an organisation, a unit within an organisation, or even a network of interacting organisations. The assessment has the following five steps:

Fig 2 The Open Systems Model



<sup>(58)</sup> EC guidelines on Support to Sector Programmes, p. 85.

<sup>(59)</sup> This section is an excerpt from the EC Document *Institutional Assessment and Capacity Development: Why, what and how?* (2005). The document outlines the EC approach to capacity assessment and should be read prior to undertaking such an exercise.

- (1) **Identify the organisation(s) or actors to be analysed** by starting with the objectives of the policy or programme and then moving backwards to identify which organisations or actors need to deliver towards these objectives. This exercise can be done at the level of a sector, a sub-sector, or even at a multi-sector level (e.g. in the case of a Poverty Reduction Strategy).
- (2) **Look at the outputs** as proxies for the capacity of an actor, organisation or set of organisations. Although the (sector) policy or programme may be concerned with outcomes and impact, a focus on capacity makes it important to look at the immediate effect of organisational performance, i.e. the goods and services produced.
- (3) **Consider the context** in which the organisation operates. In assessing key contextual factors a distinction should be made between those that are within the sphere of influence of the organisation (e.g. relations with central ministries or the parliament, overall public service conditions, location of the organisation, awareness among customers of its products or services) and those that are beyond its sphere of influence (e.g. cultural norms and values, natural and human resources, migration, globalisation, etc.).
- (4) **Obtain an overview of the inputs or resources** that an organisation gets to work with. These consist of staff, funds, technology, materials, services and knowledge from all sources including donors. But be aware of 'lack of' descriptions! Limited resources do impose restrictions on what can be delivered, but sometimes the problem is as much the way resources are used as their availability. If few resources are used poorly, then more resources will not automatically lead to better results.
- (5) **Look inside the organisation.** The open systems model advocates taking a look at the inner system of an organisation (e.g. work division, hierarchy relations, relations between colleagues, coordination and communication channels) as only the final step in the assessment. This is not as strange as it sounds: once an understanding has been obtained of what an organisation produces (outputs), under what circumstances (context) and with what means (inputs), then a look inside can be much more oriented towards what hopefully are real bottlenecks.

## 8.4 Introducing an 'actor perspective'

The Open Systems Model is of particular use in agriculture and rural development for two reasons:

(i) it encourages the early introduction of an 'actor perspective' and (ii) it allows more informed weighing of alternative strategic routes towards policy objectives.

An 'actor perspective' is introduced during identification. Almost invariably, for outcomes to be met, outputs are needed from a wide array of actors, both in the government and beyond. Acknowledging this at an early stage helps prevent too narrow or too early a focus on only one actor (e.g. Ministry of Agriculture or local government) at the cost of other key players.

Weighing of the alternative options is made possible by realising that there are several routes, via outputs produced by different actors, towards the same policy objective. For example, an objective of increasing access to extension services does not need to imply a roll-out of government extension. There usually are non-state actors that can provide extension, possibly even at reduced cost.

Mapping of actors linked to objectives can clarify potential roles of groups like traditional leaders, commodity organisations, NGOs, women's groups as well as the usual government and private sector actors. Having this overview gives a clearer picture of the potential (human) resources or capacity in the sector and permits a more informed match between objectives and the strategic options to achieve them. In a context of ongoing decentralisation, taking a multi-actor perspective would allow local governance and local economic development issues to be dealt with at an early stage.

Interestingly, in Vietnam mobilisation of state and non-state actors around shared interests is taken as the basis of the future sector programme, with the programme evolving out of the constellation of stakeholders rather than the other way around (Box 23).

### **Box 23 – Sector approach as a partnership platform: the forestry sector in Vietnam**

Whereas some sector approaches are drawn tightly around public institutional borders, with the occasional participation by non-state actors in specially designed platforms of discussion, Vietnam seems to have adopted a rather more loose approach. ‘Classic’ sector approach objectives are the foundation of the approach, such as (i) the design of a coherent policy framework for the sector and (ii) the development of a socially, environmentally and economically sustainable forest sector. However, upon that basis a Forest Sector Support Partnership (FSSP) is built, which is not a classical sector programme, but rather a partnership platform between government, the private sector, and non-governmental and international stakeholders, including donors. In fact, all stakeholders who take an interest in the forest sector in Vietnam can participate in the partnership forum.

The Vietnam Forestry Development Strategy (2006-2020) affords the overall direction and guidance for the partnership’s activities. Further structure is provided by a Steering Committee (for overall leadership), a Technical Executive Committee (for guidance on strategic issues) and a Coordinating Office (as the FSSP Secretariat). The Ministry of Agriculture and Rural Development takes a lead role as chair of the Steering Committee and host of the Secretariat. But, in all structures, actors from outside government and from below the national level are represented.

The FSSP Vision is that by 2010 an effective partnership among national and international stakeholders contributes to increased dialogue and collaboration on strategic forest sector issues. According to its website: ‘The FSSP Partnership provides more efficient support to national priorities, programmes and plans than individual partners could provide alone by (i) fostering collaboration; (ii) pooling of financial, technical and other resources from national and international partners; (iii) harmonising ideas and strategies; and (iv) enabling learning from international experience. By 2010 the FSSP Partnership hopes to be supporting a full-fledged sector-wide approach.’

See [www.vietnamforestry.org.vn](http://www.vietnamforestry.org.vn)

## **8.5 Developing the capacity of the sector as a whole**

An overview of ‘who does what’ (or ‘who *should* do what’) towards the policy objectives makes it easy to understand that rural growth depends on the capacity of a great many players interacting and cooperating together. Where sector programmes are ongoing at the time of a capacity assessment, there is a risk that the assessment will be narrowed to ‘the capacity of the lead institution to implement the sector programme’ or, even more narrowly, ‘the capacity of the lead institution to manage the donor funds entrusted to it’, which may result in a situation where the programme absorbs the limited capacity to the detriment of key functions of actors and institutions in the sector as a whole. Important though it is that the lead institution is able to coordinate a programme and manage donor funds, this capacity on its own is unlikely to bring about sustainable and equitable rural growth as a key policy objective.<sup>(60)</sup>

In sectors like agriculture and rural development there is a wide spectrum of key players that needs to be taken into account, from micro-finance institutions to national banks; from backyard coffee processors to global exporters; and from local farm-workers’ committees to national farmer unions. It is impossible to take each of these through a thorough capacity assessment exercise followed by a capacity development programme. Nevertheless, knowing the key players does lay the foundation for a capacity development framework for the sector as a whole. Combined with a bottleneck analysis aimed at identifying where in the sector-system an ‘unlocking’ of potential capacity would have the most impact, coordinated action by government and donors can then begin to address high-potential or binding capacity concerns.

<sup>(60)</sup> Boesen and Dietvorst (2007).



The key lesson is to not focus too narrowly on government, the sector ministry, the national level or on activities of policy making and finance management. Much as these actors and these activities are points of entry in a sector approach and a sector programme, the policy objective of pro-poor rural growth needs the capable and active involvement of many more actors.

As far as possible, the scope for joint government-donor capacity development frameworks should be explored. Especially in agriculture and rural development, joint strategies can be more effective in supporting a holistic and incremental process of capacity development that is spread evenly across the sector as a whole. Effective donor coordination can help ensure balanced support for state and non-state actors so as to avoid a situation where all donors in support of a sector programme each target their capacity development efforts to the lead ministry.

## 8.6 The wider political economy

Generally, assessing and developing institutions and capacity are highly political processes. Sector programmes in agriculture and rural development often run politically sensitive agendas that include issues like legal and regulatory reforms; privatisation of government functions; outsourcing of contracts; withdrawal of government subsidies for credit or other inputs; reform of parastatals; or decentralisation of responsibilities. Developing capacity to carry out the programme and developing capacity in external stakeholders to monitor and hold accountable those entrusted with implementation means moving out of a 'technical comfort zone' towards supporting a new political equilibrium more conducive to pro-poor rural growth.

