RWSSP Monitoring & Review Group Feb 2008

Timor-Leste

AusAID Rural Water Supply & Sanitation Program (RWSSP)

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Final Report

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Summary of MRG Recommendations

No.	Para	Recommendation	Action by
1	8	Ensure balance of emphasis between sanitation and water sub-sectors	IDSS
2	10	Disconnect between policy ambitions and current capacity to achieve MDG-related water & sanitation targets needs analysing, and a policy determined	RWSSP, GoTL & SWGs
3	12	Revised timeframe for early phases	IDSS + AusAID
4	19	Additional components, beyond those in the Program Concept Design, to cover wider sector program issues should be included in final design – particularly public expenditure & financial accountability / MTEFs and public sector reform / capacity-building / workforce planning.	IDSS
5	20	Post's role in engaging in policy dialogue & resource implications	AusAID Post
6	21 23	RWSSP should support the development of a government-led sector program built on the five fundamental principles of program based approaches, and skill sets must reflect this	IDSS
7	25	RWSSP requires skills in public expenditure & financial accountability / MTEFs in both the design and implementation phases	IDSS
8	26	RWSSP design should capture the support requirements of sector and donor coordination	IDSS
9	29	Consideration is given to the need for / relevance of a sector coordination unit / sector secretariat.	GoTL + support of RWSSP
10	34	RWSSP governance structures should be revisited	IDSS
11	38	AusAID must concern itself with *sector performance*, not just program performance	AusAID Post

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This Visit and its Report

1.   The interim Monitoring & Review Group[1] (MRG) visited the Timor-Leste Rural Water Supply & Sanitation Program (RWSSP) from 4 to 8 February 2008, the first such MRG visit. The intention is that a permanent Monitoring & Review Group (including Government representatives) will be formed in due course to provide oversight and guidance on a regular basis, over the life of the program.

2.   The Managing Contractor, IDSS[2], is currently five months into the 7-month Design Phase of an envisaged 10-year program of AusAID support to the sector and is developing the program's Strategic Framework: these MRG observations and recommendations, if approved, will thus feed into the finalisation of the program's design.

3.   The MRG attended a multi-stakeholder sector planning workshop organised by the RWSSP, held meetings with senior government officials from the Ministries of Infrastructure, Health, and State Administration, met with other agencies and NGOs involved in the sector (ADB, UNICEF, WaterAid) and the AusAID-funded Public Sector Capacity Development Program, and held a number of discussions with the RWSSP / IDSS team and AusAID Post. An Aide Mémoire summarising the Group's principal observations and recommendations was presented to a meeting of sector stakeholders in Dili on the last day of the mission. A list of persons met is at Annex 3.

4.   The IDSS team have undertaken rigorous and far-ranging stakeholder consultations on design issues and themselves constitute a wealth of experience and expertise both in the sector and in Timor-Leste. We are confident that from a sectoral perspective the team is pursuing best practice in the analysis and design of the program and congratulate them on their work to date.

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[1] Pending the identification and recruitment of a permanent Monitoring & Review Group, the *ad hoc* MRG team comprised Peter Bazeley (independent consultant and Team Leader), Carol Bellew (IDSS Operations Manager and Melbourne-based RWSSP Project Director), Gerard Cheong (AusAID Policy Officer, Canberra), Marcus Howard (AusAID Infrastructure Adviser, Canberra) and Colin Wiltshire (Activity Manager, East Timor Section, AusAID).

[2] IDSS: International Development Support Services Pty Ltd, the consultants contracted to design and manage the program.

5.	The MRG therefore concerned itself, on this visit, with broad conceptual issues rather than detailed design matters. In particular the group was interested in the program's policy and institutional context, its alignment with contemporary expectations as to the scope, scale and modality of sector support programs, and the configuration of the program in terms of aid effectiveness – particularly in the context of Australia's evolving priorities and commitments both in the water & sanitation sector and in Timor-Leste. (Summarised at Annex 2.)

Context

6.	A number of new or changed contextual issues are important in the conceptualisation and design of the program, and warrant the team being afforded additional time to complete the design:

7.	Firstly, of course, the 11 February security incident and its repercussions will inevitably cause some pre-occupation within government agencies and RWSSP will need to be sensitive to that in bringing the design phase to conclusion. (The incident also highlights the fragility of Timor-Leste's institutions.)

8.	Secondly a significant reorganisation of ministerial portfolios, following the formation of the new government in 2007, now means that the RWSSP will be working across two lead ministries instead of one[3]. (The Ministry of Infrastructure for rural water supplies; the Ministry of Health for sanitation.) (Indeed – it already is with the RWSSP Environmental Health Adviser substantively engaged with the MoH.) It seems likely that the two 'sub-sectors' will run at somewhat different paces, in that the two ministries' sector policies are at different stages of development. (RWSSP also needs to ensure that there is an appropriate and complementary balance of activity and resources within the program between the two sub-sectors. [**Recommendation 1**.])

