

# Overview of Program -Based Approaches(CIDA)

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## A. Introduction

In September 2002, CIDA's Minister released the document, *Canada Making a Difference in the World: A Policy Statement on Strengthening Aid Effectiveness*. This came at the end of a two-year consultation process and formalized a number of adjustments in CIDA's aid policy whose impact on CIDA practice was already being felt. One of the most important adjustments being made is increased use of what are called "program-based approaches" or PBAs, in contrast to CIDA's traditional reliance on projects as a way of engaging in development cooperation.

This policy shift has led to the need for a summary document on PBAs that would explain the central concepts, the modalities involved, and some of the issues that must be addressed. This primer is meant to satisfy this need. It is intended as a general guide to PBAs for CIDA staff and others associated with CIDA programming. It is at once a basic introduction to the topic and a review of the literature, and should be useful to newcomers to the topic as well as more seasoned travelers. An attempt has been made to illustrate the issues by referring to examples of PBAs in CIDA wherever possible.<sup>1</sup>

The primer is more of a guide to the issues than a how-to manual or operational guide. However, its structure parallels that of the project cycle, with chapters II, III and IV working through issues of project selection, design, implementation, monitoring and evaluation. Complementary material is being produced elsewhere in the Agency. This includes an operational guide on contracting, payments, legal considerations and procurement when engaging in budget support, which is being assembled by CIDA's Financial Policies and Systems Section. In parallel, CIDA's Portfolio Working Group is organizing a series of events around different issues covered in the primer and will be producing case study material to illustrate these issues. More detailed coverage of operational issues arising under PBAs is available in the European Commission's *Guidelines for European Commission Support in Sector Programmes* (EC, 2003), which is frequently quoted in this primer.

This is a rapidly evolving field of analysis. The primer should thus be seen as a living document, which will be revised on an ongoing basis, as new material becomes available and as CIDA's understanding of the issues increases.

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<sup>1</sup> Readers will find additional material on these examples on the PBA extranet site, the address of which appears on the title page of this document.

## B. Definition of PBAs

The expression “program-based approaches” is one that has emerged relatively recently both in CIDA and internationally. However, the expression is a fairly straightforward extension of the concept of sector-wide approaches or SWApS, on which there exists considerable documentation. Although this is the first document of this type that takes PBAs as its focal point, the term PBA is increasingly used, most notably in the name of the recently formed Learning Network on Program-Based Approaches (LENPA), which brings together experts from development agencies around the world.

Covering both SWApS and “SWAp-like” initiatives,<sup>2</sup> PBAs emphasize comprehensive and coordinated planning in a given sector or thematic area of intervention, or under a national poverty reduction strategy (PRS). PBAs are intended to support locally owned programs of development, so the word “program” in the expression refers to the program of a developing country government or institution, which one or more donors have agreed to support. In CIDA’s understanding (2002a), that program may be a PRS, a sector program, a thematic program (such as an environmental strategy), or the program of a specific organization such as a nongovernmental organization (NGO).

A program and a PBA can be defined as follows:

*A program is an integrated set of activities designed to achieve a related set of outcomes in a relatively comprehensive way.*

*A PBA is a way of engaging in development cooperation based on the principle of coordinated support for a locally owned program of development. The approach includes four key elements:*

- *Leadership by the host country or organization.*
- *A single program and budget framework.*
- *Donor coordination and harmonization of procedures.*

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<sup>2</sup> The expression “SWAp-like” is used in CIDA with reference to initiatives covering a programming area that is not sectorally defined, but which are in other essential respects the same as SWApS.

- *Efforts to increase the use of local procedures over time with regard to program design and implementation, financial management, and monitoring and evaluation.*

PBAs need to be understood as highly dynamic. What matters for most purposes is the direction of change, rather than the particular level of achievement attained for each element of the approach at a particular moment. For example, the degree of leadership by the host country or organization may not be as strong as one would like, because of capacity limitations, but should be moving in a positive direction. The elements of a successful program may take a long time to develop and will continue to evolve once they are in place.

However, the question does arise how sound and comprehensive or well planned a program must be, or how much buy-in there must be by different members of the donor community, before one can speak of a PBA. We will return to this question in section E. below, where a number of criteria are proposed for determining when an initiative can appropriately be called a PBA. Where a coherent program and budget framework does not exist, or where a critical mass of donors has not yet come together to support that program, it may be more accurate to speak of a “pre-PBA,” meaning an approach whose primary intent is to pave the way for a PBA where the basic criteria are not yet satisfied (EC, 2003: section 4.1).

