<table>
<thead>
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<th>ABBREVIATIONS AND ACRONYMS</th>
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<tr>
<td>ADB : African Development Bank</td>
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<td>ADF : African Development Fund</td>
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<td>ADF-IX : Ninth General Replenishment of the Resources of the African Development Fund</td>
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<td>CDF : Comprehensive Development Framework</td>
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<td>CFAA : Country Financial Accountability Framework</td>
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<td>CIDA : Canadian International Development Agency</td>
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<td>CPA : Country Procurement Assessment</td>
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<td>CSP : Country Strategy Paper</td>
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<td>DAC : Development Aid Committee</td>
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<td>DFID : Department for International Development (UK)</td>
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<td>ESW : Economic and Sector Work</td>
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<td>ICB : International Competitive Bidding</td>
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<td>IGR : Institutional and Governance Review</td>
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<td>IM : Initiating Memorandum</td>
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<td>MDBs : Multilateral Development Banks</td>
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<td>MDGs : Millennium Development Goals</td>
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<td>MTEF : Medium Term Expenditure Framework</td>
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<td>ODA : Official Development Assistance</td>
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<td>OECD : Organization for Economic Co-operation and Development</td>
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<td>PBL : Policy Based Loan</td>
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<td>PER : Public Expenditure Review</td>
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<td>PIU : Project Implementation Unit</td>
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<td>POPR : Operations Policy and Review Department (ADB)</td>
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<td>PRSP : Poverty Reduction Strategy Paper</td>
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<td>RMC : Regional Member Country</td>
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<td>SECAL : Sectoral Adjustment Loan</td>
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<td>SIDA : Swedish International Development Agency</td>
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<td>SMC : Senior Management Committee</td>
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1. **INTRODUCTION**

A. **STRATEGIC POLICY FRAMEWORK**

1.1 During the 1990s, several development practitioners evaluated the development impact of their assistance to aid recipient countries. Concerned about the high and rising incidence of poverty in the developing countries, many donors launched several initiatives aimed at making development assistance more effective during the 21st century. Among the key objectives of several of the proposed initiatives are that ODA should, by 2015, have significant and demonstrable positive impact on the economic well-being and social development of the population of aid recipient countries.

1.2 In 1996, the Development Aid Committee (DAC) of OECD formulated a strategy to address some of the unmet development challenges of aid assistance. The primary objectives of the strategy were to: “Reduce poverty while achieving broad-based economic growth; strengthening human and institutional capacities; improving the capacity of developing countries to contribute to the management and solution of global problems; and, reinforcing the transformation of institutions and enabling environments to facilitate emergence of developing countries and transition economies as growing trade and investments partners in the global economy”\(^1\).

1.3 The attainment of these desired development impact objectives are subsumed and underpinned by some key principles, which, must be effectively applied in order to make aid resources work better in enhancing growth and poverty reduction. Notable among these are the existence of: better aid coordination; country developed and owned agenda; adequate resources (both foreign and domestic); and, effective implementation and monitoring of development activities. Guided by these principles, the World Bank, in 1999 articulated and proposed the Comprehensive Development Framework (CDF) as a holistic development approach involving developing countries and their development partners. On their part, as an important complementary part of the approach and process, aid recipient countries have been developing and implementing development agenda as outlined in the Poverty Reduction Strategy Papers (PRSPs). In due course, the United Nations Millennium Summit was held in September 2000, during which various donor initiatives for enhancing aid effectiveness were integrated into seven Millennium Development Goals (MDGs) which developing countries would have to attain by 2015, if perceptible progress is to be made in the efforts to reduce poverty in these countries. Through the PRSPs, the developing countries, with the broad support of stakeholders, including donors, are currently working to translate these development objectives into outcomes which would ultimately facilitate the attainment of the MDGs.

1.4 Several of the Regional Member Countries of the Bank Group are at varying states of formulation and implementation of their development agenda. Several of the agenda, as outlined in the PRSPs or national development plans have been endorsed and are being supported by the international donor community. In order to enhance the development impact of its resources, the African Development Bank Group is taking measures to revise and align its country assistance strategies to the new aid recipient country-driven development paradigm. One of these measures entails, where appropriate, a shift from stand-alone project financing to a holistic sector wide intervention. It is in this regard, and in line with ADF-IX Deputies request, that these Guidelines for Sector Wide Approaches (SWAp)s have been developed as a process to facilitate development in member countries. Parallel with the development of the SWAp,s, which is sector oriented, the Bank has also embarked on the preparation of Program Budget Support through which Bank Group resources would be pooled with country and

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other donor resources in support of programs outlined in the PRSP. It is instructive to note that the Bank’s budget support and SWAp operations would be highly selective and would be applied on a deserving case-by-case basis. In this regard, it should be further noted that the Bank would exercise pragmatic flexibility and participate in SWAp operations even when not all the preconditions have been met, provided that the relevant member country has demonstrated a track record of commitment to reforms, successfully mobilized and won other donors’ endorsement of the proposed program and, above all, has established a credible implementation mechanism.

1.5 SWAps, emerged in the 1990s out of a growing dissatisfaction with the traditional project approach which has often been viewed as “fragmented, donor-driven” and entailing high transaction costs for aid recipient countries. SWAps emphasize greater reliance on government institutions, common implementation procedures and stronger and closer country partnership with its development partners.

1.6 Among the key defining imperatives for an effective SWAps process are: the existence of a government-led and coordinated comprehensive sector development programme; the existence of a conducive policy environment or policy reform agenda leading to it; and, the commitment and availability of donor resources in the form of sector investment loans and grants for institutional capacity building and studies to underpin sector development issues. SWAps also require the existence of a strong and coordinated donors approach to the relevant sector’s problems as well as the presence of an effective consultation mechanism between the aid recipient member country and its development partners. The approach generally envisages the pooling of donor financial resources in support of government budget, the use of a common government-led implementation and coordination mechanism and a streamlined/harmonized disbursement and procurement procedures.

1.7 SWAps have emerged as important instruments for operationalizing country-led development frameworks. Several recent reviews of aid effectiveness have underlined the importance of wide stakeholder ownership of the development process, country-led coordination of donor interventions, greater country accountability, fewer donor conditionalities on the use of aid resources, and streamlined donor procedures that place fewer strains on the limited national capacities. An increasing number of donors are adopting SWAps as a process for facilitating sustainable development and enhancing the development impact of aid resources.

B. OBJECTIVE OF THE GUIDELINES

1.8 These guidelines are intended to familiarize Bank staff with the key features and characteristics of SWAps as well as guide them in the preparation of and participation in SWAp operations. The Guidelines also set out the conditions under which the Bank Group could undertake or participate in a SWAp operation.