9.	The change of government and the fragility of Timor-Leste's new state institutions have resulted in fragmented and imprecise interaction with program design to date, adding to the need for further time.

10.	Thirdly, and crucially, there is a disconnect between the policy ambitions of the National Development Plan, as regards water and sanitation, and the maximum possible capacity of existing institutions to deliver at that scale. This represents a fundamental policy issue, discussed further at See 40 to 42 below, which needs to be analysed and resolved (**Recommendation 2**) – presumably via the Sector Working Groups (SWGs) – before the scope, scale and approach of the RWSSP can be finalised. On one hand we have the entirely laudable policy aspirations of rapidly achieving mass access to water and sanitation; on the other we have scale-limiting objectives of working within existing institutions and a quantitatively limited [mostly NGO] contractor base.

11.	Fourthly, as discussed further below, there is probably the need to reflect further on some of the implications of pursuing a program-based approach that were

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[3] In fact the RWSSP now sits across 7 units of government.

not captured in the contractor's original Terms of Reference – in particular the as yet poorly defined interface with sector policy and public expenditure frameworks, and the relationship of any capacity-building inputs to wider public sector reform and management.

12.   These important contextual shifts and emphases suggest that a different time-frame needs to be considered for the early phases RWSSP: one on hand maintaining momentum with current activity with stakeholders while extending the development of a program strategic framework over a longer period such that it can better reflect (and support) the concurrent development of government policy and sector-wide strategy. (**Recommendation 3**.)

Constructing a Sector Program

13.   Explicit in the Program Concept Design is an intention to *"progressively move towards a pure **Program Approach*** (see Box 1 below) *as and when the GoTL have the capacity for this to occur"*. This has been interpreted as the development of a Sector-Wide Approach, or SWAp, for the rural water and sanitation sector. Annex 1 discusses some of the generic concepts of [sectoral] program approaches.

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Box 1

Program Based Approaches

(From the OECD DAC Guidelines on Harmonising Donor Practices for Effective Aid Delivery, Volume 2: Sector Wide Approaches. See www.oecd.org/dac/harmonisingpractices.)

*A **Program Based Approach** (PBA) is way of engaging in development co-operation based on the principle of co-ordinated support for a locally owned program of development, such as a national poverty reduction strategy, a sector program, a thematic program or a program of a specific organisation.*

PBAs share the following features:

- *Leadership by the host country or organisation;*

- *A single comprehensive program and budget framework;*

- *A formalised process for donor co-ordination and harmonisation of donor procedures for reporting, budgeting, financial management and procurement;*

- *Efforts to increase the use of local systems for program design and implementation, financial management, monitoring and evaluation.*

*A **Sector-Wide Approach** (SWAp) is a Program-Based Approach operating at the level of an entire sector.*

*A **Sector [Development] Program** is a specific, time-bound and costed set of actions and activities which support a sector strategy (i.e. the "single comprehensive program and budget framework" of a PBA, which incorporates both government and donor resources).*

*Donors may have special terms for their own instruments that support a sector development program (for example, the European Commission refers to its own instrument as a "**Sector Support Program**"). It is important to be clear, however, that neither a sector-wide approach nor a sector development program is an aid instrument.*

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14.   SWAps and Program-Based Approaches represent **a way of working** in pursuit of more efficient, effective and higher-impact development, and represent a favoured means of encouraging the development of a coherent, comprehensive and properly-budgeted, government-led, **Sector Program**, behind which multiple donors can align themselves. A SWAp is likely to be supported by a combination of government and [multiple] donor resources, with different donors employing a **variety of aid instruments** at different times and in support of different aspects of the sector program – from donor-managed projects through, perhaps, basket- or pooled-funds to forms of budgetary support.

15.   Whatever the terminology or modality, the important point is that we must be moving towards a much more government-led model of development assistance, based on robust policy and expenditure frameworks, with development partners aligning themselves behind sector-wide planning and prioritisation processes in more harmonised, efficient and effective ways.

16.   Some of the RWSSP literature is slightly ambiguous in its language about the 'program'. In particular, we need to be clear about the role and limits of the *'Program Strategic Framework'* being prepared as part of the RWSSP design phase. RWSSP might be envisaged as falling within the following cascade:

⇨ The government develops and sets a **policy** for water and sanitation: its ambitions, priorities and targets.

A **Medium Term Expenditure Framework** (MTEF) identifies the budgetary implications of that policy and the [multiple internal/external] source of funds (and funding gaps).

A government-owned **Sector Program** sets out the strategy ('the right thing in the right place at the right time') for achieving the intended policy outcomes within the agreed MTEF. **Capacity-building** will almost certainly form an essential element of this strategy.

The [government's] Sector Program is delivered by government and [multiple] donors pursuing a coherent and coordinated, government-led, **Sector Wide Approach** (**SWAp**) (i.e. a Program [Based] Approach at sector level) to planning and programming.