## C. Comparison to Other Approaches

One way to appreciate the implications of PBAs is by comparison to other approaches. The following table compares PBAs and two other approaches, the project approach, and the macroeconomic approach, according to four features:

- The types of results pursued and associated accountabilities.
- The type of targeting or earmarking of funds.
- The approach to local ownership and to the division of responsibilities.
- The nature of collaboration with other donors.

Table 1\_ Distinguishing Program-Based Approaches from Other Approaches

	Project approach <sup>1</sup>	Program-based approach	Macroeconomic approach
Results and accountabilities	Specific to the project	Program-wide,	Macroeconomic policy reforms and economic adjustment,
Targeting or earmarking of funds	May involve fairly detailed targeting of funds in the pursuit of project objectives,	May still involve targeting, but the intent is to move away from project targeting towards program targeting,	Funds not targeted,
Local ownership and division of responsibilities	Projects may have a high degree of local ownership, or they may not, but most involve a high level of donor control,	PBAs emphasize the importance of local ownership, but include a role for donors at the program level,	Local ownership often limited,  Moderate to high level of donor collaboration,
Donor collaboration	Limited donor coordination,	PBAs seek donor coordination and the harmonization of donor procedures under host-country leadership,	

<sup>1</sup> In the CIDA context, this includes the use of regular independently-managed projects, stand-alone technical assistance, Canada Funds projects, and projects funded using the Counterpart Funds approach,

### *The project approach*

What distinguishes the project approach is the identification of a specific area of intervention for donor involvement, and the targeted use of funds for specific activities for which objectives and outputs and the inputs required to achieve them have been defined (Foster and Leavy: 2001: 5). Results pursued are specific to the project, and participants are held accountable for the achievement of those results. Experience has shown that it is difficult to hold project managers accountable for higher-level outcomes and impacts under the project approach, because the achievement of such outcomes is usually dependent on other activities and circumstances beyond the control of the project. Whereas PBAs involve a planned and coordinated approach toward the pursuit of desired outcomes, the project approach is based on a plurality of approaches, and much lower levels of integrated planning and coordination. Responsibilities are divided, and donors are likely to maintain a high level of control over their own projects, while having relatively little to say about activities lying outside those projects.

## ***PBAs***

In contrast to this, PBAs involve a joint approach to the achievement of development outcomes at the program level, and joint accountability for these outcomes. Funds may or may not be earmarked for specific activities, but the tendency under PBAs will be to reduce the specific targeting of funds by using modalities such as pooled funding or budget support. The aim is to promote the larger objectives of the program by reducing transactions costs, reinforcing local systems, and introducing a larger element of flexibility in the use of funds. The most appropriate level of earmarking under PBAs will depend on local circumstances and on the results of negotiations about programming and budgeting among the different partners involved. Local ownership is emphasized, and prime responsibility for program design and implementation rests with the local institution or institutions. There is a strong emphasis on donor coordination and harmonization of procedures.

## ***The macroeconomic approach***

The macroeconomic approach is not one that CIDA has used very much, but it is important in other aid agencies, in particular the World Bank, the IMF and the EC. Although there are some similarities between this approach and PBAs, the macroeconomic approach has its own particularities. For instance, the desired results under the macroeconomic approach are specific economic reforms and economic adjustment. Funds are not targeted, but instead are associated with specific policy conditionalities that are used to trigger the release of funds. Examples of the macroeconomic approach include IMF or World Bank adjustment lending, balance of payments support and some forms of debt relief or general budget support. Donor collaboration is less of an issue under the macroeconomic approach than under PBAs, because of the strong leadership of the World Bank and of the IMF in this area and because of the limited number of donors involved.

## ***New approaches to budget support***

Debt relief and budget support in recent years have been increasingly associated with host country PRSs, and as such have taken on many of the characteristics of PBAs. For instance,

there is some blurring of the lines between macroeconomic support and PBAs under the Highly Indebted Poor Countries Initiative (HIPC), where debt relief is provided upon the acceptance of a country's Poverty Reduction Strategy Paper (PRSP) by the World Bank and the IMF.

Lawson et al. (2002) speak of the “New” budget support, which has the following features:

- It is a partnership-based approach that provides untied budgetary support within a medium or long-term perspective.
- It supports a government's PRS.
- It gives prominence to institutional development objectives.
- It seeks to minimize transactions costs and to work through government systems and processes.