Capacity development towards equitable rural growth is about empowerment and strengthening domestic accountability; it is about enabling clients to demand quality service provision and to make informed choices between competing (public and private) service providers. Understanding the wider political economy is important whatever the action that is supported. Where it concerns interventions in agriculture and rural development, it is not only helpful, but a pre-requisite for effective support.<sup>(61)</sup>

Potential points of entry in understanding a country's political economy are the experiences gained with *Drivers of Change* and similar analyses. To date, these analyses have served the purpose of informing donors, rather than country stakeholders or constituencies. But it should be possible to use this type of analyses as a departure point for country-owned sector development, provided that they are undertaken with full local ownership as was the case in Ghana (Box 24). It goes without saying that all analyses of issues of power and politics should be treated with utmost sensitivity. In some circumstances, it may be more realistic to address these issues only gradually and with close links to the attainment of sector policy objectives.

## 8.7 Supporting the demand for capacity and performance

It is important to address the demand for capacity and performance as, ultimately, service providers will only be as good as their clients require them to be. Development happens as much due to external pressure for performance as it does because of internal efforts to change.<sup>(62)</sup> A pro-poor policy will not be implemented simply because funds are committed to it or because government capacity for implementation is supported. Rather, such policies need to be 'pulled down' by lower-level demand: a process that needs space and time to grow and has to grow out of its own strength.

With respect to sector programme implementation, supporting this demand side may make it necessary to build awareness and skills of 'stakeholder-owned' platforms, which are more likely to be around concrete issues (e.g. levies and taxes, infrastructure) than around the more abstract notion of a sector development programme as whole. Stakeholder groups that may need to be supported include producer associations, special interest or lobby groups, but possibly also the press, parliamentarians, traditional leaders, elected local authorities and women's groups. Support for these platforms can take many forms: from increasing awareness among stakeholders of their role in the 'bigger sector picture' to more targeted support, e.g. increasing their access to information or developing organisational and administrative capacity.

<sup>(61)</sup> See also ODI Briefing Paper 35 *The political economy of pro-poor growth* (2008).

<sup>(62)</sup> EC Reference Document Institutional Assessment and Capacity Development.



### Box 24 Drivers of Change: who are the drivers of change in Ghana?

Drivers of Change (DoC) and Power Analyses (PA) have emerged in response to the growing interest among international development agencies in deepening their understanding of the political and institutional factors that shape development outcome. The UK's DFID developed the DoC tool in 2001, at around the same time that SIDA developed its PA instrument. The principle underpinning these approaches is that donor strategies have to be based on thorough understanding of the countries' historical, political, socio-economic and institutional context. It was felt that, in many countries, the government is unresponsive to the needs of the poor and although concepts such as 'lack of political will' identify a problem, they inadequately explain the situation, let alone offer ways towards a solution.

Most studies were initiated by donor offices with the aim of promoting internal learning rather than dialogue with external stakeholders. An exception is the DoC study undertaken in Ghana which took the approach beyond development assistance to also inform the public debate in Ghana itself. Important findings of this study were that Ghana's main obstacle towards an equitable economy lies in the absence of conditions for doing business in a modern, competitive way in a global economic system. Government tends to interact with the private sector on patron-client terms: Ghanaian businesses have become associated with one of the two main political parties and, when in office, each party favours its allies and discriminates against those of its opponents. The prospect for a 'breaking the mould' scenario hinges on a sustained increase in private investment, greater openness, the penetration of export markets and economic growth that generates employment.

*OECD (2005); DFID (2005); van Breukelen (2006); Booth et al. (2005)*

## 8.8 Key issues regarding institutions and capacities

**First, look at the sector as a whole** and at implementation of the sector programme within that. Capacity assessments should address in what way and to what extent capacity in the sector as a whole is an asset for or impediment to sector development. Assessments should not be limited to the capacity of the lead ministry to coordinate the sector programme or manage donor funds.

**Capacity development should be a mainstream sector policy objective** where sector capacity is weak. A situation where ambitious policies are translated into ambitious sector programmes with add-on capacity development components to fill the capacity gap will lead to disappointing implementation. It is better to follow an incremental but feasible route from the start, based on what is there and on what can realistically be developed.

**Add an actor perspective to capacity assessments** by starting from the policy objectives and working backwards via outputs contributing to the objective and the actors that are responsible for these outputs. This comprehensive overview of key actors and their outputs will lay the foundation for a sector-wide capacity development framework (see below).

**Base capacity development efforts on a holistic vision of the sector:** Mapping of actors and capacity needs for the sector as a whole can help identify where capacity is a critical limiting factor, or where unlocking capacity potential would have greatest sector benefits. Also, such mapping clarifies inter-related capacity needs, e.g. it not useful to help backyard processors manufacture speciality coffee when it cannot then be graded and certified as such; a government-negotiated trade agreement will help the sector only if producers know of the opportunity and can fill up the quota.

**Link capacity development efforts to outputs** that contribute to policy objectives. Where capacity is weak, pay attention to human resource management issues to help ensure that 'capacity developed' translates into 'capacity used'.

**Explore the scope for joint donor capacity development frameworks.** Based on a vision of capacity needs for the sector as a whole, and the identification of main bottlenecks or opportunities for change, donor coordination and joint government-donor cooperation can help ensure that priority areas are addressed early, inter-related capacity needs are addressed together and capacity development efforts follow an incremental path.

**Understand the political economy** that shapes sector development and the chances for equitable rural growth. Explore the scope for political economy analyses that (i) are carried out and owned by country stakeholders, (ii) look in particular at the agricultural or rural sector and (iii) translate findings into sector-level operational implications.

## 9. Performance monitoring and accountability

A key objective of sector and programme approaches is to consolidate appropriate lines of domestic accountability. At the centre of this is the national budgetary process as the main mechanism for allocating public resources (including aid), with the national parliament as the main source of authority in improving national policies, plans and budgets. Where weak governments and high levels of aid dependency have eroded this principle, a key objective of sector approaches should be that they help restore appropriate lines of domestic accountability.<sup>(63)</sup> This process is further reinforced by accountability relations between citizens and their members of parliament and between service users and providers.

### 9.1 Purposes of performance monitoring

Monitoring the performance of the sector and its development programme serves the two main purposes of (i) management and (ii) accountability (Table 5). Monitoring for management provides information that allows both day-to-day decision making as well as long-term policy making. Information collected towards this purpose also feeds into the government-donor policy dialogue.

Monitoring for accountability is necessary to create transparency about how public funds are used and what these have achieved. This can either be in the form of *domestic* accountability, whereby governments are accountable to their citizens for the management of resources that are entrusted to them; or it can be in the form of *mutual* accountability, which here refers to the accountability between donors and recipient governments.

**Table 5: Main purposes of performance monitoring**

<b>Monitoring for management</b>		
<b>In support of:</b>	(Day-to-day) programme implementation.	(Long-term) development planning.
<b>Data answers:</b>	Is the work-programme for the sector implemented as planned? Are funds disbursed against activities as per budget plan?	Does support lead to the implementation of the sector vision? Is the sector strategy on track and does it deliver towards implementing the policy?
<b>Data informs the:</b>	Annual work-programme & budget.	Sector policy & strategic plan; sector budget with medium-term perspective.
<b>Government-donor interaction is:</b>	Focused on sector programme outputs.	Focused on the sector outcomes.
<b>Monitoring for accountability</b>		
<b>In support of:</b>	Mutual accountability.	Domestic accountability.
<b>Data answers:</b>	Are donor aid disbursements reliable and on time? Does government meet agreed (sector) performance targets?	Has government honoured its promises to the constituency? Has government delivered, or supported delivery of, goods and services as per policy?
<b>Data informs the:</b>	Government-donor negotiations.	Public debate (press, media, parliament).
<b>Government-donor interaction is:</b>	Focused on aid disbursement based on conditionality (i.e. agreed performance targets act as 'triggers' to disbursement).	Less intensive; focused on stakeholder consultation processes and mechanisms.

<sup>(63)</sup> Boesen and Dietvorst (2007).

All these monitoring purposes should be addressed. A situation where monitoring efforts are concentrated around ‘trigger’ indicators to secure the release of funds should be avoided. And it is important to be clear on the purpose of the monitoring exercise; for example in government-donor interaction, monitoring to inform the policy dialogue may be different from monitoring to satisfy conditionality.