AusAID designs and implements a bilateral **Sector Support Program** – in this case the **RWSSP** – to configure and deliver *its contribution* to the government's sector program, working with others through the SWAp.

Partners and sub-contractors implement **projects** and other activities under the RWSSP (and other government or donor sector support programs).

17.   An important consideration, however, is the need for, and mandate of, donor sector-support programs to contribute also, over and above any technical and infrastructural works and services, the higher-level tiers of planning and

programming. Thus, it would be normal to expect a major sector support program such as RWSSP explicitly to include in its design support to:

- Policy analysis, development and reform;

    Typically through support to Sector Working Groups, the commissioning of analytical and policy research studies, support to parliamentary and other committees, etc.

- Strengthening public expenditure management and financial accountability; and

- The construction of comprehensive Medium Term Expenditure Frameworks for the sector;

    Often through the provision of training and medium-term TA at both the central [finance] ministry and in sector ministries

- The development of the government's Sector Program and strategy -over time and as an iterative process;

    Through close collaborative working at the top end of government, exposure to models of 'best practice', etc.

- The process of constructing a SWAp: facilitating dialogue between government and donors and sector stakeholders, and among donors, over priorities and strategies for delivering on policy ambitions;

    Often through some form of sector coordination unit or secretariat – covering the technical and financial transaction costs of introducing new ways of working under a sector program

- Government taking the lead in donor coordination, as well as the 'donor side' of donor coordination: harmonisation, development and roll-out of more efficient aid instruments, developing common positions on important policy issues, etc..

    Also often through some form of sector coordination unit or secretariat; a donor 'Code of Practice' is often developed

(Including, of course, support to the government's strategy for building capacity in all those areas.)

18.   The RWSSP Program Concept Design does not explicitly provide for such critical elements of developing a Sector Program through a SWAp – or, even, the contextualisation of the AusAID contribution as part of such an approach. Currently the four 'components' of the RWSSP comprise:

    i.   Capacity building of the sector (OK - but see paras 35 to 37 below);

    ii. Hygiene and sanitation promotion;

    iii. Rural water supply & sanitation delivery;

    iv. Program management (presumably the AusAID RWSS Program).

19.   The MRG recommends (**Recommendation 4**) that additional components, and where necessary skill-sets, are built into the final RWSSP design to cover the activities highlighted in 17 above.

20.   It is also important to be clear over the role that donors' contractors play, and the role of the Post. While a contractor will usually be best placed to do much of the day-to-day running on these themes, it is important that the donor itself engages wholesomely in sector policy dialogue and both informs and is informed by the development of a mutually agreed strategy for sector development. For this the Post needs to develop a robust relationship with government at policy level, which may have resource implications. (**Recommendation 5**.)

21.   The MRG recognises that it is early days in development of a comprehensive government policy and strategy for the combined water and sanitation sectors; even more so for the establishment of a coherent sector program and medium term expenditure framework. (Although there has of course been considerable and productive engagement by government with RWSSP over these issues.) Neither has there yet been any decision taken on the construction of a SWAp by [the present] government or the wider donor group. However, this must surely be the direction that the future takes and the MRG strongly recommends that the final design of the RWSSP anticipates this, and also anticipates a lead role for the AusAID program (and Post) in championing such an approach. As presented in Annex 1, through its support to government RWSSP should (**Recommendation 6**) seek to ensure (while still delivering on its essential infrastructure and service-delivery functions) that a wider government-owned sector program is constructed around the five core elements of:

   i.   A sound sector policy and strategy;

   ii. A comprehensive sector budget and medium term expenditure framework;

   iii. A mechanism for robust sector coordination. An important sub-set of this is government-led *donor* coordination.

   iv. A comprehensive government strategy for building the capacity and capabilities to deliver the government's policy in the sector.

   v.   Results-based performance monitoring of sector outcomes.

22.   These are elaborated further below.

Sector Policy

23.   While understated in the Program Concept Design, the development of robust sector policy is central to, and the foundation of, any sector support program. While operational works and capacity-building will probably constitute the bulk of the program's expenditure, RWSSP's must be pitched such that it is effectively analysing, informing and supporting the development of sector policy and strategy, and championing the alignment of service delivery, projects and investments behind that. This will form the most crucial aspect of the RWSS program, and skill sets must

reflect this. (**Recommendation 6**.) Government has already engaged RWSSP on this through its dialogue on the Program Strategic Framework.

24.   The current discrepancies in baseline data, coupled with – apparently – over-ambitious policy ambitions in terms of achievement of MDG-linked water and sanitation coverage, present an immediate and crucial policy issue that the RWSSP can help analyse and inform. (See para 40 below.)