1.9 SWAps are consistent with Bank Group operational policies and, in particular, with the 2002-2007 Medium Term Assistance Strategy which emphasizes client focus, selectivity of interventions leading to the creation of comparative advantages and niches for Bank Group and enhanced development impact for its operations. These guidelines have also been prepared to respond to the specific request of ADF-IX Deputies, requiring Management to “submit to the Board of Directors operational guidelines on the Bank’s participation in SWAps”.
1.10 These guidelines are organized as follows: (i) Section II outlines the rationale for SWAps; (ii) Section III presents the key features of and the prerequisites for use of SWAps; (iii) Section IV reviews the Bank Group’s past experience in SWAps; (iv) Section V outlines prerequisites for Bank Group funding of SWAp operations; (v) Section VI outlines the SWAp processing cycle and the review process; (vi) Section VII describes the risks associated with SWAps and relevant mitigating measures; and, Section VIII presents some conclusions and a recommendation.

2. **RATIONALE FOR SWAps**

2.1 It is anticipated that, where appropriate, Bank Group participation in SWAps would improve the efficiency of the relevant portfolio, enhance the contribution of the Bank to the member country’s efforts to reduce poverty and facilitate the attainment of the Millennium Development Goals (MDGs). In addition to these, another principal utility of SWAps derives from the framework’s features, seeking to overcome the shortcomings of the traditional project approach to development. Some of the shortcomings of the project approach, which have been documented over the past several years, include the following:

- **High transaction cost of individual projects:** With large number of projects financed by various donors in a country under varying individual management schemes, transaction costs have been shown to rise;

- **Multiplicity of donor PIUs:** The promotion by each donor of its own projects may not only have distortive resource allocation implications, but it has been known to tax the limited human capacity base of countries and resulting in inefficient use of trained manpower;

- **Variations in donor conditionalities:** The difficulties in meeting these conditionalities and project implementation requirements give rise to erratic disbursements for projects.

- **Variations in donors’ procedures:** The administrative burden resulting from the existence of several donors procurement and disbursement systems, give rise to undue use of development resources to finance these procedures; thus, in effect, reducing the net resource transfer to beneficiary countries; and

- **Donor-driven accountability systems:** Systems of accountability, which are generally imposed by donors on RMCs, reduce country ownership of the development process, constrain the smooth implementation of projects and ultimately negatively affect the end results of the projects. It weakens the government’s internal system denying it the opportunity to build and strengthen its public expenditure management capacity.

2.2 Underlying the growing importance of SWAps is the realization that sectoral goals are best pursued, under current PRSP paradigm, through country-led sector-wide approach pursued in the context of nationally defined policies, strategies and coordinated budgetary frameworks rather than through a series of discrete donor projects. It is however, important to note that SWAps are neither lending instruments nor end products. Instead, they constitute a process through which national

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2 "General Budget Support Evaluability Study- Phase I", Final Synthesis Report, §2.1 p.5-6, DFID, 30 December 2002.
policies and strategies are translated into sector investment and expenditure programs based on a country’s long-term development plan. SWAps emphasize joint reviews of performance against objectives and actual expenditure plans, with adjustments made as necessary in a flexible framework. They imply the use of comprehensive approaches to sector development using a wide range of appropriate lending and non-lending instruments. Experience suggests that SWAps may not be suitable for all countries; some initial conditions (see below) must be met before it is adopted as an effective development strategy.

3. **KEY FEATURES AND PREREQUISITES FOR USE OF SWAps**

The following paragraphs discuss the key features of SWAp and outline the major prerequisites that must be in place before donors can effectively utilize SWAps. It is worth noting that these preconditions, though necessary for launching a SWAp operation, are not sufficient for the Bank’s involvement in SWAps. The additional conditions that must be met before the Bank can initiate or participate in a SWAp, are outlined in Section 5 of this document.

3.1 **KEY FEATURES OF SWAps**

The present section addresses issues such as what a sector-wide approach would entail and its main elements or features. Drawing on best practices, it sets out the building blocks for the development of a SWAp.

3.1.1 **Collaborative process**

An effective collaborative process is central to SWAps. This, in turn, requires a successful partnership between government and donor agencies, close donor coordination and an effective national leadership. These requirements are discussed below.

3.1.1.1 **National leadership and ownership:** Experience with successful development assistance stresses the importance of national ownership and commitment for achieving development impact. Ensuring ownership requires effective national leadership. Without strong national leadership, the development of a program under SWAp is unlikely to be successful. In many countries, leadership and ownership are associated with a small group of key proponents of sector programs; the lack of wide stakeholders participation often leads to implementation problems. One recommendation from best practices is to build broad support for the sector program, ensuring the involvement of central ministries such as the Ministry of Finance during the formulation of the sector program. It is also important to ensure that ownership of the program resides at the highest possible level. Ownership at the level of the Cabinet and Parliament will ensure broad support of the sector program. SWAps produce winners and losers and, unavoidably, losers tend to resist the development of the SWAp process. In general, the losers are the individual project managers who perceived their power to decline as a sector-wide approach takes hold. In contrast, SWAps strengthen the position of senior policymakers and reformers. It is important to have a clear understanding of the potential winners and losers in using national leadership to build ownership and support for a sector program. Moreover, national leadership and partnership must operate in a mutually supportive context. Donors are not to impose their agenda on the government and government officials are to refrain from dictating terms to donors. Under SWAps, both donors and the government have duties and responsibilities, explicitly stated in a joint document, that they have to carry out in the spirit of cooperation and mutual trust.
3.1.1.2 Donors-Government Partnerships: In developing donors/government relationships, emphasis is placed on building trust and setting up mechanisms for negotiations and resolving any differences. Trust is important because under a SWAp a significant degree of authority is delegated to the government whom donors trust to act in accordance with agreed principles and procedures. Both donors and the government must be committed to openness to build and maintain trust. Successful donor-government partnerships also require appropriate mechanisms for the discussion of issues, resolving problems and negotiating solutions. Participants in the partnership must be able to express their views in open forums and expose their disagreements, which must be resolved through a process of mutual consultation. Building stable partnerships takes time and experience underscores the importance of broadening the consultative process to a wide range of people in order to develop greater awareness and understanding of sector programs in society.

3.1.1.3 Donor Coordination: Donors participate actively in the process of developing sector programs. They have a voice on how resources are spent within a sector, and joint reviews of sector performance with the government replace donor-specific project evaluations. Under SWAps donors agree on a common program, work toward adoption of common procedures, and the instruments for donor coordination are defined. There are three aspects of donor coordination, which are further detailed below.

(i) Common program. Agreement on a common program ensures that duplications among donors are avoided. Although donors may finance different components of the sector program, they share common objectives and agree on the means for achieving these objectives. By signing on to a common program, donors agree not to finance expenditures outside the agreed program so that resources are concentrated on the agreed priorities while the government is expected not to accept donor-financing falling outside of the agreed framework. It is important to understand in advance this implication of signing on to a common program. Another implication is that Government may ask donors to adjust or phase out existing projects that are inconsistent with the agreed common program. Furthermore, donors must fulfill their commitment regarding the timing and the level of their financial support agreed with the government.