This paradigm provides a perspective very similar to that of PBAs, except that the focus is on a particular funding modality (budget support) and a particular level of intervention (governmentwide). In order to avoid too much conceptual overlap, it is best for our purposes to think of the new budget support paradigm as simply one way of engaging in PBAs, at the highest level.

However, the presence of general budget support should not automatically be interpreted as engagement in a PBA. According to Lawson et al. (2002: 55), “Outside Uganda, budget support continues to be seen very largely as a “macro-economic” tool, as a mechanism for transferring large-scale resources and for reaching agreement over economic and fiscal policy objectives.” If this is so, the provision of budget support, even though linked to a country's PRS, may often be closer to the macroeconomic approach than to the PBA model.

### *From projects to programs*

These various approaches are complementary, and play different roles under different circumstances. For example, the case for a macroeconomic approach is obvious in circumstances of economic instability and crisis, or more generally when macroeconomic policy

constraints or fiscal constraints are the primary obstacle to development.

Projects, likewise, have a role to play. Although PBAs are increasingly being used as a way of doing business in most donor agencies, they are not appropriate in all circumstances. Section A in Chapter II of this primer discusses the conditions under which PBAs are most likely to be appropriate. Projects are particularly well adapted to situations of low aid dependence, where a “niche” approach to development may yield high returns, while requiring less coordination with other players. Projects are also appropriate in situations where program consensus does not exist, or for dealing with areas of development that do not lend themselves so easily to comprehensive programming.

In many cases, the problem is not to implement fairly well known or standard solutions that are amenable to a PBA – such as vaccination programs or school construction – but to find solutions to particular problems that are highly context specific, or to test different solutions in parallel. As Pritchett and Woolcock (2002) argue, a programmed approach to service delivery is appropriate in areas involving standardized services, but less appropriate where heterogeneous services are involved.

The international consensus is that PBAs have considerable promise as an alternative to the project approach in many cases. The following section lays out the reasons underlying this belief, and points to some of the principal limitations of the project approach identified in recent years. However, it would be an error to pretend that PBAs are a panacea, or that they are the best solution in all cases. Projects will continue to have a role, either in a stand-alone capacity or in the context of PBAs, and the difficulties of the PBA approach itself should not be underestimated. Awareness of these realities should condition both the evolving balance between projects and PBAs in CIDA and the speed with which the transition to PBAs can be made.

#### **D. Why PBAs?**

PBAs are not an entirely new phenomenon. They are, rather, a recognition and formalization of a package of ingredients now seen as critical to ensuring the success and sustainability of



development cooperation efforts. That process of formalization began with the publication of the seminal OECD Development Assistance Committee publication, *Shaping the 21<sup>st</sup> Century: The Contribution of Development Cooperation* (OECD–DAC, 1996), which articulated a vision of effective development cooperation based on partnership around development strategies owned and led by developing country governments and civil societies.

At the heart of this vision is the idea that the way that aid is delivered, not just its content, is fundamental to its effectiveness in promoting development. This vision has been reiterated in different ways in numerous documents and pronouncements, as summarized in a recent multi – partner evaluation of the World Bank’s Comprehensive Development Framework (CDF) (World Bank Operations Evaluation Dept., 2003: 7). Launched in January 1999, the CDF expressed the new vision in terms of four cardinal principles: long-term, holistic development framework; results orientation; country ownership; and country-led partnership (*op. cit.*: 5). These are the principles that underpin PBAs.

*Canada Making a Difference in the World* adopts a very similar set of principles. With some adjustment for present purposes,<sup>3</sup> they include the following:

- Local ownership.
- Improved donor coordination, under the leadership of the host country.
- Stronger partnerships, based on a clear definition of goals and responsibilities.
- A long-term vision of sustainable development based on increased attention to institutional development, governance issues, and civil society participation.
- A results-based approach, with improved monitoring and evaluation of development programs.