Medium Term Expenditure Frameworks

25.   The translation of policy into delivery is ultimately defined by comprehensive medium term expenditure frameworks (MTEFs) that reflect the totality of the sector's capital and recurrent costs (in terms of implementing agreed policies), the source of funds and the identification of funding gaps. So, similarly, the RWSSP must be able to contribute to the analysis and development of sector expenditure frameworks, their relationship to budgetary processes, and the centrality of MTEFs in accounting for the delivery of public policy and expenditure choices. TORs in the current Program Concept Design do not reflect this, but the final design of the RWSSP certainly should. Skill sets even for the design phase of the RWSSP do not cover public expenditure and financial accountability: the MRG recommends that these are brought in to assist in program design, and probably in the longer term too. (**Recommendation 7**.)

Sector Coordination

26.   Sector coordination has two distinct elements, support for which the design of RWSSP should capture (**Recommendation 8**):

27.   Firstly there is the need to **plan, sequence and coordinate sector strategy** across different units of government (Health, Infrastructure, etc.)[4] and levels of government (as decentralisation and deconcentration of public services evolves). This will relate both to coordination across sector institutions, and to longitudinal adjustments over time in response to evolving external factors – for example the extent of private sector capacity and penetration into a sector, social and political factors, etc.

28.   Contemporary literature cites a lack of 'development coordination' (which does *not* in this context mean *donor* coordination) as one of the key missing elements of the institutions of traditional government structures where sector outcomes – and people's livelihoods – are determined by multiple factors falling outside the mandate of any one ministry. For this reason sector programs are sometimes coordinated by central planning or finance ministries rather than the sector ministry itself. (Something that is often resisted initially by the sector ministries involved.)

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[4] RWSSP in fact sits across *seven* different areas of government, each progressing policy reforms at different rates.

29.   Many sector programs include some form of 'sector coordination unit' or 'secretariat' to assist in the commissioning of analytical work, development of policy papers and in promoting stakeholder and cross-government policy dialogue. Such a unit should not be seen as a Project Implementation Unit (parallel to government structures), but rather an additional resource to support existing units of government through the particularly large demands on them implicit in the development of a new 'policy-intense' sector program. This might be a role that RWSSP could fulfil or at least support, and its need / relevance should be further considered. (**Recommendation 9**.)

30.   Implicit in all this, of course, is clarity in the first place as the boundaries of the 'sector' in question. (In the past sector programs have often been defined on the basis of the functions and budget of a single sector ministry. However this fails to capture the multi-factorial determinants of livelihood outcomes and much broader and multi-institutional sector programs have developed.)

31.   Secondly there is a need to invest in **donor coordination** within the sector. While this should again be government led, there is a role to play for a lead sector support program such as RWSSP in helping government to manage donor coordination. While government should organise and chair consultative groups, high-level meetings, working groups and similar arrangements, donors can usefully support the coordination process financially and technically.

32.   A donor working group should also be established (which RWSSP could facilitate if no other donor is interested). The challenge is not to get bogged down in the minutiae of project implementation, but to focus on developing complementarity of action based on common analysis, promoting multi-year programming of aid, adopting common performance indicators, building a common framework for cooperation, sharing and disseminating information on aid flows and programs, and together supporting government's leadership of aid coordination. (Refer to DAC guidelines.)

33.   Importantly the RWSSP's governance structures need to reflect the principles of harmonisation and alignment behind a government-led sector program that also involves other players. That is to say AusAID should minimise the number of high-level fora devoted solely to the direction and oversight of the RWSSP (for this sort of direction should be drawn for the government's own policy and strategy), and should aim to integrate the activities of the RWSSP into the regular management structures of partner institutions. So, for example, the Policy Steering and Reference Group (PSRG) envisaged in the Program Concept Design, to be chaired by a Minister, should perhaps not be an AusAID RWSSP governance body but a coordinating body for [government's] sector program as a whole.

34.   The MRG recommends (**Recommendation 10**) that the design team re-visit governance and management arrangements set out in the program Concept Design to bring them more in line with a government-led program approach.

Capacity Building

35.   Building enduring institutional capacity to deliver on policy objectives is central to any sector development program. The challenges of scaled-up policy development, public expenditure and financial accountability and sector coordination invariably demand new skills and ways of working – as does the modernisation and expansion of service delivery through, potentially, novel means. It is also clearly of the highest priority in Timor-Leste's stage of development and institution-building.

36.   However, development programs do not in themselves build capacity: rather they support the government's (and others') institutional and organisational development strategies determined in the context of policy. Such strategies will need to take into account fundamental policies on the size, role and development of the civil service, decentralisation, workforce planning and organisational development, and policies on private sector development (among many other things). So, once again, RWSSP needs to be fully engaged in those wider debates and issues such that it can inform and support a strategic capacity-building program.

37.   Current policies on *decentralisation and deconcentration* will need to be considered in the context of government's management of the sector and its service delivery requirements. RWSSP can usefully contribute to the debate by analysing the relevance, impact and possible configuration of decentralised institutional models and the differentiation of local and national public goods.