## 9.2 Linking public investment to sector performance

Performance monitoring has been a problematic area in agriculture and rural development programmes: agricultural and rural growth takes time and deals with natural processes that are not always predictable. A recent analysis of programmes in Africa, Asia and Latin America stated that ‘in almost all the sector approaches reviewed M&E remains weak’.<sup>(64)</sup> Monitoring in agriculture and rural development often focuses on increased production and productivity or even increased rural income or food security. These indicators may provide a measure of sector performance and give an idea of the trends in the rural economy. However, at the level of the sector *programme*, it is necessary to be able to link public investment to achievements in pro-poor growth (e.g. quality improvements in service delivery at farmer level, land tenure security for smallholders, improved environmental and natural resource management, licences for community-based tourism, and property rights for women). Establishing this link between public investment and sector outcome is difficult, as agricultural and rural growth depends on many factors that are beyond government control or outside the sector programme scope (Box 25).

Performance monitoring systems in agriculture and rural development risk displaying what can be termed a ‘missing middle’, which is caused when a focus on outcomes (like productivity and growth) causes the steps in between to be overlooked, such as the link between public investment and public service delivery; or the link between service delivery and sector outcome. Too strong a focus on outcomes may lead to unexpected policy U-turns. To attain certain sector performance (outcome) targets a government may be inclined to opt for short-term non-sustainable policies. Policies with a long-term horizon, such as those in agriculture and rural development, need attention to achievements along the way to avoid zigzagging between government withdrawal and government monopoly. For example,

### Box 25 – Performance monitoring in Mozambique, Uganda and Zambia

Mozambique’s ProAgri-Phase I (1999-2004) never translated its policy into indicators and targets. Though this made monitoring difficult, little effort was made to establish such a system. ProAgri II (2004-2009) represents the agricultural pillar of Mozambique’s PRSP and is monitored as part of the PRSP according to sector-specific indicators. This monitoring process struggled with an indicator overload: the PRSP-II had identified 130 indicators, of which nine were from agriculture. This was brought down to 40, with three from agriculture. All three indicators relate to sector outcomes, such as yield and land titles, but are less useful in evaluating the quality of ProAgri as a policy. Even more difficult is linking public investment to changes at outcome and impact levels.

While there may have been an indicator overload in Mozambique, colleagues in Uganda struggled with the opposite. The PMA Secretariat set about the task of designing an M&E system with optimism, only to find that in the entire PMA document there is but one clear target (reduction of poverty to below 10 % by 2017) and hardly any mention of M&E at all. The first attempt at creating an M&E framework had over 100 indicators; this was brought down to 89 and is currently at 34. In general, it has been easier to obtain output data than data on outcomes or impact.

Zambia has been implementing SWAPs in its agricultural sector for a decade and is still struggling with the development of a monitoring framework. Early systems were too ambitious (focusing on impact indicators that were difficult and costly to measure), resulting in their demise or abandonment. Experience in Zambia has shown that monitoring systems have to be simple and decentralised. Moreover, they need to provide information that is relevant not only for policy design (such as sector performance analyses) but also for programme management.

*Dietvorst (2006)*

if agricultural growth is materialising only slowly because private markets need time to develop, then the answer is not for government to reclaim the distribution of fertiliser and seed when doing so is not sustainable.

### 9.3 Link indicators to purpose

To keep a clear ‘line of sight’ from government funded activities → sector programme outputs → sector level outcomes and finally impacts, it helps to ‘unpack’ the monitoring task into three levels:

- (i) *monitoring of sector programme implementation;*
- (ii) *monitoring of the effectiveness of the sector strategy; and*
- (iii) *monitoring of the appropriateness of the sector policy.*

Performance frameworks in the context of sector approaches and sector programmes generally distinguish between indicators at four levels: input, output, outcomes and impact (Table 6). Which indicators are looked at depends on the purpose of the monitoring: where the purpose is to inform the **day-to-day management** of the sector programme and its budget, then input and output indicators need to be looked at, especially the efficiency with which inputs are converted into outputs.

**Table 6: Indicators glossary**

Indicator level	Measures:	Examples include:
Impact	The consequences of the outcomes in terms of wider objectives.	Rural employment; food security; equitable rural growth; household income and assets; agriculture contribution to GDP.
Outcome	The results at the level of beneficiaries resulting from the use (or consumption) of goods and services produced. This is the level where supply interacts with demand.	Yield per unit land; economic activity in rural areas; rate of agri-business growth; rate of private investment in land improvement and irrigation; land area managed using sustainable practices.
Output	The immediate and concrete consequences of the resources used and measures taken.	Rural infrastructure improved; livestock vaccination campaigns held; time and cost of registering agro-businesses reduced.
Input	The financial resources provided and the regulatory measures taken.	Amount of funds used; number of laws passed.

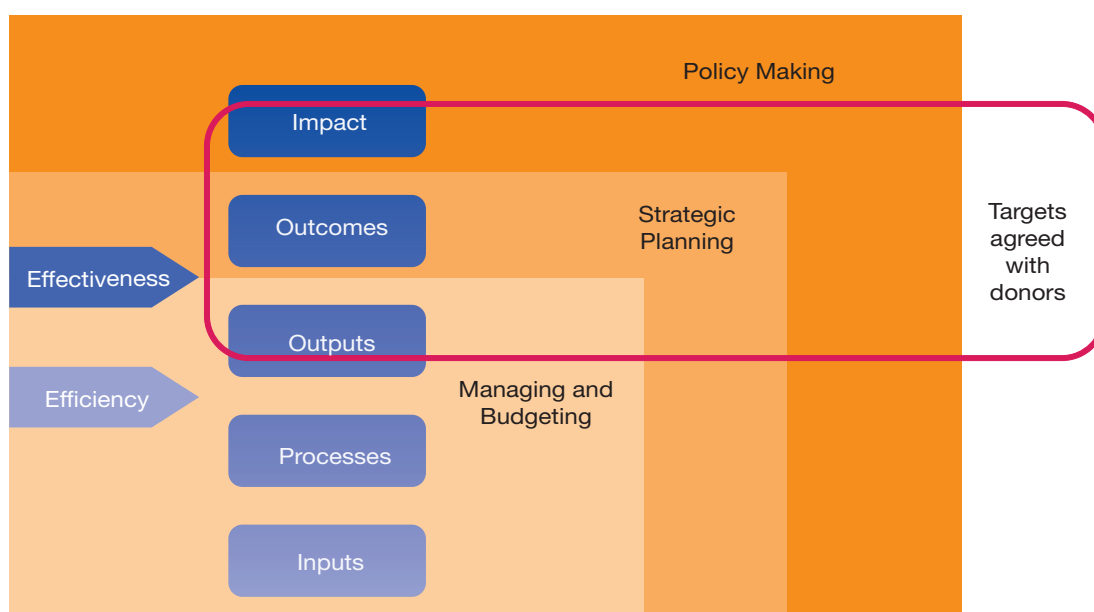
*Based on EC Support to Sector Programmes, Box 5.7*

From a **strategic planning perspective** the ‘translation’ from outputs into outcomes is crucial. If, for example, streamlining of the legislation governing private investment in agriculture does not result in an increase in registered agri-businesses, then strategic planning needs to look at why this may be so: Do prospective investors not know that legislation has been simplified? Is there another reason for limited private investment in agriculture? Are high taxes or levies a greater obstacle than fragmented legislation? Depending on the answers to these questions the strategy towards the policy objective of greater agriculture growth may need to be revised.

What is important from a **policy perspective** is the level of impact and how outcomes ‘translate’ into impacts, as this indicates whether the policy addresses the key constraints. For example, where the number of agri-businesses has increased at the outcome level, yet the impact analysis shows that rural income levels have not gone up, then it needs to be assessed why this is so. Maybe agri-businesses employ migrant workers from abroad? Or pay slave wages? Whatever the reason, a response is needed at the level of the policy.

Governments coordinating and donors supporting a sector programme should thus take all types of indicators into account. However, where monitoring concerns targets agreed between government and donors that are used to inform disbursement and other decisions on support, these will normally emphasise results and thus lean towards the top end of the indicator sequence, i.e. output, outcome and impact indicators (Fig. 3).

**Fig 3 Linking indicators to purpose**



## 9.4 Measuring the ‘enabling environment’

In productive sectors, government’s role is to be both a provider of public goods and services and a facilitator of economic development. This means that governments need to track their progress against both of these main roles: Is there an efficient and transparent legislative framework that regulates investment in agriculture? Can people get land titles? How long does it take to register land titles? What is the procedure for registering farmer associations? How many licences are needed for an agriculture enterprise? What levies are paid on trade in crops and livestock? Are product quality standards enforced? Is an internationally recognised certification system in place so that produce can enter the international markets? In short: Does the regulatory and legislative framework encourage or does it stifle rural investment and production?