The shift in favour of PBAs is thus based on a growing consensus on a number of key principles of aid effectiveness. In CIDA, the shift towards PBAs means a move away from the

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<sup>3</sup> The list below includes all but one of the five principles listed in *Canada Making a Difference*. It excludes the principle of greater coherence between the aid and non-aid policies of donor countries, which is not as relevant in the context of PBAs. It differs from the presentation in *Canada Making a Difference* in one other way, by the addition of a principle favouring a “long-term vision of sustainable development” (in the fourth bullet) that groups together items described in *Canada Making a Difference* as “three other factors of central importance.”

project – based approach that has been the principal delivery vehicle of Canadian aid since CIDA was created in 1968. The case for PBAs thus requires an understanding of the limitations of standalone projects as a delivery vehicle for development cooperation. As summarized in *Canada Making a Difference in the World* and elsewhere (for example Brinkerhoff, 1991; Bolger, 2000; European Commission (EC), 2003; Lawson et al. 2002: 5–6; Takala and Marope, 2003: 16–18), these limitations include the following:

- Projects can undermine local ownership, due to the high level of control maintained by donors over the selection, design and implementation of projects. This loss of national ownership was in fact one of the main findings of a needs assessment survey of 11 countries conducted by the OECD–DAC Working Party on Donor Practices (2003: 13).
- The multiplicity of projects works against the coherent programming of resources. It leads to duplication or fragmentation of effort and to imbalances in the use of resources. This is partly due to the desire of donors to ensure the success of “their” projects by investing heavily in particular areas, at the expense of other areas. Projects also tend to generate imbalances between investment expenditures, favoured by donors, and recurrent expenditures.
- Similarly, the project approach is ill-equipped to deal with contextual factors that can undermine their impact. For example, a project may involve training of government staff, but that training may serve little purpose in the absence of civil service reform ensuring that staff are motivated to use their new skills productively and to build on those new skills.
- Projects encourage the concentration of attention on operating tasks and functions (definition of roles and responsibilities, plans and schedules, etc.) at the expense of strategic tasks and functions more likely to be emphasized under a PBA (program design, capacity building, financial sustainability, organizational collaboration, etc.) (Brinkerhoff, 1991: 4).
- By focusing attention on accountability to donors, projects may corrode or impede the development of domestic accountability structures.

- Projects undermine the effectiveness of government systems, due to frequent reliance on parallel project management structures and staffing arrangements that bypass the government. One result of this is the tendency of projects to drain high level human resources away from the public service into higher paying jobs in development projects.
- Finally, projects impose a high administrative burden on developing country organizations faced with the challenge of negotiating, managing, and reporting on a large number of projects funded by donors with different approval and reporting requirements, and different financial management systems and calendars.

### *Projects vs. PBAs and the principles of aid effectiveness*

Another way to illustrate the limitations of the project approach is to compare the project approach with PBAs in terms of the principles of aid effectiveness cited above. As Table 2 illustrates,<sup>4</sup> PBAs present significant potential advantages over the project-based approach, according to each of the aid effectiveness principles. By providing standards against which to assess different aid instruments and approaches, the consensus principles have led to increased understanding of the limitations of the project approach and a growing international consensus in favour of PBAs.

In defending the shift to a program-based approach, the EC eloquently summarizes the issues as follows (EC, 2003: 13):

By working outside normal government systems, in particular the systems of budget planning and execution, accounting, procurement and performance management, aid projects not only missed the opportunity to assist in the strengthening of government systems, but actually ended up undermining their credibility and reducing their effectiveness, even in areas of government activity completely untouched by aid. Simultaneously, the primacy given to donor demands for accountability was increasingly forcing governments to be accountable to donors rather than to parliaments and their people.

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<sup>4</sup> See Bolger, 2000, for a similar and more detailed table comparing the project and program approaches.

Table 2\_ Principles of Aid Effectiveness as Applied to Projects and Programs

Principle	Stand-Alone Projects	Programs
Local ownership	Projects are often supply-led. Even when they are demand-led, they may be undertaken in response to demands from a single local partner.	PBAs are expected to be based on locally owned programs, involving a community of stakeholders.
Donor coordination	Limited donor collaboration leads to high transactions costs, possible duplication of efforts, and suboptimal identification of priorities.	Although PBAs may not reduce transactions costs in the short term, they involve a high level of donor coordination at the program level, ideally involving all of the donor community, under national leadership.
Partnerships	Projects are often managed directly by executing agencies or project implementation units that maintain control over the project and are held accountable for results.	The underlying philosophy of PBAs is that they are based on partnership and shared accountability rather than a situation in which one party controls or polices the other. Programs are intended to involve movement towards the use of local procedures and controls.
Attention to institutional development, governance issues, and civil society participation	Projects attempt to ensure success by establishing project-specific control mechanisms. They thus attempt to bypass, rather than solve, certain institutional weaknesses.	Because PBAs are expected to rely on local procedures, attention is brought to bear on institutional, governance, and participation issues necessary to ensure success and the accountability of local institutions to their constituents.
Results-based approach	Attention is focused on the success of the projects themselves, even though other conditions necessary to the achievement of development results may not be met. One thus faces the possibility that development cooperation may be successful at the project level, while failing to promote development more generally.	Under PBAs, the focus is on results at the program level. This makes it feasible to focus on broad development objectives such as those identified in the Millennium Development Goals or in the PRSs of individual countries.