Results-Based Performance Monitoring

38.   Performance frameworks and accountability must reflect the outcomes anticipated in sector policy and expenditure frameworks, which may not necessarily mirror the traditional requirements of donor reporting and accountability. In particular RWSSP should aim to utilise the policy outcomes and impacts anticipated in the National Development Plan as the basis of results-based performance, and AusAID should in the first instance seek to engage with, and monitor such parameters of, *sector* performance rather than be preoccupied with lower level input and activity reporting. (**Recommendation 11**.) (But, of course, RWSSP reporting must still ensure probity and accountability for public funds.)

39.   Through the RWSSP's potential role (see 31 & 32 above) in promoting donor coordination in the sector, it can promote the good practice set out by the DAC in reporting and monitoring:

- Ensuring donors use and support partner government's monitoring and information systems for their own requirements whenever possible;

- Encourage donors to rely on a single monitoring framework and reporting system for the sector;

- Ensure that monitoring information is readily available – for example by supporting the use of communication and information technology;

- Reducing the number of separate donor missions and reviews and constructing joint reviews wherever possible.

Targets, Scaling-up, Alternative Options

40.   The MRG recognises the inconsistencies in baseline data and the difficulty of establishing credible targets for sector development. However, whatever the numbers are, there is clearly a major issue to be debated and policy to be decided on the basis of robust analysis of options (which RWSSP must provide). On the one hand we have an entirely understandable, MDG-related, policy aspiration to achieve substantially increased water and sanitation coverage; on the other we have limited capacity of the current delivery system to scale-up sufficiently to meet those aspirations. Alternative delivery systems and approaches are almost certainly possible, but may have down-sides in terms of sustainable capacity development and the sustainability of outcomes and impacts. (And also subsidiary impacts on, for example, job creation.) RWSSP needs to examine this trade-off and inform policy on that basis. The choice is a government one, but a more ambitious agenda is certainly in line with both currently-stated government policy and the intended scope and scale of contemporary international development.

41.   Allied to this is the assumption that local NGOs will continue to constitute the basic service-delivery model. There are many good reasons for the involvement of NGOs. But in considering scaling-up, their quantitative limitations need to be taken into account. (As does, possibly, the potential to distort the market for more sustainable and perhaps more up-scalable private sector delivery modalities.)

42.   A number of contemporary 'smart' incentives for private sector engagement in service delivery exist and are possible candidates for trial and experimentation under RWSS. Enterprise challenge funds, loan-based long-term maintenance contracts, output-based aid models with suppliers and service providers, etc.

Acknowledgements

43.   The MRG is very grateful to all the government, donor, NGO and program staff who kindly gave us their time and opinion and to the AusAID Post for arranging a busy program of meetings at short notice. We much appreciate it.

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SIPs, SWAps & Sector Programs

In the mid '90s the World Bank and others sought to improve the efficiency and effectiveness of donor investment in development by adopting different ways of working in support of sector development. In 1995 Peter Harrold and associates defined the concept of the *Sector Investment Program* **(SIP)**, which sought to reduce the high transaction costs and 'donor-driven' characteristics of multiple, fragmented, often small-scale and unsustainable, *projects* and instead promote a more locally-driven model of coherent planning and investment across entire sectors.

Harrold defined six fundamental "conditions" for the adoption of a SIP in any particular sector:

- The SIP had to capture the entire sector's investment requirements;

- It had to be based on a coherent policy framework;

- It had to be locally owned and driven;

- All donors in the sector had to sign up to the SIP, or otherwise not operate in the sector at all;

- All donors had to accept common implementation arrangements (financing mechanisms, accounting, reporting, monitoring & evaluation, audit, etc.);

- Long-term technical assistance (TA) should be minimised in favour of utilising local capacity.

Developing countries generally liked these concepts: at last they were being given the opportunity to have more say about the allocation and management of aid flows and the prospect of common implementation arrangements promised, in particular, to reduce the heavy administrative burden and inefficiencies of dealing with multiple donors' differing and sometimes competing priorities and requirements.

However, although there was considerable effort put into the development of SIPs over several years, relatively few emerged as shining successes. There were difficulties in the *process* of designing and implementing SIPs, and flaws emerged in some of the fundamental assumptions about the *substance* of sector investment:

- 'Sectors' were typically defined around the activities and expenditure of a single *sector ministry* – reflecting the existing organisational and budgetary divisions of government. But this failed to capture the multi-factorial determinants of development. It also led to a focus on the human and financial resources of the ministry itself, rather than on sector stakeholders.

- Donor investment in SIPs was still generally restricted to *capital investment and organisational development* – but, particularly in the wake of structural adjustment, the public-good functions of government were

increasingly about the rationalisation of service delivery and its recurrent costs.

- Coherent policy frameworks were found to be in short supply. The need to invest substantively in the *process of policy development* itself was underestimated, leading to delayed expenditure (often measured in years) and frustration on the part of governments.

- Capacity to manage such ambitious sector development programs was also underestimated, creating real tensions with the "minimal TA" condition.