Sector programmes in agriculture and rural development should include indicators that measure the development of an enabling environment, the level of private sector involvement or rates of private sector growth. Where the creation of an enabling environment also depends on a reform of government, progress should be measured along institutional reform indicators also.

A number of international databases measure the business climate in individual countries.<sup>(65)</sup> The advantage of using these are that (i) rather than identifying indicators, internationally accepted ones can be used, and (ii) some databases regularly update information at country level, thereby providing an independent monitoring tool in their own right. A disadvantage is that these indicators are country-wide and do not distinguish between urban and rural areas and concern the business climate in general rather

than that related to rural growth in particular. The Private Sector Development Programme in Ghana is an example of a sector programme that is concerned with an enabling environment and is measured, in part, through international databases.

Keeping track of progress in the enabling environment often means looking at the level of outputs, as this is where many of the 'enabling environment' indicators will be located (Table 7). For donors this means that, although support for the sector programme means a shift in focus from 'What has the aid money been used for?' towards 'What has been achieved in the sector?', this should not automatically be translated into an exclusive focus on outcome indicators. Especially in productive sectors, *the way in which* goods and services are provided is as important as what they achieve. Treating the output-level as a kind of 'black box' should thus be avoided.

**Table 7: From inputs to outcomes and the 'output steps' in between**

<b>Impact</b>	Increased rural employment; increased food security in rural areas	
<b>Outcome</b>	Increased rural market activity (volume traded); rural labour productivity	
	<b>Government direct service provision</b>	<b>Government support for enabling environment</b>
<b>Output</b>	<ul style="list-style-type: none"> <li>• Early warning system.</li> <li>• Increased agriculture production per unit land.</li> <li>• Control of livestock diseases of national importance.</li> <li>• Dissemination of market information.</li> <li>• Support for research and extension; innovation.</li> <li>• Support for service provision in marginal areas.</li> </ul>	<ul style="list-style-type: none"> <li>• Land administration.</li> <li>• Protection of property.</li> <li>• Contract enforcement.</li> <li>• Debt recovery.</li> <li>• Development and maintenance of feeder roads.</li> <li>• Improved market infrastructure.</li> <li>• Alignment of national standards to international product quality standards.</li> <li>• Enforcement of environmental standards.</li> </ul>
<b>Input</b>	Funds (domestic revenue and foreign assistance); human and material resources.	

## 9.5 Joint monitoring frameworks

As part of the harmonisation agenda and in support of reducing the transaction costs of aid, joint monitoring frameworks are a common feature of sector and programme approaches. Some countries have developed national or sectoral Performance Assessment Frameworks (PAFs). Sometimes, the sectoral PAF is embedded in the national PAF by a set of sector-specific indicators. A PAF is developed by government, with support from donors where needed. Donors, when 'buying into' the PAF, agree to use the PAF indicators to satisfy their monitoring needs, thus bringing down the number of parallel monitoring exercises. The PAF further raises transparency as tracking a few indicators publicly helps to clarify what are seen as priorities<sup>(66)</sup>.

PAFs are especially helpful in heterogeneous sectors like agriculture and rural development where a wide range of ongoing (donor-supported) operations may need to be coordinated under a common monitoring framework. However, for this to be possible, the PAF needs to adequately reflect rural economic growth indicators. The need for rural growth indicators should be emphasised, especially where the PAF appears to be biased towards social services and public finance management.<sup>(67)</sup>

<sup>(66)</sup> EC Guidelines on Support to Sector Programmes, pp. 87-88.

<sup>(67)</sup> This is especially the case where government-donor interaction focuses on the MDGs and/or budget support.

Which indicators are selected for the PAF, and how these are divided over sectors, is a decision by government, possibly with other stakeholders (including donors). National PAFs are based on the national development strategy (e.g. PRS or suchlike). This is especially relevant for rural development, which depends on concerted efforts across sectors. A PAF that balances social and growth indicators may stimulate inter-sectoral cooperation and help exploit inter-sectoral synergies.

Donors should support a PAF that is manageable and can be monitored regularly (e.g. every year). This means that government and donor ambitions may have to be toned down to what can be realistically measured and analysed. Often, the PAF is not the only common monitoring framework, and others may supplement the kind of information or the level of detail provided in the PAF. However, the need for information should be weighed against the risk of overstressing domestic statistical capacities. Where different monitoring frameworks exist these should be harmonised as much as possible; the potential for indicator overlap should be exploited as should the scope for joint monitoring or review missions.

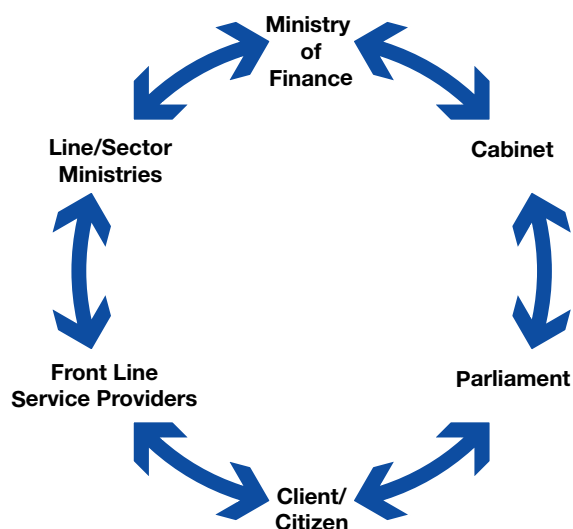
## 9.6 Domestic accountability

An important objective of the sector approach is to strengthen domestic accountability. Major components of this are the accountability of the government to its citizens as well as between policymakers, service-providers and clients. Projects had eroded that relationship by placing themselves in between government and (poor) people or by becoming providers of public goods in their own right. By working within local systems and through local actors, donors in support of a sector programme aim to no longer undermine such structures but instead to reinforce them.

Figure 4 presents a stylised version of domestic accountability. Line or sector ministries prepare a budget that is presented at cabinet level, where it is scrutinised and voted on by parliament. Once parliament has endorsed the budget, it becomes a legal working document of the Ministry of Finance. During the budget year, the Ministry of Finance disburses to sector ministries as per approved budget. Sector ministries, in turn, disburse within their ranks and towards front-line service providers as per workplan and budget. Clients, or service users, are at the same time citizens, and as such are represented by their elected members of parliament.

A lack of services on the ground can be seen in terms of a bottleneck in the domestic accountability circle pictured above: Maybe the sector ministry did not prioritise these services in its budget? Maybe it did, but parliament did not approve? Or maybe parliament *did* approve, but the Ministry of Finance did not disburse accordingly? Or the Ministry of Finance *did* disburse, but the sector ministry itself did not disburse to service levels? Whatever the case may be, it is important to note that the same lack of service provision on the ground can be caused by a host of different scenarios and each of these needs a different solution. Only a look at the big picture makes it possible to see where the bottleneck is and what the response should be.

**Fig 4 Domestic accountability**





The sector approach does exactly that and is in many ways a ‘system’ approach aimed at identifying and correcting ‘leakages’ and ‘blockages’ in the system as a whole. Donor support for the sector approach is different from the project approach in three main ways:

- (i) *Support for the system as a whole* (‘help mend leakages and unstop blockages’) as opposed to a narrow focus on one component;
- (ii) *No setting-up of parallel accountability circles* by working outside the system, but instead working within the system, thereby strengthening it;
- (iii) *Attention to linkages between actors* rather than a focus on individual actors (i.e. an inadequate budget in a sector ministry requires a look at its relations with the Ministry of Finance, rather than an immediate injection of donor money).

Domestic accountability also takes place via shorter circuits directly between service providers and their clients, for example when goods and services are provided by the private sector, as will often be the case in agriculture and rural development. But, whether accountability involves the longer circuit via parliament, or the more direct route via a ‘contract’ between service provider and service users, the key issue is that the sector approach seeks to strengthen these domestic accountability relationships.