In summary, these critiques highlighted two fundamental problems: aid financed projects almost by definition would not use government systems and structures and secondly, the use of donor-specific approval and review processes for projects almost inevitably removed government ownership, making it difficult for government choices and priorities to rule over project selection. The negative consequences for longer-term institutional capacity were very serious:

*Aid agencies have a long history of trying to 'cocoon' their projects using freestanding technical assistance, independent project implementation units, and foreign experts – rather than trying to improve the institutional*

*environment for service provision...They have neither improved services in the short run nor led to institutional changes in the long run. (World Bank, 1998)*

...The lessons of these evaluations have been increasingly internalised in the policies of the European Commission and of other bi-lateral and multilateral financing agencies. Major efforts have been made in recent years to ensure that projects are part of a national policy and that donor coordination is improved. But such an approach is still inadequate where large numbers of projects continue to exist and where the very structures of policy making, budgeting and planning are weak.

Despite the strong case that can be made for PBAs, it bears repeating that PBAs should not be viewed as a panacea or “silver bullet.” As will be explained in Chapter II, PBAs tend to be implemented in countries with low capacity. Implementation under these conditions will inevitably be problematic, and in some cases, absorption capacity has been a problem. As a result, PBAs have often been unable to disburse funds at the expected rate in the early years. Furthermore, transactions costs may actually increase in the short term, due to the cost of coordinating efforts and of adopting new management approaches (Foster, Brown and Conway, 2000: section 6.8; Lawson et al., 2002: section 3.5.1). PBAs are complex undertakings, involving partners with limited capacities and competing interests, and there should be no illusions about how easily PBAs can be implemented (see in particular Therkildsen et al, 1999; Pavignani, 2001; Riddell, 2001). As Pavignani argues, field realities call for an incremental approach that emphasizes capacity development, trust building and the progressive adoption of new mechanisms such as budget support. In this perspective, “modest initiatives within the reach of existing capacity stand a better chance of success than grandiose ones” (2001: 14).

It is not possible to review all of the things that may go wrong under PBAs in this paper, or to analyse whether and how the things that go wrong could be made right over time. However, Pavignani’s general caution is a sound one, and should inspire one’s reading of this primer.

Subsequent sections of this primer will clarify the conditions when PBAs may be appropriate,

and draw attention to some of the design, implementation, monitoring, reporting and evaluation issues requiring attention.

## E. Categories of PBAs and Qualifying Criteria

Sector-wide approaches (SWAs) are the best-known manifestation of PBAs. However, PBAs can be applied in a wide range of circumstances other than SWAs. For example, there is no reason why a PBA could not be applied multisectorally to cover the whole of a country's PRS.

Indeed, as more and more countries have finalized PRSs, there is an increasing tendency for donors to engage in budget support at a fairly general level, in support of these strategies. This approach is not yet very widespread in CIDA. However, Agency examples include recently approved budget support for the implementation of PRSs in Tanzania and Ghana.

PBAs may also be applied at other levels. For instance they might involve a number of countries, as happens under the Nile Basin Initiative, in which 10 African countries are involved. Alternatively, PBAs might be applied at sub-national levels of government, for instance at the provincial or state level in large countries such as India, or at the district level, in countries trying to promote the decentralization of government.

PBAs can also be used in support of specific organizations, for example a para-governmental organization (such as the Ombudsman's Office in Bolivia or the National Demining Institute in Mozambique), or a large NGO (such as BRAC in Bangladesh). Where NGOs are involved, it is possible that some or all of the donors might also be NGOs. An example of this can be found in the support that Zimbabwe's Organization of Rural Associations for Progress was able to marshal under a PBA in the 1990s, which included funding from a number of Canadian and other Northern NGOs.