- In practice, donors were not at that stage all ready to adopt common implementation arrangements – sometimes because of a mistrust of local capacity and/or other donors' methods, sometimes because of genuine home-country legislative requirements about aid flows and modalities that would take years to amend.

In short, process consumed substance and SIPs often failed to deliver what was intended.

Instead, a more adaptive *process approach* gained favour: the *Sector-Wide Approach*, or *SWAp*. SWAps still aimed to bring about a more efficient and coordinated approach to sector development and maintained the principles of local leadership, and planning and prioritisation on the basis of coherent government policy and expenditure frameworks behind which multiple donors and stakeholders would align. However SWAps by definition recognised that they usually had to support the development of coherent policy and expenditure frameworks *as part of the process*, and that donor support would in reality continue to be provided through a variety of aid instruments and modalities.

SWAps became popular in development cooperation in the mid to late '90s and, in contrast to SIPs, they have often achieved a great deal. They have tended to be most successful in more tightly-defined sectors; where there are relatively straightforward policy choices to be made and public expenditure in the sector is both significant and reasonably uncomplicated - health and education being the most frequent such examples.

SWAps have been more problematic, and have often got bogged down in *process*, where the boundaries of the 'sector' are more difficult to define and where public policy and expenditure choices need to be made and coordinated across multiple units of government, and/or where it is not the government (but, for example, the private sector) that invests in the sector – as for example in agriculture. SWAps have also often found it challenging to address adequately from within the sector more cross-cutting issues such as gender, the environment, HIV/AIDS and issues of governance and public sector reform.

While SWAps will probably remain in the lexicon of development for some time, in some ways the centre of debate about development coherence and aid modalities has moved on. *Poverty Reduction Strategies (PRS's)* have become the foundation for the identification and configuration of development assistance at

national level. PRS's tend to see development as being much more *cross*-sectoral, based on participatory and 'bottom-up' models of planning and prioritisation, and often closely linked to decentralisation. This sets sector-specific, top-down, planning mechanisms in a different context.

The extension of this thinking is that, where there is such a cross-sectoral, coherent and government-led basis to national development priorities, then it is not for donors to distort such processes by selecting their own priorities or 'sectors'. Rather it is for donors to enter into a robust dialogue with government over its cross-sectoral policy and public expenditure choices, such that there is agreement on financing priorities, and to then close the financing gap (for both capital and recurrent requirements) through forms of *budgetary support*. (Subject, of course, to there being reasonable macro-economic stability and acceptable public expenditure and financial accountability ['PEFA'] capacity.) Government then manages development from within its own institutions and accounts to both citizens and its partners on the basis of achieving intended development outcomes and impacts, not on the activities of component projects.

Although the fungibility of budgetary resources, combined with respect for government leadership in priority-setting, ultimately leads to an argument for *general* rather that *sectoral* budgetary support, donors are in practice likely to allocate funds at a sectoral level for some time to come. (And/or through a mixture of general and sectoral budgetary support and sector-specific programs.) This may be particularly so in fragile states and (for example) post-conflict countries where there is not yet the central capacity to manage complex cross-sectoral programs, and/or where there is a pressing and incontrovertible need to focus attention on particular sectors and development outcomes.

Thus, there is still plenty to be done at the sectoral level, and the process of developing high-quality, high-impact programs in support of sector development continues to be refined and defined.

Current concepts in sector support

Although various terminologies are used to describe forms of sector support, there are some **key principles** on which there is broad agreement among the international donor community:

- Firstly, that sector approaches should **be led by the partner government** in close dialogue with national stakeholders.

- Secondly, that sector approaches have the common objective **of improving public sector performance** in terms of service delivery as well as the efficiency and effectiveness with which government and donor resources are allocated and managed.

- Thirdly, that **SWAps are *processes*** – themselves to be strengthened over time as indigenous capacity develops while promoting continuous improvement in sector performance.

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A **SWAp**, now often simply called a **Sector Approach**[5], is a *way of working* forged between government, development partners and other stakeholders in pursuit of sector development. It is a process of broadening government and national ownership over public sector policy and resource allocation within a sector, increasing coherence between policy, spending and results, and reducing transaction costs. The approach broadens the notion of impact beyond the scope of one specific donor and focuses on the combined impact of the interventions of government, the sector donors, and other private sector and civil-society stakeholders. As a result, donors move from supporting specific activities to co-financing a sector strategy with the partner country and other donors. All this undertaken in the context of objectives set by government and in the framework of a coherent public sector expenditure program.

Sector approaches also try to strengthen the linkages between *national* and *sector* development plans, the integration of both capital and recurrent expenditure and the complementarity between government and donor resources. Sector approaches thus place the sector budget at the centre of policy making and *vice versa*.

A coherent *Sector Program* is what develops from the pursuit of a SWAp or sector approach. A government's *sector program* will usually set out a sequenced range of activities, or a *strategy*, for delivering government policy in the sector[6].