(ii) Common procedures. The adoption of common procedures is central to SWAps. The aim is to reduce the transaction costs placed on the Government by different donor procedures. In pursuing the harmonization of donor procedures SWAps seek to improve the quality and timeliness of information, reduce wastes and duplication, and free up time for government officials. However, because it requires donors to modify their internal procedures, the harmonization of procedures is not easy to achieve in all areas. Experience shows that while donors reporting, format, performance indicators, field missions and procedures for technical assistance lend themselves to harmonisation, harmonization of procedures is most difficult to achieve in the areas of procurement and financial management. A key concern in the area of procurement is the “rules of origin,” which vary considerably from donor to donor, thereby preventing them from cooperating. Adoption of common financial procedures is also difficult to achieve in financial management because it is a particularly sensitive area for all donors. One key reason is the fiduciary risk that funds will be misappropriated. This risk remains high in most African countries as national systems of financial management systems are not always at par with international codes and standards. This issue is discussed further below under implementation systems for SWAps.

(iii) Instruments for donor coordination. Countries that have embarked on SWAps have used a range of instruments to facilitate donor coordination and cooperation. One widely used approach is the appointment by donors and/or the government of a lead donor agency to coordinate the work of donors in a given sector. The main role of the lead donor is to facilitate communication among donors and between donors and the government. The responsibilities of the lead donor typically include calling
meetings, setting agendas for discussion, and ensuring that the donor-financed operations as well as government actions are consistent with the agreed policies, strategy and priorities of the sector. The authority and responsibilities of the lead donor are normally defined and agreed on in advance by donors participating in the sector. In addition to the lead donor agency, other instruments for donor coordination include joint donor missions, collaborative work programs and joint aide-memoirs. In some countries, a partnership principle document or a memorandum of understanding, jointly prepared by the government and donors, defines the duties and responsibilities of donors and government in the development and implementation of sector-wide approaches and set the broad framework for donor coordination and cooperation with the government.

3.1.2 Comprehensive Sector Policy Framework

3.1.2.1. A sector policy framework is necessary to guide investment efforts in support of national development sectors. The process of developing a sector program begins with the articulation of the principles to underpin the development of the sector. In general, a policy framework operates at three levels:

- (a) The policy level, which states the overall goals and principles as well as priorities;
- (b) The strategy level, which outlines the objectives and means to achieve the overall goals; and
- (c) The program level, which consists of specific measures to implement the strategy over a given period of time. An important function of the policy framework is to provide the basis for setting out the priority expenditures within a given level of adequate resources; another is to provide the framework for assessing the effectiveness of the expenditure programs in supporting the implementation of the sector policies.

3.1.2.2 A workable policy framework must satisfy four basic requirements. It must define the scope of the sector, a strong sector analysis must underpin the sector program, it must have broad support through wide consultations with stakeholders, and there must be a flexible, ongoing policy development process. These requirements are discussed in turn.

- **Definition of sector scope.** Under SWAps the definition of the sector is as comprehensive as possible to avoid fragmentation during the process of both planning and implementation. A comprehensive sector definition covers the most important sector-related expenditures, and the existence of a budget entity for financial management is important in determining the scope of the sector program. A distinction is often made between the definition of the sector for analytical and investment purposes. A broad definition of the sector is stressed for analytical purposes in the effort to provide a coherent framework for the sector objectives and policies and a comprehensive setting for more specific investment planning. A narrower definition of the sector may be adopted for investment purposes as investment programs typically concentrate on one or a few sub-sectors.

- **Sector analysis.** A key requirement in defining the policy framework is a thorough sector analysis. In this context, quality of economic and sector work (ESW) is of critical importance. In principle, sector programs emerge from good ESW, subject to high standard of quality assurance. However, in many African countries, numerous cases of ad hoc sector analysis can be found, with ESW consisting of sector studies, often undertaken after the broad policy framework has been defined, and not subject to appropriate and rigorous reviews. To be sure, sector analysis can be viewed as a continuous process, with sector studies conducted at a later
stage to provide the basis for refining and amending policies. But the fact remains that a strong sector analysis should provide the initial basis for articulating and guiding the choices among alternative priorities and strategies upon which resources will be allocated to address competing needs. A clear lesson of experience is that getting the strategy wrong will lead to a misallocation of scarce funds. Moreover, the validity of the sector program will be seriously compromised if its design is not underpinned at the very beginning by a strong and broad-based analysis of the issues, strategies and alternative solutions.

- **Consultation with stakeholders:** In addition to the above, the development of a policy framework requires broad national involvement, including in particular feedbacks from the main beneficiaries. In light of the anticipated impact of the sector program on the populations, wide consultations with stakeholders, including with community organizations, are necessary to ensure that the needs of the people are adequately addressed. Accordingly, the main aim of the consultations is to obtain inputs for the development of the policy framework and not to sell the program to the stakeholders. While donors may fund consultations, the government and not donors should conduct them. This is important to ensure national ownership of the process and outcomes. It is also important to ensure that the consultations are not limited to bureaucrats, as has been the case in many countries, but to frontline beneficiaries. Furthermore, the timing of the consultations matters greatly.

- **Flexible policy development process:** In contrast to earlier development approaches, policy development under SWAps is a continuous process. Whereas policy development under traditional approaches was handled as a one-off exercise, SWAps stress the need to allow for changes and refinements in developing the policy framework based on lessons learned from past experience and in-depth studies. A flexible, strong ongoing process of policy development is indispensable under the sector-wide approach. Establishing such a process requires the country to continuously build local capacity, experiment with alternative options and evaluate the results deriving from this experimentation, develop appropriate performance indicators and monitor policy implementation to inform the need for refinements and amendments.

3.1.3 **Commitment and Availability of Adequate Level of Resources and Expenditure Management Frameworks**

Once the overall policy framework for the sector has been defined, the next step is to place the sector firmly within an appropriate financial framework. In general, SWAps seek to ensure that adequate level of budgetary resources is available to the sector as a whole and to improve the allocation of expenditures within the sector, ensuring full funding of priority projects and programs. To this end, an adequate level of resources is determined and a medium-term expenditure framework designed in the context of available resources. These aspects are discussed further below.

- The project approach to development assistance has been criticized for its inability to ensure financial sustainability, the inadequate treatment of the recurrent cost implications and financing constraints arising from the inability to mobilize adequate budgetary resources for the overall funding of the sector. SWAps seek to overcome these shortcomings by defining a realistic level of resources and by targeting the allocation of an increased share of public resources to the sector. The level of resources is defined through a public expenditure review that examines the main sources of revenue, analyses the patterns of overall public resource
allocations, and recommends feasible levels of funding in a consistent macroeconomic framework. This means that under SWAps the sector is explicitly set out in the macroeconomic framework underpinning the country’s development program and the parameters for the financing of the sector are clearly defined. Moreover, in line with the emphasis on consultations, sector programs are prepared in consultation with stakeholders to ensure broad support for the inter-sectoral priorities for public spending. In the countries that have adopted sector-wide approaches, the allocation of resources to the sector is usually done through the earmarking of a proportion of budget resources. The evidence shows that the sector programs in most of these countries have been effective in targeting and achieving an increased level of funds for the sectors. In defining an appropriate resource envelope it is important to ensure that all sources of revenue and public spending are covered. This may not always be possible because in many African countries it is difficult to have a complete picture of revenues and expenditures due to weaknesses in their financial management systems. It is also important to ensure that the sector programs reflect ongoing public sector reforms with implications for the generation and use of public resources.