### *SWAs*

SWAs deserve special attention because they were a precursor to the more general notion of PBAs, and because of their growing importance in CIDA programming. The concept of SWAs emerged from an Inter-Agency Group meeting in 1997.<sup>5</sup> The expression was intended to describe

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<sup>5</sup> The Inter-Agency Group is an informal group of donor representatives involved in the health sector under World Health Organization (WHO) leadership.

a different way of engaging at the sector level, based on country leadership and the provision of support for recurrent as well as investment expenditures, in comparison to the approach pursued under the World Bank–led Sector Investment Programs that preceded SWAp.<sup>6</sup>

The definition of SWAp that CIDA has been using is a frequently cited one developed by Foster (2000). According to that definition, a SWAp requires that:

Funding for the sector supports a single sector policy and expenditure program, under government leadership, adopting common approaches across the sector, and progressing towards relying on government procedures to disburse and account for all funds.

This definition of a SWAp is consistent with the understanding of PBAs described earlier, except that it focuses on a specific sector and emphasizes government leadership as opposed to the more general reference to leadership by the host country or organization used in the definition of PBAs.

### *Qualifying Criteria*

Even when there is agreement on a definition of PBAs or of SWAp, this may not always be sufficient to determine under what conditions an initiative might “qualify” as a SWAp or as a PBA for statistical purposes. Some efforts have therefore been made to elaborate on the above definition, to define the criteria that must be met before an initiative can be categorized as such. Table 3 below summarizes these efforts, and suggests a number of criteria that CIDA might use, to ensure consistency with international thinking on the subject. Table 3 provides a summary of the criteria used for SWAp by the Strategic Partnership with Africa (SPA), the UK’s Overseas Development Institute (ODI), the Swedish International Development Cooperation Agency (SIDA), Dutch development cooperation, the EC, the DAC, and the UK’s Department for International Development (DFID). A final column proposes six criteria for use by CIDA, based on criteria that are most widely accepted elsewhere. This selection excludes three less–frequently used criteria that correspond to desirable features of SWAp, but whose

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<sup>6</sup> Some organizations use slightly different terminology, but the understanding remains much the same. For instance, the European Union and the Strategic Partnership with Africa both refer to sector programs. Belgium speaks of sector support.

Table 3\_ Qualifying Criteria for SWApS

Criteria	SPA	ODI	SIDA	Netherlands	EC	DAC	DFID <sup>1</sup>	CIDA
1. Comprehensive sector policy and strategy	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2. Annual sector expenditure program and medium-term expenditure framework	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
3. Government-led donor coordination	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
4. Sound macroeconomic framework	Yes	No	No	Yes	No	No	No	No
5. Consistency of sector expenditure program and macroeconomic framework	Yes	No	No	Yes	No	No	No	No
6. Major donors provide support within the sector framework	Yes	Yes	Yes	Ideally	Yes	Yes	Yes	Yes
7. Donors move towards greater reliance on government financial and accountability systems	No	Yes	Yes	Yes	Yes	No	Yes <sup>1</sup>	Yes
8. Significant donor movement towards the adoption of common approaches to implementation and management <sup>2</sup>	No	Yes	Yes	Yes	Yes	Yes	Yes <sup>1</sup>	Yes
9. Participation of key stakeholders in sector policy	No	No	No	Yes	Yes	No	No	No

1. Current agreement in DFID is that all of criteria 1, 2, 3, and 6, and at least one of criteria 7 or 8, should be met.

2. In the original table, this criterion was "Common approach to implementation and management." We have adjusted this criterion to emphasize movement towards harmonization rather than an absolute level of harmonization that will rarely be perfectly achieved.

Source: DFID (2002a).

inclusion would tend to overburden the definition.<sup>7</sup>

CIDA would thus retain six criteria for an intervention to qualify as a SWAp. By adjusting the wording slightly, the same criteria can be used to distinguish any PBA from other forms of support, or from pre-PBA initiatives that satisfy some but not all of the criteria. This yields the following criteria:

- The existence of a comprehensive program policy and strategy.
- The existence of an annual expenditure program and medium-term expenditure framework.
- Host partner-led donor coordination.
- Provision of major donor support within the program framework.

<sup>7</sup> The other criteria listed in the table include two (numbers 4 and 5) that are used by the SPA and the Netherlands, but not by other organizations. These criteria indicate the need for a sound macroeconomic framework, and relate to the SPA's original mandate, which was closely associated with the macroeconomic reform agenda and quick disbursing forms of aid. Likewise, criterion 9, relating to the participation of key stakeholders in program definition and policy, points to a desirable feature of PBAs, but is not generally considered a defining feature.