## 9.7 Embedding mutual accountability in domestic accountability

Mutual accountability, or accountability between donors and governments, has taken on an extra meaning in the sector approach. First, concerns about the effectiveness of aid have shifted the donor-government focus to the outcomes of aid, rather than its use. Second, where donors provide sector support, their aid becomes part of the sector budget and governments need those funds to be predictable and reliable to allow proper sector planning. Third, where donors provide budget support, they can no longer trace their contribution as it becomes part of the general sector budget, and instead have to rely for accountability purposes on the achievement of performance targets mutually agreed between government and donors.<sup>(68)</sup>

For country and sector systems to be strengthened, however, it is of utmost importance that mutual accountability is embedded in domestic accountability. It is an acknowledged risk of large amounts of budget support that internal revenue generation becomes less important, in turn eroding the accountability of governments to tax-payers.<sup>(69)</sup> It is important that domestic accountability within a sector is not pulled upward and outward towards donors and their head-offices. With respect to agriculture and rural development, ways to avoid this include the following:

- Recognise that monitoring systems are first and foremost a management tool for government and an information tool for stakeholders. Do not mobilise limited statistical and monitoring capacity around donor information needs.
- In the case of budget support, ensure that donor-government negotiation does not just revolve around ‘trigger indicators’, i.e. those performance targets that secure the next release of donor funds, thus avoiding a situation where government action is unduly biased towards these indicators alone.
- Make sure that ‘trigger indicators’ are picked such that they are not dependent on too many factors outside government control (e.g. droughts and floods, international market fluctuations).
- Look also at revenue, not only at expenses in the sector. Especially in productive sectors, there may be scope for improved collection or more transparent or effective use of domestic revenue. This would boost government’s coffers as well as strengthen domestic accountability.

<sup>(68)</sup> EC Support to Sector Programmes, pp. 87-88. See also the chapter of the Paris Declaration on Mutual Accountability and indicator 12: ‘Mutual accountability: Number of partner countries that undertake mutual assessments of progress in implementing agreed commitments on aid effectiveness including those in this Declaration’.

<sup>(69)</sup> OECD-DAC Network on Governance (GOVNET) Note on promoting accountability through domestic resource revenue mobilisation. June 2006.

- Where support is provided to non-state actors (e.g. farmer unions, commodity associations, CSOs or NGOs), make sure that accountability between users/members and providers of goods/services is not undermined but strengthened instead.
- Support the design of monitoring systems that link the analysis and use of data as close to collection and implementation levels as possible to inform decentralised decision making as well as strengthen local accountability.

## 9.8 Mainstreaming accountability from below

By looking at the big picture, the sector approach allows for a perspective that is system-wide. An important part of this system is the people at the bottom. Concerns of the recipients of government and non-government services need to be understood and factored into the design of the sector policy and strategy as well as into mechanisms of performance monitoring. But consultation should not be thought of too narrowly as participation in various formal sector-partnership platforms: additional approaches, such as client surveys or independent research, should be considered. Civil society groups, research institutions, NGOs and the private sector may be involved in the provision of policy advice, in monitoring or in playing independent watchdog roles.

Involving stakeholders in programme monitoring and evaluation are often exercises that take a lot of time and generate huge amounts of data that are difficult to process. But promising packages are being developed that balance the need to analyse large amounts of qualitative information with the need for timely feedback to policy makers.

However, mainstreaming accountability from below is not only about stakeholder consultation and participatory evaluation. When it concerns satisfaction with service provision, people 'vote' most effectively with their wallets. Where rural producers are given the means and the freedom to obtain services of the type and quality they prefer, this may be a better way to drive service quality up than building service capacity in a context of limited demand and competition.

Programmes in agriculture and rural development should take account of innovative solutions that allow farmers, producers and small enterprises to hold service providers to account. Experiences with initiatives like service vouchers, cash transfers and smart cards should be taken account of and assessed for their scope and use in a sector programme context (Box 26).

## 9.9 Key issues regarding performance monitoring

**Link the indicator type to the purpose of monitoring.** At the policy level, outcome indicators may show whether the policy is right; at the programme level, however, indicators have to show whether the programme does what it should. Too great a focus on outcome and impact indicators will not yield enough information for day-to-day management of the sector programme and its budget. Programme implementation is a step-by-step process and indicators have to reflect that.

**Keep track of core public goods delivery.** A key function of government is the provision of public goods and services, such as policy and legislative framework, health and plant-health regulation, but also aiming for socially desirable, equitable and environmentally sound outcomes in a market economy. Government should identify indicators that can show progress in these core functions over the long term.

**Keep track of progress in the enabling environment.** Government's responsibility in agriculture and rural development is about creating the right framework conditions for equitable rural growth, and sector programme indicators need to include those that measure the enabling environment. Where institutional reform of the government is part of creating an enabling environment for private sector growth, programme indicators also need to refer to that.

**Support joint monitoring databases** not only as a means towards reducing the transaction costs of aid, but also as a vehicle towards improved inter-sectoral coordination. This is especially relevant in rural development, which depends on coordinated action and synergies across sectors.

**Ensure that mutual accountability does not override domestic accountability.** The sector programme is only a means towards sector development, and accountability downwards is more important to sustainable development than accountability upwards to donors.

**Recognise that performance monitoring is first and foremost a management tool.** Aligning to national systems means that information systems are respected as a *management* tool rather than a donor control instrument. Donors should be careful not to mobilise data collection or (limited) statistical capacity around their own information needs.

#### Box 26 – Use of smart cards in Malawi

To overcome one of the largest obstacles to economic growth in the country, the Reserve Bank of Malawi launched a programme to modernise payment systems. Together with the Opportunity International Bank of Malawi (OIBM) a system was developed based on the widespread distribution of 'smart cards'. Smart cards are plastic cards, the size of a credit card, with an embedded micro-chip containing biometric (fingerprint) data as well as account information. Already in 2004, six out of nine commercial banks were participating in the scheme and by 2007 OIBM, as the largest smart-card distributor, had issued cards to nearly 200 000 clients. As the smart-card infrastructure grew, the system began to be used not only by government but also by the private sector. So far, it has proven its worth in fertiliser subsidies, social cash-transfers, savings and credit and anti-retroviral drug distribution schemes. Malawi's largest tobacco company uses smart cards to pay wages whereby its seasonal workers can opt to have a portion of their savings put in a separate 'wallet' on the card, that is accessible only in the months when there is no work.

The smart-card system functions as follows: banks are directed to load a particular amount onto individual smart cards (like a transfer into an account). Clients can then visit the bank itself and withdraw cash, or visit a mobile OIBM bank, have their account information updated and withdraw cash. Alternatively, clients can visit a service provider and use the card to pay for a service or product (e.g. seed, fertiliser, medical treatment). All that is needed at the Point of Sale (PoS) is a machine that swipes the card and registers the transfer. The system works both offline and online as long as service providers regularly upload their PoS cash-transfer information onto a central computer-operated database. The advantages of smart cards are that support can be accurately targeted; clients can self-select service providers assuring value-for-money and competition; and the use of cash transfers (rather than commodity packages or food aid) stimulates the local economy. In fact, when cash transfers were issued via smart cards and mobile banks during a food crisis it was proven that for each euro provided an additional €2.10 of commercial activity was generated. Malawi pioneers this system and, as the former governor of the Reserve Bank proudly observed, 'has been overwhelmed by the number of interested SADC delegations since it was launched'.

*Ngalande (2004); Davey (2007)*

## 10. Conclusion

Agriculture and rural development pose particular challenges to the sector approach.

The first challenge faced by planners is ‘How wide is the sector?’. Even in agriculture, which can still be considered as a ‘sector’ in its own right, early sector programmes have stumbled (and sometimes fallen) on the need to coordinate multiple ministries (e.g. water, forestry, land, environment, local government) even if for no other reason than that activities in agriculture make sense only when linked to activities in these other sectors. Needless to say that for rural development the picture becomes even more complicated. In an effort to get all that matters on board, programmes in these sectors have tended to grow bigger, casting their programme nets ever wider and turning into mega-sector programmes. But this may not have been the right response and a fresh look at ‘how wide is sector-wide’ may be called for.

The ‘sector’ is a flexible concept. Essentially it refers to ‘all that needs to be looked at together for investment and efforts to make sense’. The sector should be wide enough to address inter-related constraints and use inter-related opportunities: the sum has to be more than the parts. It is important to realise that this does not have to be the same at all levels: policies and strategies can be bigger in scope than programmes and budgets. Policies give direction in certain thematic areas whereas work plans and budgets are based on administrative structures. Formulating a policy for rural development may start from ‘what needs to be done in rural areas?’ but designing a (sector) programme in rural development should be based on ‘what needs to be done together?’ and ‘what can feasibly be coordinated within one programme?’. Thus, in agriculture and rural development, a ‘sector’ policy can be divided into a series of mutually supporting ‘sector’ programmes with the overarching policy acting as a coordinating tool to overcome fragmentation, and with programme instruments designed so as to strengthen (existing) administrative and management structures.