- **Availability of a medium-term expenditure framework (MTEF).** Following the determination of an appropriate level of resources accepted by stakeholders, the next task is to achieve an appropriate allocation of resources within the sector. The availability of a medium-term expenditure framework is central to this task. The MTEF is a key mechanism for ensuring that resources available to sectors are allocated to finance expenditures in the priority areas. An MTEF will ideally be preceded by the completion of: the Public Expenditures Review (PER), the Country Financial Accountability Assessment (CFAA); the Country Procurement Assessment (CPA) and an Institutional and Governance Review (IGR). An internally consistent expenditure framework is indispensable under SWAps. Using this framework, SWAps combine government and donor resources in sector programs and concentrate the use of these resources on priority expenditure areas to achieve greater impact at the sector level. The priority sector expenditure programs must command broad support through consultations with stakeholders. In light of recent experience, these consultations should set the priorities in the context of overall resource constraints. In addition, it is important to ensure that all levels of government responsible for implementation participate in the consultations. Monitoring of the expenditure program is essential to ensure that the priorities are fully funded. Monitoring should be conducted regularly to evaluate the actual expenditure program in relation with planned resource allocations.

### 3.1.4 Implementation Mechanisms

Because they span the entire sector, SWAp programs, relative to traditional projects, tend to be complex. Greater attention must, therefore, be paid to the implementation requirements in the design of SWAps. In this regard, analysing institutional capacity, developing effective performance monitoring systems, installing efficient financial management and procurement mechanisms are very important aspects of SWAp implementation requirements. Implementation mechanisms must be proactive and pragmatic, responding to weaknesses as they are identified and adjusting the institutional arrangements as the need arises. Furthermore, careful attention should be paid to staffing implications in sector-wide programs just as adequate consideration should be given to staff training. Each of these aspects is further elaborated below.
Institutional capacity assessment. Institutional capacity involves several aspects of capacity, including most notably, management of services, program as well as financial management and procurement. In designing implementation mechanisms, a first step is to analyse the country’s institutional capacity and planning. The purpose of this analysis is twofold: first, to assess whether the country has in place a minimum level of institutional capacity to justify starting the development of a SWAp process; and, second, to establish whether existing implementation capacity is sufficiently adequate to justify the commitment of funds in support of the sector programs. It has been widely recommended that the institutional capacity assessment should be conducted first, followed by efforts to put in place an appropriate institutional framework to lay the ground for program implementation. Experience suggests that in carrying out the institutional capacity assessment emphasis should be placed on the issues relating to work incentives, accountability and control of access to resources. In addition to providing an analysis of the sector organization, institutional capacity assessment should also include the analysis of flow of funds. The latter is important because the constraints on flow of funds have been a major factor behind the low disbursements observed under sector-wide programs. In decentralised systems of government, these constraints are often reflected in difficulties in transferring funds from the centre to districts or/and between regions. Since institutional analysis is an essential step in designing implementation systems under SWAps, efforts must be made to develop tools for this analysis and to use them systematically. Even tough stringent systems cannot be designed since all implementation bottlenecks may not have been anticipated, the program should be flexible and pragmatic. As weaknesses are uncovered, remedial measures should be prepared and implemented to the extent possible before the commencement of the SWAp Furthermore, given the programmatic nature of SWAps, new components could be added to deal with institutional problems as they arise.

Performance monitoring systems. Performance monitoring under SWAps involves the development of information systems to support the collection and analysis of data, the preparation of implementation reports, and the establishment of procedures for joint government-donor reviews of sector performance.

(i) Information systems. Given the emphasis on improving the impact of development assistance, information on performance is critically important. This implies that the quality and timeliness of the data are of fundamental importance under SWAps. The data that need to be collected are those that can provide information on and enable the monitoring of the delivery of services, the aggregate performance of the sector as a whole, and the quality of the process of policy development, institutional development and management. These data and related performance indicators should enable the assessment of the extent to which outputs and outcomes are the result of improved policies, processes, management and strengthened service delivery systems. Consequently, the indicator framework should, to the extent possible: (i) be simple; (ii) comprise few, quantitatively measurable and strategically focused outcome indicators; (iii) rely on country systems; emphasizing capacity building, learning and accountability; and (iv) be harmonized to minimize system costs.

(ii) Joint reviews. The joint reviews between the government and donors are the key instruments for evaluating the sector program. These reviews also provide the main forum for discussing and resolving policy and operational issues as well as for reaching agreement on the priorities of the sector program. Joint reviews are normally organised twice in the year. The first meeting assesses performance against objectives and targets agreed on at the last review. At the second review, new
performance targets are set and commitments are made on funds for the following year. Joint aide-memoirs summarize the issues discussed at each review and list the recommendations for actions to both the government and donors. To a large extent, the joint reviews have taken the place of supervision missions of donor agencies although some donors undertake their own supervision missions to fulfill internal requirements. The Government is normally responsible for preparing the reports on performance and weak capacity in this area may hamper the effectiveness of the joint reviews. The Government and donors have to demonstrate openness and the willingness to compromise during discussions and negotiations in order to resolve operational issues.

- **Fiduciary arrangements**: Because of their sensitive nature, fiduciary arrangements have to be meticulously designed between donors and the RMC, and also, among donors. Management and accountability for use of funds for the intended activities in a SWAp involve two main issues: (i) budgeting through government structures and procedures, and (ii) pooling of donor funds or basket funding. These issues are reviewed below.

(i) **Budgeting through government financial systems.** SWAs distinguish themselves from the traditional project approach by the leadership and ownership role of government in SWAp, working with donors through the government structures and procedures. The underlying presumption is that this will help strengthen the government’s internal systems, thereby strengthening capacity and enhancing ownership. Efforts to improve the management of public expenditures are therefore at the heart of SWAs. A major objective is to ensure that donor funds are disbursed through government financial systems and not through donor special accounts often set up outside the national budgetary systems. To this end, sector programs are usually linked to the government procedures for budgeting and planning. In view of the weaknesses in the financial management systems in most RMCs, a necessary step is to assess and strengthen the internal budget controls and financial planning procedures. A track record in the proper utilization of funds through the government financial systems has to be established to ensure confidence in them. Experience shows that improving the government procedures for budgeting and monitoring expenditures takes time, but it is a process that is necessary to build the confidence of donors and encourage them to use local financial systems.

(ii) **Pooling of Donor Funds.** Resource pooling is one of the key features of SWAp. The pooling of donor funds with government resources often referred to as basket funding is an important principle of sector-wide approaches. However, some donors manage the utilization of their resources outside the pool. Under pooling of donor resources, no differentiation is made among donor funds. The latter are no longer identified by their origin and are not earmarked for specific purposes tied to specific donor programs. The pooled resources support a common, shared program and their use is accounted for through official government channels. Donor funds are commingled with government resources and payments are made out of a common account. SWAs emphasize basket funding as a mechanism for ensuring the availability of budgetary resources, improving the government ownership of the development program, strengthening government procedures for budgetary management and planning, reducing the cost of managing donor funds and speeding up disbursements.