- Movement towards greater reliance on local financial and accountability systems.
- Significant donor movement towards the adoption of common approaches to implementation and management.

Together, these six criteria establish some fairly demanding conditions of what qualifies as a PBA.<sup>8</sup> While the PBA concept is considerably broader than the concept of SWAps that preceded it, it remains fairly specific and can be distinguished from related concepts relating principally to the choice of funding modalities. For instance, there is a distinction to be made between PBAs and “institutional support” (uncoordinated budget support for a specific organization); or between PBAs and “multilateralism” (pooling of donor funds on a grant basis for particular purposes). PBAs have as much to do with the program being supported and with the nature of donor collaboration in support of those programs, as with the choice of funding mechanism.

## F. Funding of PBAs

It would be wrong to associate PBAs too closely with the provision of budget support. PBAs can be financed in different ways, depending on the circumstances, as illustrated by data collected by the SPA’s Sector Program Tracking Survey on actual financial practice with regard to SWAps in Africa. For 2002, this data set covered 24 SWAps in 12 African countries. Table 4 indicates the proportion of total support for SWAps being provided in the form of pooled or

Table 4\_ Funding Modalities in African SWAps

Funding Modality	2000 (%)	2001 (%)	2002 (%)	2002 Education(%)	2002 Health (%)	2002 Transport (%)
Pooled funding	8	11	11	7	20	0
Budget support	20	24	35	63	28	2
Project support	56	49	40	27	28	91
NGOs and other off budget support	16	16	13	3	24	7
Total, %	100	100	100	100	100	100
Total, \$US million	678,2	791,2	1070,6	331,9	484,2	162,1

Source: SPA Secretariat (2003)

<sup>8</sup> A suggestion has been made for an additional criterion relating to the relative level of comprehensiveness that a program must have before an initiative can be counted as a PBA. Unfortunately, there is no ready way to apply such a criterion, because the interpretation of what counts as “relatively comprehensive” is bound to be a highly subjective. It can be argued that the six criteria identified above have considerable value in their own right, even without the addition of a seventh one.

common basket funding, budget support, projects, and funding channelled through NGOs or other forms of off-budget support (e.g., technical assistance or other off-shore payments that are not included in the budget) (SPA, 2003).

According to these data, 11 percent of support for SWAs was channelled through pooled funding in 2002. Budget support accounted for another 35 percent. However, the majority of funding . 53 percent . continued to be provided in the form of project support or support for NGOs and other forms of off-budget support. Table 4 also shows some interesting differences across sectors. Fully 70 percent of funding to the education sector took the form of pooled funding or budget support in 2002; this fell to 48 percent for the health sector; and dropped to only 2 percent in the transport sector, where large infrastructure projects tend to dominate.

Not shown in the table, but no less interesting, are significant differences from one donor to another. For instance, France and Japan, respectively, continue to disburse 100 percent and 97 percent of their support to these SWAs in the form of projects, while USAID disburses 72 percent in the form of support to NGOs and other off-budget support. The main providers of budget support and pooled funding were the European Union (EU, 45 percent), the World Bank (57 percent), DFID (65 percent), and the Netherlands (71 percent).<sup>9</sup> CIDA provided 48 percent of its funding in the form of budget support or pooled funding, but its absolute level of funding for the sector programs under review was relatively small.

This table also shows the trend in favour of increased pooled funding and budget support, with the latter showing the strongest growth, going from 20 percent in 2000 to 35 percent in 2002.

This trend shows up very strongly in the case of Uganda, where the share of budget support as a proportion of all concessional lending and grant funding has grown from 19.2 percent in 1998/99 to 56.4 percent 2002/03 (projected) (Lawson et al., 2002: 27–28 and 66).<sup>10</sup>

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<sup>9</sup> These shares, taken from Table 24 in SPA, 2003, are for 2000–04, based on actual data to 2002 and projections for 2003 and 2004.

<sup>10</sup> As a highly aid-dependent country where budget support is thought to have worked fairly well, Uganda is a particularly dramatic example. Data in Lawson et al. (2002, 66) show that Uganda received fairly high level of budget support of a macroeconomic character even in the early 1990s (up to 35.8 percent in 1993/94). This declined in the mid-1990s, and began to grow again beginning in 1998/99, as part of the shift toward the PBA model of development cooperation.