Allowing this amount of pragmatism means moving away from the narrow pursuit of instruments (such as single programme and budget frameworks, budget support) to enable the sector approach to deal with (otherwise potentially crippling) issues such as the importance of the private sector or the political economy of pro-poor rural growth. Sector development in agriculture and rural development means balancing support between government and non-state actors, and between central and local levels. Sector approaches in agriculture and rural development are less about THE programme and THE budget, and more about government-driven frameworks for private-led rural growth implemented by a range of state and non-state actors.

This scenario does require one key pre-requisite, and that is central government leadership. At the highest level there is a need for clear vision and firm commitment, spelled out in policy that is unambiguous, especially about the roles of government versus the private sector and the roles of the central level versus local levels. Such a policy can become a powerful planning guide and coordinating tool by ensuring that all activities in a sector are ‘policy-compliant’. These should not be limited to activities undertaken by the sector ministry, or undertaken as part of a government-managed ‘sector’ programme, but can include activities in the sector as a whole. Different ministries can draw direction from a multi-sectoral policy so that their activities have a cumulative, rather than fragmented, impact. ‘Policy compliance’ can also be applied to donor support, and not only to support which is part of a (sector) programme but also support that takes place in the sector as a whole. In agriculture and rural development this is important, as there will always be a lot of development efforts ongoing outside the ‘official’ programme for the sector.

How to translate the policy into programmes depends on ‘what needs to be done together’ but also on administrative and budget structures. Where there is a lot of potential for inter-ministerial coordination, multiple ministries may be able to take on components of a single programme and budgets. Where cooperation is more of a challenge, a framework of activities may need to be broken down into smaller units that can be implemented more autonomously. In general, where coordination is a problem, sector (sub-) programmes should be made smaller, rather than coordination mechanisms bigger.

With respect to the budget structure and procedures, two features especially would be very helpful in adopting sector-wide approaches to agriculture and rural development: (i) a medium-term planning and budget perspective and (ii) a 'programme classification' of the budget. Having a medium-term perspective is essential in a gradual and incremental process such as pro-poor rural growth, a process that is about private sector development, local governance and civil society empowerment. A programme classification enables programme components to be broken up across budgets, while at the same time allowing for planning, coordination, monitoring and reporting instruments to be programme-wide. In this way, the sector approach can be visualised as a multi-sector policy that divides into different but mutually supporting 'implementation strands' based on administrative structures, after which all strands are pulled together again at monitoring and reporting levels.

When supporting sector approaches and sector programmes in agriculture and rural development we should avoid advocating programmes that try to do too much. Governments should be helped to do what they need to do. In situations of market failure, their responsibilities will be over and above the provision of classical public goods and include time-limited and innovative interventions that help create an environment in which private solutions become viable. But where support is needed to create awareness or advocacy this is better directed to the non-state actors concerned, provided that it is aligned to government policy and, preferably, on-budget (i.e. information is reflected in the sector-wide budget).

Grasping the political economy of pro-poor economic growth and accepting the process as a slow and locally driven process is essential; agriculture and rural development cannot be bought. Money solves a problem only when money is the problem. Where sector governance is the problem, more donor aid will yield value-added only when this too is addressed. Agriculture and rural development are not only slow, but possibly even low disbursement sectors. Disbursement pressures should not get in the way.

At the start of a sector approach, both governments and donors have to integrate an 'actor perspective' into sector analysis. An almost exclusive focus on government by donors, and an early focus on the public budget by governments, may lead to the formulation of lopsided solutions to perceived sector problems. Institutional reform and capacity development in government will only translate into better quality services when these are demanded by service users; a lack of quality services does not automatically mean that government should play an increased role in service provision. A sector-wide analysis of the players responsible for the outputs that are needed to reach the sector objectives helps in weighing the feasibility of different scenarios based on the available sector potential and an idea of where unlocking this potential has the greatest impact.

Understanding the technical and the political dimension of sector growth, and the role and potential of different players within that, should lead to balanced development strategies. Where these are supported by foreign aid, donor harmonisation should aim to ensure that the overall package of assistance does not tilt that balance by being biased towards a particular actor or particular activities. Attention to government has to be balanced with attention to non-state actors. Attention to policy making and public finance management has to be balanced with attention to implementation. Doing this means opting for a mix of support instruments: sector budget support, pooled funds or project procedures (or 'non-pooled funds') all have a role, but one that should be justified on a 'best-fit' basis determined by the actor and the activities supported as well as by local conditions.

Working in support of agriculture and rural development will always be a complex and sometimes daunting 'learning by doing' exercise. Fortunately, a lot of learning is being done at present: experiences with sector approaches and programmes are reviewed and the body of 'lessons learnt' is growing. There are no recipes for designing or implementing sector support programmes in these sectors. What is needed is a commitment to put in the time and effort that is required to understand a complex and politically charged sector; to apply sensitivity and creativity in designing a support programme that is flexible and balanced; and during implementation, to surf the waves, manage by opportunity and capture momentum where it develops. Supporting these sectors effectively requires being able to adapt to a changing context at local level, as well as capture new insights emerging at international level.

This is an exciting challenge that deserves to be pursued because, as we have been reminded by the World Development Report 2008, **'where the powers of agriculture and rural development can be unleashed, this will provide high payoffs, towards the Millennium Development Goals and beyond'**.

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## Basic concepts and definitions: further information

### European Commission

The EC has developed a series of guidelines and reference documents around sector approaches and related issues. Essential reading is EC Support to Sector Programmes of September 2007, which is available in a short version (33 pp) and a long version (120 pp).

These and other documents can be downloaded:

[http://www.cc.cec/dgintranet/europeaid/activities/adm/documents/guidelines\\_support\\_to\\_sector\\_prog\\_11\\_sept07\\_final\\_en.pdf](http://www.cc.cec/dgintranet/europeaid/activities/adm/documents/guidelines_support_to_sector_prog_11_sept07_final_en.pdf)

[http://www.cc.cec/dgintranet/europeaid/activities/adm/documents/guidelines\\_support\\_to\\_sector\\_prog\\_short\\_11sept.07\\_final\\_en.pdf](http://www.cc.cec/dgintranet/europeaid/activities/adm/documents/guidelines_support_to_sector_prog_short_11sept.07_final_en.pdf)

### Organisation for Economic Cooperation and Development (OECD) [www.oecd.org/dac](http://www.oecd.org/dac)

The OECD's Development Assistance Committee (DAC) of major bilateral donors strives to increase the effectiveness of development cooperation. It produces a series of guidelines in areas of poverty (e.g. Promoting Pro-Poor Growth: A Practical [Guide to ex ante Poverty Impact Assessment](#)) and governance and around issues like donor harmonisation and capacity development. The DAC has a series of networks, such as GOVNET (governance) and POVNET (poverty), each of which also produces shorter information and discussion notes. All are accessed via the main website.

### Other donors

CIDA manages a website that has brought together probably the biggest collection of material around Programme Based Approaches worldwide: <http://web.acdi-cida.gc.ca/extranet/pbas> (a self-registration website).

The DFID [www.dfid.gov.uk](http://www.dfid.gov.uk) produces a series of quick updates in current development thinking. Subscribing to its e-bulleting, free magazine and the regular How to Notes are useful ways of keeping a finger on the pulse. In-depth studies are clustered around thematic areas such as *Rural Livelihoods and Drivers of Change*, both concepts in which the DFID has a pioneering role.

The Strategic Partnership with Africa is a platform between donors and African governments. The SPA carries out an annual tracking of existing sector programmes in Africa summarised in numerous tables in an annual 'tracking report': [www.spa-psa-org](http://www.spa-psa-org)

### Research institutions and organisations

The Overseas Development Institute or ODI [www.odi.org.uk](http://www.odi.org.uk) produces an array of relevant analyses. Especially useful are its short communications such as *ODI Project Briefings*.