There are important requirements for basket funding, however. First, on the side of donors, assurances are needed that the government will use donor funds for their intended purposes. Accountability and transparency are of paramount importance. On the side of the recipient government, steps must be taken

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3 The following reference document may be consulted for further detailed information “Fiduciary Arrangements for Sector Wide Approaches (SWAps)”, OPCS, World Bank, April 2, 2002.

4 Donors, for various reasons, may not have all their resources in support of SWAp to be pooled, and then, firstly, use specific procurement arrangements such as international competitive bidding above a threshold, and secondly, apply particular disbursement procedures.
to strengthen the budgetary process to ensure that all funds can be accounted for and that their use is not diverted to low priority expenditures. The risk that the government may not use donor funds as intended has led many donors to insist on acceptable fiduciary arrangements before embarking on the pooling of funds. In addition, some donors are not participating in the pooling of funds because they lack the appropriate instrument for providing budgetary support, or they have been reluctant to adjust their own disbursement and procurement procedures and also because of the desire to maintain the identity of their funds. For all these reasons, pooling of donor funds or basket funding has not yet become a widely accepted practice. Instead, what is common is the earmarking of resources, which ties donor funds to a specific activity of output.

- **Procurement.** The harmonization of donor procurement procedures is also one of the key features of sector-wide approaches. In assessing progress in this area, the distinction is often made between the procurement of goods and works and the procurement of technical assistance.

  (i) **Goods and Works.** Experience shows that the “rules of origin” are a major obstacle to the harmonisation of donor procurement procedures for goods and works. This is a fact but it cannot be ignored because it is one the tenets of the Bank Group’s fundamental legal requirements. Because they restrict the purchase of goods and services to a limited number of countries, these rules sometimes run counter to the general principles and objectives underpinning the sectoral approach. Often, to achieve harmonization donors tend to adopt the procurement procedures of the most restrictive donor, which may not be efficient. In practice, donors and the recipient country may agree, in a memorandum of understanding, on a procurement plan, associated with a manual of procedures, delineating items to be procured under the pooled fund contracting mechanism and the non-pooled funds. Under these arrangements, the beneficiary country itself will have to be fully aware of flexibility in procurement procedures and adhere to them. Somehow, it has to be recognized that full harmonization might not be achievable in some instances, but that should not be a reason for not undertaking SWAp. It is anticipated that the ongoing harmonization of MDBs procedures, will reduce this bottleneck to effective SWAp operation. In some instances where a common donors procedure is indispensable, a waiver of existing Bank rules or procedures may be necessary in some specific areas of SWAp activities, which shall be determined on a case by case basis.

  (ii) **Technical assistance.** In contrast to the procurement of goods and works, donors have been able to establish common funds for the provision of technical assistance. There is also broad agreement among donors about what technical assistance should and should not do. More specifically, there is general agreement that technical assistance should be utilized to build local capacity thus enhancing sustainability of development.

- **Staffing.** Participation in sector-wide programs has important staffing implications for donor agencies. SWApS demand frequent interactions between development partners, the Government and other stakeholders. The importance and high frequency of these consultations mean that donor agencies need to maintain a local presence in the country with staff that can speak with authority on behalf of the donors they represent. Moreover, staff capacity may need to be upgraded or the staffing mix changed frequently to enable the donors to have a substantive and effective participation in the sector program. Finally, in view of the scope of activities under sector-wide programs, the budget for supervision has to be significantly greater than for normal projects.
3.2  **PREREQUISITES FOR BANK GROUP PARTICIPATION IN A SWAP**

A critical set of conditions has to exist before a sector-wide program can be initiated and effectively implemented. These are (i) economic and political stability; (ii) government commitment; (iii) effective country-led donor coordination mechanism; and (iv) a minimum threshold of institutional capacity.

- **Economic and Political Stability.** Because sector programs need adequate and stable financing they must be developed in an environment of low inflation rates and manageable budget deficits as well as a viable current account balance. Macroeconomic stability is therefore a key pre-condition for starting a sector-wide approach. Similarly, because of the importance of ownership and institutional capacity, the development of SWApss requires some political stability. The application of SWApss is unlikely to be sustained in countries prone to rapidly changing political regimes. A sector-wide approach cannot be done in countries in conflicts and might not be sustainable in a recent post-conflict context.

- **Government Commitment.** An explicitly stated intent to adopt an integrated approach and a demonstrable commitment (e.g: explicit commitment to avoid policy reversal, to adopt participatory/consultative approach in government decision making) to develop a collaborative process are additional requirements for starting the SWAp operation.

- **The existence of a government-led donor coordination mechanism.** As mentioned in paragraph 3.1.1 the Government should have in place a mechanism for stakeholder consultations that will ensure smooth implementation of SWAp as well as for resolving differences that may arise.

- **A minimum threshold of institutional capacity for SWAP implementation.** A country must have the required level of institutional capacity to undertake the preparation and implementation of a sector program. Moreover, although the institutional capacity could be enhanced within the SWAp program, the country must demonstrate a minimum level of implementation capacity (e.g. planning capabilities; management skills in implementing operations; existence of procedures; and, technical expertise). Under circumstances where the desired level of institutional capacity does not exist, the Bank Group, could in collaboration with the RMC and other donors, engage in assisting the RMC to develop the minimum essential local capacity, prior to embarking on a SWAp. Such support could be provided in the form of technical assistance or grant resources allocated to the RMC under capacity building programmes. The Bank Group could also use its own resources to undertake a critical assessment and analysis of the RMC’s existing institutional capacity, to determine whether starting a SWAp process is justified.
4. **BANK GROUP EXPERIENCE WITH SWAps AND THE WAY FORWARD**

A. **BANK GROUP EXPERIENCE**

4.1 Although still limited, the number of sector-wide programs supported by the Bank Group has risen during the 1990s. Using a combination of project loans and technical assistance grants, the Bank Group has financed some operations in the context of sector-wide programs prepared by countries with assistance from other donors. These operations have been concentrated in the social and agricultural sectors. It is worth noting that the experience gained from these operations have enabled the Bank to appreciate the characteristic features of SWAp and the advantages and challenges of SWAps relative to the project approach. Based on this experience, the Bank is also in a better position to address the following constraints identified while participating in SWAps.

(i) **Limited involvement in SWAp preparation**: Although the Government embarking in a SWAp has the ultimate responsibility for preparing the program, donors do provide timely assistance in the form of consulting services or undertaking economic and sector work. In its previous operations, the Bank has rarely been active in this preparatory stage.

(ii) **Limited Bank Group field presence**: Limited Bank’s presence or the absence of sector and procurement experts in the field has often been a source of constraint to effective implementation of SWAps.

(iii) **Intermittent participation in annual reviews**: The Bank has often faced difficulties in attending joint supervision and program review meetings and consultations, which serve as useful forums for all stakeholders to assess implementation progress and develop remedial measures for identified bottlenecks. It is anticipated that as more regional and country offices are established with appropriate skill mix, these problems could be overcome.

(iv) **Centralized procurement decision-making**: Until 2000, when the selection of contracts for procurement post-review was introduced, procurement process within the Bank Group was centralized, causing delays in bids approval. There is a need for the Bank to adopt more flexible procedures like other institutions such as the World Bank, where approval of procurement documentation is determined by threshold and task managers may have some authority to approve bids up to a certain amount.