Sector programs are based on **three core elements**:

    i.   The **sector policy** and strategy;

    ii.   The **sector budget and medium term expenditure framework**; and

    iii.   A **sector coordination framework** through which the sector strategy, action plans and budget are reviewed and updated – quite possibly across several units of government. (*Donor* coordination is but a sub-set of wider sector coordination.)

In addition, there are two other critical supporting elements to a sector program:

    iv.   An emphasis on **capacity-building**, recognising that the capacity to manage an ambitious sector program with external resources is rarely present *ab initio* and that the program itself must design-in and build that capacity over time; and

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[5] More recently the generic term **'Program Based Approach' (PBA)** has been used to describe aid modalities that capture these fundamental principles, and is referred to in the Paris Declaration. Somewhat semantically, a SWAp or Sector Approach can be interpreted as a Program Based Approach operating at the level of a particular sector.

[6] Donors' individual contributions to a Sector Program through a SWAp or Sector Approach are increasingly referred to as a [that donor's] **'Sector Support Program'**. (Or sometimes 'Sector Policy Support Program', emphasising the centrality of policy development to the process.)

v. A **performance monitoring system** that focuses on results and impact, and the feeding-back of performance monitoring into the continuous improvement of policy and strategy.

These five elements are discussed further below:

1. The **sector policy** and strategy

Ultimately, significant development occurs at an aggregate level by a country adopting, and funding the implementation of, sound *policies* – and not through the summation of projects.

A *sector policy* is a statement of the government's objectives within a sector and a summary of how they will be achieved. The sector policy needs to relate to the government's overall strategic framework for development (which is often and quite legitimately more politically-driven), and will – also quite legitimately – reflect the government's relative priorities across and between sectors.

In practice, policy development is an unpredictable and non-linear process. The objective should be to develop a 'good' sector policy rather then the 'perfect' policy and continuously refine it and adapt it in the light of performance (see below).

2. The **sector budget and medium term expenditure framework**

The sector budget and Medium Term Expenditure Framework (MTEF) are vehicles for policy implementation. One is irrelevant without the other. Through an iterative process the policy is costed and the sources of funding identified. Funding gaps will require a revision of policy.

The MTEF is also, ultimately, the point of accountability to citizens (through parliament and the budget) for policy implementation. The MTEF represents the translation of policy objectives into funded implementation plans and will, in the next round, examine and report on expenditure outturns and the achievement of policy objectives.

An MTEF should [eventually] capture both capital and recurrent expenditure requirements and both internal (government) and external (donor) sources of funding. Ultimately the aim is for donor finances to flow through, and be recorded on, the budget – treating both government and donor finance as fungible and accountable public resources.

Clearly a sector budget needs to be set within the context of aggregate government expenditure and the sourcing of public funds. The requirements of sound macro-economic management may well establish a ceiling for sector expenditure (for example to avoid 'over-heating' or bloating of public services), even when the supply external donor resources is potentially sufficient to cover higher levels of expenditure. Sector budgets will also reflect legitimate political imperatives to, for example, deliver on election pledges and may well imply (again perfectly legitimately) reallocations between sectors.

Thus the MTEF is far more than a tedious spreadsheet: it is a fundamental policy instrument.

3.   The **sector coordination framework**

Sector coordination has two distinct but often overlapping elements.

Firstly there is a need to manage the analytical, consultative, planning and budgeting requirements of expanded sector development – from within government, for this is a definitive and continuous function. Where sector development involves the participation of more than one unit or level of government, sector coordination can become particularly challenging and may require the ability to coordinate and set priorities from a supra-departmental or supra-ministerial perspective. Parallel processes of decentralisation often increase the complexity of the challenge.

While mechanisms for sector coordination should epitomise the principal of being 'government led', it is quite usual and necessary for development assistance to be provided to that function: it is a function that expands with donor support to a sector and it represents one of the transaction costs of enhanced sector development.

Secondly there is a need to manage the process of bringing multiple donors into alignment behind the sector policy and its public expenditure requirements. Again, this should be government led (although rarely is in practice) and itself represents a process that needs investment in time and resources.

Donor coordination is much more than 'donor cooperation' and the division of labour. It must capture the all-important dialogue between government and (potentially) a plurality of sector donors on public policy and expenditure choices and provide the means and mechanisms for that dialogue to be both efficient and effective. Processes of donor coordination should aim to generate among sector donors the confidence in government policy and capacity to progressively move from supporting specific activities to co-financing the sector strategy together with other donors.

4.   An emphasis on **capacity-building**

Invariably the early SIPs and SWAps overestimated existing capacity to manage and implement large, complex sector programs and considerably underestimated the time and resources required to do so. The increasingly central role of robust policy analysis and sound public expenditure management to sector development only served to emphasise capacity shortfalls.