For a subscription to their e-newsletter: <http://apps.odi.org.uk/registration>

## What's different in agriculture and rural development?

### European Commission

An evaluation of EC support for rural development between 1995 and 2004 is presented in: [http://ec.europa.eu/europeaid/how/evaluation/evaluation\\_reports/reports/2007/1088\\_vol1\\_fr.pdf](http://ec.europa.eu/europeaid/how/evaluation/evaluation_reports/reports/2007/1088_vol1_fr.pdf)  
On the rationale for environmental mainstreaming in agriculture and rural development interventions and on how to integrate environmental concerns at sector policy level and sector support programmes one can refer to the EC guidelines (<http://ec.europa.eu/europeaid/>) or to the Environment helpdesk (<http://www.environment-integration.org/>).

### OECD-DAC [www.oecd.org/dac](http://www.oecd.org/dac)

The website holds a number of individual country studies and evaluations such as Sector [Assistance Program Evaluation for the Agriculture and Natural Resources Sector in Laos](#) as well as synthesis documents such as [A Joint Evaluation of Agriculture and Rural Development in Africa](#).

### Other donors

The Global Donor Platform for Rural Development (GDPRD, at [www.donorplatform.org](http://www.donorplatform.org)) is active in putting rural development back on the international agenda and carrying out a host of studies that look at what has been learned from development in these sectors. 'Advocacy-type' work includes: *The Role of Agriculture and Rural Development in achieving the Millennium Development Goals* and *Targeting rural poverty to achieve the Millennium Development Goal 1*, both from 2005. With respect to 'lessons learned-type work' the following documents are key:

*Sector-wide approaches in agriculture and rural development Phase I: A desk review of experience, issues and challenges* (2006), representing the first phase in a research project. Subsequent field studies were undertaken in Mozambique (ProAgri), Tanzania (ASDP) and Nicaragua (PRORURAL). Merging country and desk studies led to the synthesis report *Formulating and implementing sector wide approaches in agriculture and rural development* of June 2007.

IFAD also approached the challenges of sector approaches in ARD in IFAD's *Policy on Sector Approaches in agriculture and rural development* (2005) and in its policy document *Sector wide approaches for agriculture and rural development* of April 2006. The World Bank addressed this issue in *Sector wide approaches and implications to the ARD Sector* of April 2005 (by Chiyo Kanda).

RUTA (Rural Unit for Technical Assistance — for Central America) is a joint initiative between central American governments and development agencies (IFAD, DFID, WB, FAO). It produced a comparison of sector approaches and programmes in Nicaragua, Honduras and El Salvador in *The role of the sector wide approach to sustainable rural development in Central America* (2006).

### Research

The ODI's *What's different in agriculture SWAPs?* of 2000 is, despite its age, still a thorough and insightful work and a must-read for those supporting agriculture sector programmes.

The ECDPM (European Centre for Development Policy and Management [www.ecdpm.org](http://www.ecdpm.org)) took an early look at the interface between sector approaches and decentralisation in *Building coherence between sector reforms and decentralisation: do SWAPs provide the missing link?* (2003).

### Networks

The Africa Forum is a platform of exchange for implementers of agriculture and rural development in Africa. Since 1998 it has held an annual forum and all proceedings and presentations to date are available at [www.africaforum.info](http://www.africaforum.info)

## Policy and strategic frameworks

### OECD-DAC [www.oecd.org/dac](http://www.oecd.org/dac)

A recent book *Promoting Pro-Poor Growth: Policy Guidance for Donors* looks at the role of the private sector, agriculture and infrastructure in pro-poor growth.

### Other donors

The website of the WDR 2008 [www.worldbank.org/wdr2008](http://www.worldbank.org/wdr2008) is a treasure trove where not only the full report or its overview can be downloaded, but also its background studies and a host of briefs on current agriculture-related issues. In addition, there is regional material and lots of useful statistics.

USAID carried out a comparison of 27 PRSPs and how they treat the private sector in *Poverty Reduction Strategy Papers: How do they treat the private sector?* USAID Issue Paper No 10. April 2004. Available under [www.dec.org](http://www.dec.org) by quoting the document identification No: PN-ACX-270.

The World Bank analysed the extent to which rural development issues are picked up by PRSPs and PRSCs in *A review of rural development aspects of PRSPs and PRSCs 2000-2004* (2005).

### Research

The CTA [www.cta.int](http://www.cta.int) is an ACP-EU institution working to improve the flow of information among stakeholders in agricultural and rural development in African, Caribbean and Pacific (ACP) countries. The website offers free subscriptions to newsletters such as *Spore*, *Agritrade* and *ICT-Update*, as well as job offers and internships.

The Consultative Group on International Agricultural Development (CGIAR) [www.cgiar.org](http://www.cgiar.org) aims to achieve sustainable food security through scientific research and research-related activities in the fields of agriculture, forestry, fisheries, policy and the environment. It is a consortium consisting of 15 specialist centres producing high-quality information that can support country policy design.

The Rural Income Generating Activity database [www.fao.org/es/esa/riga](http://www.fao.org/es/esa/riga) provides an internationally comparable database of rural household income sources for a growing number of countries with the aim of helping to promote and implement effective public policies and rural development strategies that include the non-farm economy as an important component.

Africa Development Information Services [www.afdevinfo.com](http://www.afdevinfo.com) tracks political and economic development across Sub-Saharan Africa in an ever-expanding online database that offers a list of Sub-Saharan think-tanks, reports mapping governance-related initiatives, and an updated 'who's who' and 'organisation listings' for each of nine countries in Southern Africa. Subscription required for parts of the site (which is free when based in Africa).

### Other: Africa-based

The New Partnership for Africa's Development (NEPAD) [www.nepad.org](http://www.nepad.org) is a vision and strategic framework for integrated socio-economic development of Africa. An online weekly newsletter is available: [NEPAD\\_Secretariat@newsletter.nepad.org](mailto:NEPAD_Secretariat@newsletter.nepad.org). One of NEPAD's pillars is the Comprehensive Africa Agricultural Development Programme (CAADP), a strategy for agriculture-led development.

Finally, several of the Agriculture Sector Programmes have their own website such as Mozambique's ProAgri under [www.pwg.gov.mz](http://www.pwg.gov.mz) (includes 6-monthly progress reports) and the Plan for the Modernisation of Uganda under [www.pma.go.ug](http://www.pma.go.ug).

## The sector budget and public finance management

### European Commission

*Strategic budgeting and sector support* is a technical note in support of the EC Guidelines on Support to Sector Programmes which brings some pragmatism to the MTEF discussion. The *EC Guidelines on the Programming, design and management of General Budget Support* (2007) are indispensable when considering GBS: [http://ec.europa.eu/europeaid/what/economic-support/documents/guidelines\\_budget\\_support\\_en.pdf](http://ec.europa.eu/europeaid/what/economic-support/documents/guidelines_budget_support_en.pdf)

### Bretton Woods Institutions

The IMF publishes its Article IV information in the form of short *Public Information Notes* (or PINs) or the longer *Article IV Staff Report*. PINs can also be issues on general policy matters. For each member country, the IMF carries out annual Article IV consultations that look at macro-economic policy and indicators. A positive Article IV report is a pre-requisite for budget support.

The World Bank coordinated a multi-agency partnership programme that supported the design of a performance measurement framework for public financial management called Public Expenditure and Financial Accountability (PEFA, [www.pefa.org](http://www.pefa.org)). The framework consists of 28 PFM indicators plus 3 for donor practices: *Public Financial Management Performance Measurement Framework*, 2005, PEFA Secretariat. The PEFA programme also commissions studies such as *Institutional and incentive issues in public financial management reform in poor countries* (2004).

### OECD-DAC [www.oecd.org/dac](http://www.oecd.org/dac)

A key document is the *Joint Evaluation of General Budget Support 1994-2004* which looked at the impact of this method of aid delivery in Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda and Vietnam (<http://www.oecd.org/dataoecd/42/38/36685401.pdf>).

### Research

Two centres of excellence are: the Centre for Aid and Public Expenditure (as part of ODI) [www.odi.org.uk/pppg/cape](http://www.odi.org.uk/pppg/cape) and Oxford Policy Management [www.opml.co.uk](http://www.opml.co.uk).

CAPE produces 'state of the art' analyses such as its recent synthesis report on *Good governance, aid modalities and poverty reduction* (2008) but also older work like *How, when and why does poverty get budget priority: Poverty Reduction Strategies and public Expenditure in five African Countries* or *What's behind the budget? Politics, rights and accountability in the budget process*, both from 2002. Also of note is *A review of experience in implementing Medium Term Expenditure Frameworks in a PRSP context*, which takes a close look at the MTEF process in South Africa and Uganda ('matured'); Albania, Benin and Rwanda ('getting it together') and Burkina Faso, Cameroon and Ghana ('struggling').