(v) **Rigidity in the use of Special Accounts**: In most cases, the Bank Group replenishes Special Accounts only when the Borrower is able to justify at least 50% of the initial disbursement. In other institutions such as the World Bank, replenishment of the Special Account is made regularly (several times a month), depending on the amounts that the Borrower is able to justify on the basis of statements of expenditure;

5 Ethiopia: Primary Health Care; Ethiopia: Education III; Uganda: Health Sector Strategic Plan (ADF/BD/WD/2000/86); Zambia: Agriculture Sector Investment Programme (ASIP) (ZAM/PAA/96/01)
(vi) General Budget Support: Within the context of the PRSP, many donors are currently providing their development assistance using the general budget support approach. The Bank has conditionally embraced the approach in principle, noting the importance of transparent fiduciary systems. As fiduciary systems in RMCs improve, the Bank is likely to use this instrument in its PBL and SWAp operations.

B. THE WAY FORWARD

4.2 To-date the Bank Group involvement in SWAps has been limited and confined to financing of projects within programs developed by other donors working with the relevant RMC. Therefore, the decision to play a more active role in SWAp, which gave rise to the need for these guidelines, will have several short- and medium-term implications on the Bank’s resources, policies and procedures. The following summarize highlights of some of the key implications:

- **Staffing implications**: SWAps involves the maintenance of frequent and regular interaction between donors, governments and other stakeholders. To be effective under these operational circumstances, the Bank Group would necessarily have to make more efficient use of its limited human resources, ensuring appropriate skill mix of the sector team. Starting from the identification phase of the SWAp (which should have, a priori, been analytically justified in the relevant country’s CSP), a multi-disciplinary team must be assembled and actively engaged throughout the SWAp cycle. Notionally, the skill-mix of the team could comprise: one or more sector specialists depending on the complexity of the operations, a macroeconomist, a sector economist, a public finance specialist, a procurement expert, a legal adviser and when necessary an expert on institutional issues.

  It is anticipated that the pooling of the Bank’s experts in this manner would lead to efficiency gains in the use of human capital and contribute to better implementation of the SWAp and its contribution to development impact. The high frequency of consultations, among donors, and the desire to play an active and meaningful participation, does justify that donor agencies, where feasible, maintain a local presence in the country with staff that can speak with authority on behalf of the donors they represent.

- **Field Presence**: The Bank Group would ideally enhance its effectiveness with strong presence in the RMCs. In this regard, the process of re-establishing field presence has commenced and is being progressively expanded. However, in a situation where field presence is not yet in place in a country where the Bank has undertaken to join a SWAp program, efforts will be made to ensure that the Bank participates in donor coordination meetings, including program supervision and review missions. In these circumstances, the Bank would also take measures to strengthen its collaboration with other donors present in the country, using their offices and facilities through a system of mutually agreed “delegated cooperation”. Above all, in addition to these options, the Bank is proactively continuing to upgrade and expand the size and skills mix of its staff to carry out regular and meaningful supervision which will be further reinforced by periodic joint reviews to be undertaken in collaboration with other donors.

- **Bank Group lending programme**: Beyond the initial teething problems involved in preparing and launching SWAps, it is anticipated that these operations would have positive impacts on the Bank Group’s Lending program. First, SWAps facilitate efficient combination of several
instruments (loans, grants, SECALs), leading to more cohesive intervention; second, the existence of a SWAp program would enable the Bank to plan and develop lending operations beyond an ADF-cycle; and, third, appropriate combination of instruments would lead to virtuous synergy in impact of operations, thus enhancing the development impact of Bank Group operations.

- **Budgetary resources**: Bank Group involvement in SWAps will entail some tradeoffs in resource use and impact of operations. The adoption of these guidelines would result in more proactive and prominent role by the Bank Group in the relevant RMCs: where appropriate, becoming the lead donor; participating in regular donor and/or donor/government consultations and coordination meetings at field level, more frequent missions by Bank staff. Consequently, there would be a need for additional budgetary resources to finance these activities, including, ESW and, during implementation, some selective studies and workshops that might arise. It should be noted, however, that the use of SWAps does result in some budget savings, by minimizing the number of individual projects that should be prepared, within the same sector, whose costs of preparation, appraisal and implementation would have been much greater than costs related to the preparation and implementation of SWAps.

- **Policies and procedures**: In order to ensure effective participation in SWAp, the Bank Group may be required to harmonize its disbursement and procurement policies and procedures with those of other donors. Flexibility in the application of procedures in these two important areas will be critical if the Bank is to fully and meaningfully participate in SWAps. In some instances a waiver of existing Bank rules or procedures may be necessary in some specific areas of SWAp activities, which shall be determined on a case by case basis.

5. **PREREQUISITES FOR BANK GROUP FUNDING OF SWAp OPERATIONS**

5.1 The prerequisites for Bank Group commitment of funds for sector programs derive from the key imperatives of the SWAp process discussed above. Specifically, for effective Bank Group participation, the following supportive structures and institutional frameworks must be in place, though not necessarily created by the direct intervention of the Bank Group itself:

- **Sector Policy framework**: A comprehensive sector policy framework must have been developed through a rigorous analysis of the sector, describing the current sectoral setting, constraints, policy priorities, the strategy and a consistent program.

- **Collaborative process**: A genuine collaborative process would have been established, and wide consultations with stakeholders should have taken place with agreements reached on the program priorities.

- **Expenditure framework and adequate level of resources**: A public expenditure review should have been completed, providing the basis for defining an appropriate resource envelope in a consistent macroeconomic framework. Agreement should also have been reached on targets for adequate budgetary allocation to the sector as a whole through wide consultations with stakeholders. In addition, a medium-term expenditure framework should be in place to ensure that adequate resources are mobilized and available to the sector program.
• **Institutional capacity analysis:** Institutional capacity assessment must have been completed and a common understanding reached on the availability of minimum threshold of implementation capacity warranting the commitment of Bank Group funding. Any existing gaps in institutional capacities must also have been identified and a tentative remedial program outlined.

• **Performance monitoring indicators and data monitoring system:** To ensure that SWAps would contribute to development effectiveness, a set of monitorable sector performance indicators must exist to guide and ensure development relevance of Bank Group interventions in the sector. In addition, there should also exist an efficient data collection system, forming the basis for determining inputs and measuring outcomes and results. Accordingly, the sector performance indicators should have desirable attributes such as being: quantifiable, consistent, time bound, clear and easy to collect. Attributing sector performance to improvements in policies and processes is not easy and establishing information systems with data meeting the above requirements takes time. However, efficient monitoring and evaluation systems are essential for the sustainability of sector-wide programs, and their development should receive close attention. Information on results will be disclosed in accordance with Bank Group information disclosure policy.

• **Joint reviews:** Joint reviews are operationally imperative in order to ensure coordinated response to implementation problems that might arise. The mechanisms for joint assessment of the sector program, joint reporting, dialogue and resolving policy and operational issues need to be in place and functional. Experience suggests that before commitment of funds in support of the sector program, every effort should be made to take into account and plan for contingencies such as macroeconomic shocks and staff turnover to which sector-wide programs are particularly vulnerable on account of their wide scope.