However, capacity development is not something donors do or achieve. 'Capacity' is an institutional ability to deliver on policy objectives and includes not just the skills and experience of *people* but also the *institutional mechanisms* for ensuring an organisation remains fit-for-purpose in a sustainable manner, adapts ways of working to meet changing demands, and plans what its workforce will look like in the future. Thus *'capacity-development' represents a strategy owned and managed*

by government to deliver on its policy objectives and service delivery obligations over time. Donors may catalyze or *support* that strategy – with, for example, training inputs and activities – but the government must define and manage the strategy itself.

5.   A **performance monitoring system**

The Paris Declaration calls for much more *results-orientated* monitoring of performance in the delivery of development objectives. Performance frameworks should in the first instance therefore relate to the delivery of development outcomes anticipated in national and sector policies (and any deviation from that). Where donors and government have agreed sector policy and strategy, and a robust medium-term expenditure framework, and have placed government in charge of the process of managing sector development, there should be much less attention paid to tracking inputs and activities. Indeed, where donors pool funds and/or provide degrees of budgetary support, it becomes relatively meaningless to track aid dollars against specific activities.

However, that is not to say that donors should abdicate responsibility for proper accountability in the allocation and management of their own tax-payers' funds: short-term management information on inputs and deliverables will always still be required, but these are not in themselves measures of *performance*.

Current AusAID Policy and Strategy for the Sector

Emerging AusAID WatSan Policy

Access to water and sanitation services is a key focus of Australia's aid program and the Millennium Development Goals (MDGs) have an increased focus in Australia's aid program.

The Australian Government's 2007 election commitments proposed an additional $300m will be allocated to new water and sanitation (WatSan) activities in 2009-11, $100m (2009-10 and $200 in 2010-11) – which is a tripling of aid program expenditure on water and sanitation.

Planning has commenced on a WatSan program which will include:

- Increased focus on the provision of basic sanitation services;
- Urban and peri-urban WatSan issues are a target area, with maintenance of a strong program in rural areas and townships;
- Active engagement and partnership with multilateral agencies and NGOs in the region for rural WatSan programs;
- AusAID is currently working with the NGO Reference Group on water and sanitation to convene an international workshop in 2008 which will provide an opportunity for RWSSP to promote the East Timor program.

Implications of this new policy direction in WatSan and with East Timor's importance for Australia's aid program are that the East Timor may attract additional Program funds through a well structured sector planning process which has strong East Timor government support.

In particular promotion of labour based solutions through NGO cooperation agreements using local labour and contracting approaches similar to the Basic Education Program in Indonesia should be investigated together with new forms of aid that improve aid effectiveness of the Program.

AusAID increased Engagement with International NGOs

AusAID is working with an Australian NGO Reference Group on water and sanitation policy. An international workshop on sanitation and water in International

Development to improve AusAID and NGO cooperation in WatSan sector and which may provide new funding opportunities through the water initiative and the existing ANCP Program.

Water and Sanitation Program

AusAID has proposed new core regional funding to the World Bank's Water and Sanitation Program in East Asia and Pacific. WSP resources from Jakarta may be used to provide advice to the program on sanitation, water and hygiene policy and RWSPP should discuss sector cooperation in WSP with Government, WB and ADB.

Annex 3

Persons Met

Individual Meetings

Peter Blunt - Program Manager - Timor-Leste Public Sector Capacity Development Program

Joao Jeronimo - Director DNAS - Ministry of Infrastructure

Charles Andrews - Regional Representative - ADB

The RWSSP team

Miguel Pereira de Carvalho - Director of Planning - Ministry of State Administration

Tomasia de Sousa - Director of Environmental Health - Ministry of Health

Bishnu Porchrel - WES Specialist - UNICEF

Dinesh Bajracharya - Country Rep - WaterAid Australia and team

Aide Mémoire Presentation

Peter Bazeley - MRG team leader - Consultant

Marcus Howard - Infrastructure and Water Adviser - AusAID

Gerard Cheong - Water and Sanitation Coordinator - AusAID

Carol Bellew – IDSS Operations Manager & Melbourne-based RWSSP Project Director

Colin Wiltshire - Activity Manager - East Timor Section AusAID

Luke McNamara - Capacity Development Adviser - RWSSP

Cindy Kushner - Community Development Adviser - RWSSP

Andy Robinson - Sanitation Policy Adviser - RWSSP

Dinesh Bajracharya - Country Rep - WaterAid Australia

Christopher Dureau - Program Framework Adviser - RWSSP

Fransico Didier - Head of Mission - Triangle

Megh Ranjani Rai - Emergency Program Manager - PLAN International

Evelyn Noy - Water Engineer - WaterAid Australia

Michelle Whalen - Gender Adviser - RWSSP

Anor Sihombing - RWS Adviser - RWSSP

Raphael Ulamae - WatSan Coordinator - Oxfam

Alan Smith - Team Leader - RWSSP

Aleixo da Cruz - Program Management - RWSSP

Mathias Ntawiha - WES Engineer - UNICEF

Ruth Nicholls - Environmental Health Adviser - RWSSP

Charles Andrews - Regional Representative - ADB