OPM has been involved in a number of Public Expenditure Reviews also in agriculture and in evaluation of the Uganda PMA, and produced the *Agriculture in Kenya: What shapes the policy environment?* of 2004. All reports are available from its website.

A regional think-tank on economic issues and those dealing with public financial management is the African Economic Research Consortium (AERC) based in Nairobi ([www.aercafrica.org](http://www.aercafrica.org)).

## Sector and donor coordination

### OECD-DAC

An OECD-DAC ‘classic’ reference document is [Harmonising Donor Practices for Effective Aid Delivery Volume 2: Budget Support, Sector Wide Approaches and Capacity Development in Public Financial Management](#) (2006), which is a follow-up to the first volume [Harmonising Donor Practices for Effective Aid Delivery](#) published in 2003.

### Other donors

The Global Donor Platform for Rural Development (GDPRD, at [www.donorplatform.org](http://www.donorplatform.org)) aims, as one of its key objectives, to coordinate donor practices in rural development. The GDPRD strives to do this at (i) international – donor head-office – level and (ii) at country level. This has resulted in two types of related outputs:

At international level: a synthesis of ongoing (and often very varied) donor practices was formulated in *On Common Ground: A Joint Donor Concept on Rural Development* of November 2006. Further, the GDPRD has embarked on a platform-facilitated process towards a *Code of Conduct* which should establish *Joint donor minimum standards for effective agriculture and rural development programmes*. The process is underpinned by the four-page brief on *Cornerstones for effective agriculture & rural development programmes under a programme based approach*.

At country level, the GDPRD provides hands-on assistance to donor coordinating in rural development support, especially in its pilot countries. Country case studies are available and a synthesis is presented in *Assessment Study on Harmonisation and Alignment in Rural Development in four Pilot Countries – Nicaragua, Burkina Faso, Tanzania and Cambodia* of March 2005.

The European Forum on International Cooperation (EUFORIC, at [www.euforic.org](http://www.euforic.org)) aims to facilitate the flow of information on Europe’s international development policies and practices. The site is also a portal to over 50 development agencies and development research institutions.

### Networks

DANIDA Networks offers background information and news about technical aspects of development cooperation and current themes under [www.danidadevforum.um.dk](http://www.danidadevforum.um.dk). The site also offers information regarding Denmark-supported programmes, guides to development research and subscriptions to themes and news. A hotline service responds to requests within 24 hours.

The Joint Donors’ Competence Development Network ([www.train4dev.net](http://www.train4dev.net)) was established with the objective of improving the effectiveness of aid through better cooperation on capacity building.

A worldwide network on ‘Aid Management Systems’ [www.devoid.org](http://www.devoid.org) publishes a number of tools, such as a primer for partner countries on how to manage aid. Especially helpful for Ministry of Finance officials having to deal with an array of donors.

## Institutions and capacities

### European Commission

To assist with institutional and capacity assessment and with designing support for capacity development a Reference Document was prepared on *Institutional assessment and capacity development: Why, what and how?* (31 pp). On the basis of this, a three-day training course was developed and is held at country level (often related to a particular sector support programme) and in Brussels.

### OECD-DAC

The DAC network on Governance (GOVNET) produces many relevant studies such as *The challenge of capacity development: Working towards good practice* (Feb 2006) and *Lessons learned on the issue of Power and Drivers of Change Analyses in development cooperation* (Sep 2005).

### Other donors

The GPRD looked at the role of civil society in CSOs and *aid effectiveness in agriculture and rural development* (Feb 2008), which is a synthesis of experiences in 13 countries.

The DFID has pioneered the Drivers of Change (DoC) concept and produced a *How to Note on Lessons learned – planning and undertaking a Drivers of Change study* (4 pp). This and other DoC material can be found at [www.grc-exchange.org/g\\_themes/politicalsystems\\_drivers.html](http://www.grc-exchange.org/g_themes/politicalsystems_drivers.html).

SIDA also analysed its experiences with Power Analysis (a similar concept to DoC) in *Power Analysis: Experiences and challenges* (June 2006).

The DFID's *Promoting institutional and organisational development: a sourcebook of tools and techniques* (2003) offers practical tips and tricks in supporting institutional change.

To meet the need for country-level 'SWAp-learning', donors in the Joint Competence Development Network agreed to jointly develop and co-finance a Joint Learning Programme (JLP) on SWAp. Three-day learning events can be tailored to the need of a particular sector. Application forms and other information can be obtained by emailing the JLP Secretariat ([dccd@um.dk](mailto:dccd@um.dk)).

The World Bank developed a *Comprehensive Development Framework*, which analyses national country capacity to achieve development results:

<http://siteresources.worldbank.org/CDFINTRANET/Resources/EnablingCountryCapacity>

### Networks

The UNDP's Capacity Development Network is an informal and external network open to development practitioners involved in capacity development. It offers exchange of experiences, e-discussions around topical issues like institutional reform and incentive systems as well as referrals to experts and organisations engaged in capacity development work. If interested in joining, send an email to [capacity-net@groups.undp.org](mailto:capacity-net@groups.undp.org)

The DFID's Business Linkages Challenge Funds (BLCF) provides cost-sharing grants to promote business linkages and market development for smallholders:

[www.businesslinkageschallengefund.org](http://www.businesslinkageschallengefund.org)

Via Campesina is an international network of small and medium-sized producers, agricultural workers from Africa, America, Asia and Europe: [www.viacampesina.org](http://www.viacampesina.org)

The International Federation of Agricultural Producers (IFAP) created an off-shoot called AgriCord to meet the needs of farm organisations from developing countries through capacity building programmes: [www.ifap.org/en/index.html](http://www.ifap.org/en/index.html)

### Other: Africa-based

The African Agricultural Technology Foundation (AATF) brokers the acquisition of intellectual property rights in Africa on a humanitarian basis (<http://www.aatf-africa.org/>).

Regional institutions supporting the development of capacity are: the African Capacity Building Foundation (ACBF) <http://www.acbf-pact.org> (based in Nairobi) and the Council for the Development of Social Science Research in Africa (based in Dakar) (<http://www.codesria.org/>).

## Performance monitoring and accountability

### European Commission

EC Guidelines for general use developed by the evaluation unit can be downloaded from [http://ec.europa.eu/europeaid/evaluation/intro\\_pages/methods.htm](http://ec.europa.eu/europeaid/evaluation/intro_pages/methods.htm)

### OECD-DAC

The DAC's work in the area of governance is carried out through GOVNET ([www.oecd.org/dac/governance](http://www.oecd.org/dac/governance)), which covers issues like [governance assessments](#), [corruption](#), [taxation and accountability](#) and [human rights and development](#). Useful references are its discussion notes such as the *Note on promoting accountability through domestic revenue mobilisation* (5 pp). Indicators and tracking against the MDGs are explained and information on country and regional progress is given under [www.oecd.org/dac/indicators](http://www.oecd.org/dac/indicators)

### Other donors

The World Bank's *Doing Business Database* ([www.doingbusiness.org](http://www.doingbusiness.org)) monitors the investment and business climate in over 170 countries. It also provides national and regional averages and tracks progress over time. Includes a host of interesting analyses and studies and has started the Doing Business Reformers Club, which issues annual awards to those countries that have improved most.

### Research

One of the few sources on accountability and PBAs is *Strengthening internal accountability in the context of programme-based approaches in Sub-Saharan Africa* by Mzwanele Mfunwa. Discussion Paper 4/2006. German Development Institute.

The CGIAR developed a database of general agricultural science and technology indicators which can be accessed under [www.asti.cgiar.org](http://www.asti.cgiar.org)

### Networks

Paris-21 is a consortium founded to boost statistical capabilities, especially of poor countries; its aim is to strengthen evidence-based policy and to help develop efficient national statistical systems: [www.paris21.org](http://www.paris21.org)

### Other: Africa-based

The African Evaluation Association (AfrEA, at [www.afrea.org](http://www.afrea.org)) is an umbrella organisation for national M&E associations and networks in Africa and a resource for individuals in countries where national bodies do not exist. AfrEA works with national networks and committed donors to develop a strong African evaluation community.









European Commission

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