• **Identification of the appropriate instruments for Bank Group Intervention:** Given the diversity of a sector and the need for a SWAp to holistically address sector issue, no single instrument will suffice. Instead, a combination of lending instruments (loans, policy-based operations and grants) will be used in support of a SWAp. It is very likely that specific components of the Public Investment Programme pertaining to the sector can still be financed using project loans. Grants can be utilized for technical assistance needed for institutional capacity building activities. Furthermore, a SECAL could be used in support of reform programs needed to create a favourable environment for investment, public and private. Ideally, where the appropriate public finance governance structures and fiduciary mechanisms are in place, the Bank, along with other donors, could channel its resources through a SWAp using the budget support instrument. In these respects, there will be a need for proper sequencing of activities and lending instruments in accordance with the operating environment in the relevant country and specific sector.

• **Staffing:** As indicated in the previous section, the staffing needs must have been adequately addressed, and the required resources secured.

5.2 In addition to the above, there are several other requirements which, though not imperative, are nonetheless desirable for effective management of Bank Group involvement in sector-wide operations.
These issues relate to the pooling of donor funds and the harmonisation of donor procedures on financial management and procurement. These issues are outlined below.

- **Pooling of donor funds.** Pooling of donor resources is a major feature in SWAps, however, progress towards achieving this level of resource harmonization has by and large been slow, with donors moving at varying speeds. Consequently, having donors reach agreements on pooling of funds is not an essential condition for commitment of Bank Group funding. Where the necessary fiduciary arrangements and accountability mechanisms are in place, Bank would pool and encourage other participating partners to pool their resources in the sector budget.

- **Harmonization of donor procedures for financial management and procurement.** The harmonization of donor procedures has emerged as a key issue in recent years, particularly in the context of helping low-income countries implement their poverty reduction strategies. While progress can be noted in some areas, harmonization of donor procedures in the areas of financial management and procurement remains a medium to long-term goal. Hence, though desirable, harmonized donor procedures for financial management and procurement is not a precondition or an imperative for commitment of Bank Group funds for sector-wide programs. In practice, for contracts and transactions involving large amounts, the Bank Group shall seek to maintain transparency and a level playing field by using international competitive bidding (ICB). For transactions below the threshold for ICB, the Bank could, where appropriate and where transparent systems exist, procure using local procedures or align its procedures with those of donors participating in the pooled account. Such procedures are expected to maintain acceptable standards of economy, competition, transparency and efficiency. It is anticipated that in the course of a SWAp preparation, the participating donors (including the Bank Group) and the borrower would agree on common rules and procedures to guide the operation.

6. **THE SWAp CYCLE AND THE REVIEW PROCESS**

6.1 In addition to the pre-conditions for a SWAp operation, the existence of a sector policy framework and a sector development program within the PRSP of the relevant RMC is critical. Furthermore, the agenda must be underpinned by an in-depth Economic and Sector Work carried out by donors including the Bank Group. Above all, Bank Group participation in a SWAp should always be undertaken in the context of the member countries’ medium- to long-term development and underpinned by the analysis in the CSP of the particular country.

6.2 Notwithstanding these prerequisites, the actual preparation of a proposal for Board consideration must also comply with all the requirements of a normal project/program management cycle as contained in the Operations Manual. Following Board approval of the present framework guidelines, POPR, in close collaboration with staff of the operations complexes, will prepare an annotated format for SWAps.
6.3 The SWAp cycle

i) Identification: Once the sector has been identified in the Bank Group strategy and included in the Bank group assistance programme, based on the relevant scenario, the preliminary work of assessing the degree of preparation of the proposed SWAp in the country would be undertaken by the designated team. In particular, the preconditions must be assessed before even any other document being internally prepared for management consideration. As outlined in sections 3.2 and 5.1 irrespective of whether the Bank Group is expected to take a lead role or just participate in a SWAp, some amount of advance planning will be done before a SWAp operation may commence. One of the key elements that require careful and thorough assessment by the identification mission is the state of available local institutional capacity in the RMC, that allows effective implementation of the proposed sector wide programme. The Bank Group identification mission should, in collaboration with the RMC and other participating donors, evaluate the government’s institutional capacity and determine whether there is a minimum threshold of capacity for SWAp implementation or none at all. In the event that the required capacity is not available, the team should, as proposed in Section 3.2 above, consider any measures or interventions that the Bank Group could take, (preferably in collaboration with other donors) to assist the RMC acquire the desired minimum level of local institutional capacity, prior to engaging in to a full-fledged SWAp.

ii) Inclusion of a SWAp in the lending programme, leading to its preparation: The authority to undertake the preparation of a SWAp should, for reasons of efficiency in resource allocation and management, program coherence and sustainability, be vested in the relevant Vice President of the Operations Complexes. Once a SWAp has been identified, under the guidance of the relevant department, the SWAp team, with the appropriate skill mix, would then draft an Initiating Memorandum (IM), which, among other contents, would confirm that the necessary conditions for starting a SWAp have been met. The IM will also specify the various components that the SWAp program would cover and the level of Bank Group involvement, underlining the need for selectivity and taking into account the Bank Group’s experience in the sector. The advantages of the sector-wide approach, its risks as well as possible mitigating factors would also be highlighted in the IM. The format for the IM is attached as Annex I to these guidelines. In addition, the IM would outline any institutional weaknesses identified during the exploratory survey of the sector and specify remedial measures that would be implemented during the course of the operation. The IM would be submitted to the Senior Management Committee (SMC) for its clearance and authorization before any further processing steps are undertaken. Following the SMC approval of the IM, the preparation process would commence.

iii) Preparation: From the outset, the Government, in close consultation and cooperation with the Bank, will assume responsibility for the preparation of the SWAp. The preparation of a SWAp operation will be done in a participatory manner, with due consultations with all stakeholders, including civil society and private sector representatives. The Bank will, however, be expected to provide policy advice in the form of problem solving technical assistance and the preparation of background studies. As is the case

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6 RMCs that meet High Case Lending Scenario may be the most suitable for SWAP operations. It is also very likely that countries qualifying for the base case scenario, may qualify for inclusion of SWAp. Low case scenario countries will not be considered for a SWAp operation.

7 It is recommended that the team check at this stage the status of the standard documents of the fiduciary review as listed in paragraph 3.1.3.1 and indicate clearly the remaining tasks to be undertaken in this area.
with other operational documents, the preparation report\textsuperscript{8} will be drafted with the relevant background draft documentation: Statement of sector strategy with matrix of measure and indicators (to be annexed to the report), draft memoranda of understanding on common programme, common procedures, coordination mechanisms, fiduciary arrangements, procurement arrangements and plan, etc. which will be part of the SWAp execution file. Because the SWAp is programmed over some years, the lending instruments to be used in sequence have to be clearly spelt out. An important factor about a SWAp is that it provides a framework for interventions in the sector during the program period which may span over more than one ADF cycle. Once the framework has been approved it then subsequently serves as the basis for seeking authorization from the Boards to finance lending operations (projects, programs, capacity building and studies, etc) in a sequential order during the SWAp period. Each operation prepared under the framework, will necessarily be in accordance with the various Bank Group financial regulation and will be subjected to the same internal review process as any other operation undertaken in the Bank in support of the development agenda of RMCs. The Bank will participate in joint preparation missions.

iv) Appraisal: Following the preparation report and the resolution of any outstanding issues, and in line with the provisions of the Initiating Memorandum, a joint appraisal mission will take place and the relevant report prepared. The Appraisal report will be subject to the Bank’s review process, going through the SWAp team review, the Internal and Inter-Departmental Working Groups and SMC, which will provide the ultimate guidance. If need be, the SMC may require the team to hold further discussions with the relevant RMC and other participating donors.

v) Program Completion: As is the case with all Bank Group operations, a SWAp cannot be deemed completed until a joint country/donors completion report has been prepared. This will form the basis for drawing lessons and, subsequently informing impact exercises by OPEV.

6.4 The Review Process of a SWAp

6.4.1 All reports emanating from a SWAp operation will be subjected to the Bank Group’s review process. The Issues Papers, the initiation memorandum, identification, preparation and appraisal reports will all be presented to the relevant working groups.

6.4.2 Joint reviews: One of the important requirements for effective implementation of a SWAp is the institution of joint reviews involving the country authorities, concerned stakeholders and the donors supporting the SWAp. In addition, there will be regular supervision missions and mid-term reviews to assess progress towards the attainment of agreed performance indicators. To ensure adequate budgetary allocation to the relevant sector, one of these reviews will take place during the time leading to the presentation of the annual budget to Parliament or any other appropriation decision-making authorities. The results and decisions of the joint reviews shall be reflected in joint aide-memoirs of the government and the participating donors. Furthermore, there should be periodic workshops organized to assess implementation progress, underpin implementation problems and initiate studies and remedial solutions.

\textsuperscript{8} The annotated outline of the SWAp appraisal report used also for the preparation report will be available once the Guidelines are approved.
7. **RISKS AND MITIGATING MEASURES**

SWAp's may entail some risks among which, from prior experience, the following stand out and are noteworthy.

7.1 **Lack of implementation capability by the RMC:** Assessing implementation capacity of SWAp beneficiary country is based on objective assessments. However, situations may arise where the assessments are wrong or based on wrong assumptions which overestimate the implementation capacity of the country. In situations where implementation experience suggests that the required capacity threshold is not available, technical assistance can be provided to mitigate the risk during the course of implementation of the SWAp. Since the primary responsibility for SWAp implementation rests with the relevant RMC, this risk should not be overlooked or minimized. It would be advisable for the Bank Group not to undertake a SWAp if this constraint is too obvious and cannot be resolved over a reasonable time frame.

7.2 **Governments unable to honor their budgetary contribution:** One of the key factors that determine the successful implementation of SWAp is the availability of adequate funding by donors and by the recipient country. The difficulty for RMCs to contribute their share at the agreed level and time could be a possible risk for a SWAp. The mobilization of resources by the Government might have been overestimated and the degree of instability of government revenues not well assessed in regard to exogenous factors or external shocks. Macroeconomic stability and financial viability are therefore crucial to the SWAp. It is therefore important that no SWAp should be undertaken without a sound macroeconomic and financial medium-term framework endorsed by major donors including the “Bretton Woods” Institutions. However, should stabilization measures be required, an ongoing SWAp could be restructured focusing on key activities, its scope eventually downsized and its funding reduced.

7.3 **Change of Policy:** A SWAp rests upon a strong commitment by the recipient country to define and maintain an agreed sector policy framework with donors, based on the three pillars, namely: the policy, the sector strategy and the program. A recipient country Government may in the course of implementation of SWAp deviate substantially from the comprehensive framework making the operation difficult to achieve its stated objectives. In some instances, policy reversal may even occur negating results already achieved in the sector. The seriousness of the problem will call for different types of remedial actions. In such cases, the normal consultation mechanism can be used, up to a point, provided that corrective measures are taken swiftly and decisively by the RMC. On the other hand, policy reversal may lead to the termination of the SWAp.

7.4 **Lack of commitment by Donors:** Although donors agree on SWAp before it starts the initial supportive attitude of some donors may change during implementation. The lack of commitment can affect the availability of technical, human and financial resources. Some donors may be confronted with unforeseen circumstances forcing them to withdraw partially their support from the SWAp. Significant shortfall may in fact lead to the termination of the SWAp. Strong and sustained donor coordination is a prerequisite for a SWAp that can minimize the possibility of this risk.
8. CONCLUSIONS AND RECOMMENDATION

Conclusions

8.1 The proposed Guidelines form part of the Bank Group’s continued efforts to operationalize the Vision and the Strategic Medium-term Plan for the 2003-2007 period, with the overarching objective of achieving sustainable development and poverty reduction. Sector-wide approaches are not only consistent with the strategic orientations of the Bank Group, they are central to member countries’ comprehensive development strategies as outlined in the PRSPs of these countries. As part of the efforts to increase its development effectiveness, the Bank Group has explicitly indicated that it could use SWAps in its assistance strategies to RMCs in the implementation of their poverty reduction strategies. SWAps are increasingly becoming one of the key instruments for forging strong donor coordination, building country ownership and improving the allocation and utilization of government and donor resources.

8.2 The successful preparation and implementation of SWAp operations along the guidelines outlined in this report will require the Bank Group to appropriately position itself in terms of the number and skill mix of staff and budgetary resources allocated to these operations. Successful implementation of SWAps may also entail pragmatic adjustment and adaptation of the Bank internal policies, procedures and institutional arrangements.

8.3 These Guidelines are anchored on the increased focus of the Bank Group on selectivity of interventions, country ownership of the development process based on stakeholder participation and consultation, donor coordination and partnership, and on improved and efficient allocation of resources, leading to enhanced development effectiveness of Bank Group operations. They are designed to enable a fuller participation of the Bank Group in sector-wide operations in line with its lending policies.

Recommendation

8.4 The Boards of Directors are invited to approve the proposed Guidelines for Bank Group participation in SWAps.
Proposed Format for the:
INITIATING MEMORANDUM FOR BANK GROUP OPERATIONS USING SECTOR WIDE APPROACH PROGRAMME (SWAp) (7 to 10 pages)

1. **Introduction**
   1.1. Background
   1.2. Objectives of the mission

2. **Macroeconomic, structural, sectoral and social constraints**
   2.1. Context of economic policies and prospects
   2.2. Real sector, prices, wages and inflation
   2.3. Financial sector

3. **Sectoral Analysis**
   3.1. Status
   3.2. Constraints
   3.3 Medium term strategy of the Government
   3.4 Financing Requirements

4. **Areas of mission concentration**
   A. Overall programme
   B. Focus of ADB participation
      Policy
      Investment
      Capacity Building

5. **Organization of the mission**
   Specify the main organizations/institutions to be contacted
   Composition of the Mission

6. **Indicative schedule of main steps**

**Annexes**
Project brief
Matrix of project
Annex II

Selected bibliography