## *Project Support*

These data confirm that there are many ways of channelling funds to recipients under PBAs. Project support in particular continues to occupy an important place. However, it is important to distinguish between stand-alone projects and those undertaken under PBAs. Project support in the context of a PBA should not imply business as usual. The adjustments in approach that are required follow from the analysis of the limitations of stand-alone projects presented earlier, and from the consensus principles of aid effectiveness. These adjustments include the following:

- The insertion of projects in a locally-owned program of development.
- Collaboration with other donors under host-country leadership, in ways that contribute to the reduction of transaction costs.
- Relationships increasingly based on principles of partnership at the program level.
- Increased and substantial attention to local institutional development.
- Use of local procedures wherever possible.
- Focus of attention on program-level results.

For donors, this implies an important change in the way projects are delivered. One way of delivering project aid – the conventional way for CIDA – is through parallel systems, where donors or executing agencies lead the design and appraisal of the project, decide the inputs to be provided, and use their own disbursement and accountability procedures. In contrast, project support under PBAs should preferably make use of local institutions. This means making use of government systems or those of civil society or private sector organizations in the host country. The channelling of support through local institutions helps to strengthen local ownership and promotes the reinforcement of local procedures and accountability systems. Increasingly, there is recognition of the need to use expatriate expertise in different ways than has been done in the past, to support local institutions rather than to actively manage all aspects of a project.

### *Program support*

Project support can be contrasted with program support, which involves contributions of a more general nature that can be used flexibly for different purposes as part of a pool of funds. Program support can take several forms, based on combinations involving the following distinctions:

- First, program support may be on-budget or off-budget,<sup>11</sup> and may or may not be managed using local procedures.
- Second, program support involves different types of earmarking. Earmarking may be for a particular sector or sectors, or might be for specific types of activities within a sector. At the other extreme is general budget support, which theoretically does not involve any earmarking, although in practice, donors providing general budget support may still wish to ensure that their funding is additional to projected government expenditures in key sectors, by attaching what are called “additionality” conditions to their support.

Program support under PBAs is generally provided either as pooled funding or as direct budget support.<sup>12</sup>

### *Pooled Funding (Common Basket)*

Pooled funding refers to a situation in which a number of donors agree to contribute to a common fund or basket. Pooled funding usually involves the use of a holding account reserved for particular purposes identified by agreement between the government and donors participating in the pool. An example of this is the pool fund established in the Mozambique education sector in 2002.

Pooled funding requires clear and harmonized procedures that are observed by all donors participating in the fund. Harmonization and coordination of procedures in pooled funding can be carried out in one of two ways. One way emphasizes the use of government procedures. In

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<sup>11</sup> On-budget means that program support is presented and included in the government budget. For a detailed discussion of the on-budget concept, see Pavignani et al, 2002: 22-24.

<sup>12</sup> See EC, 2003, section 4.3 for a discussion of the basis for choosing among different funding modalities.

this case, donor flows are integrated into the government budget system. In this case, the government itself manages and accounts for donor funds, preferably using its own procedures. This focuses the efforts of stakeholders on improving the public expenditure management system. The second way is to use a single set of donor procedures, for example the World Bank's procedures when it manages funds on behalf of the other co-financing donors under a trust fund arrangement (Foster, 2000).

The EC (2003: 50) summarizes the potential benefits of pooled funding as follows:

- "It may reduce transactions costs by introducing common reporting, disbursement, accounting and procurement procedures for activities which would otherwise be funded through a number of discrete projects.
- By bringing the activities of several donors into one funding arrangement, it may facilitate the process of harmonization with government policies and expenditure programming systems.
- It may provide a useful "learning ground" for building confidence between government and donors and thus facilitate the move to direct budget support and the use of government procedures."

However, the EC also draws attention to the fact that pooled arrangements impose transactions costs of their own and that these can easily be excessive relative to the gains achieved, unless relatively simple formula are adopted. They suggest that careful assessment should be made of the possibility of moving directly to budget support (EC, 2003: 51).

### ***Budget Support***

Program support that is provided directly to host-country institutions to be spent as part of their budgets using their own financial management systems is referred to as budget support. Although budget support also involves the pooling of funds, it is distinguished from pooled funding by the mixing of donor funds with those of the recipient, and the greater flexibility that thus accrues to the recipient in the use of those funds. Budget support is sometimes

referred to more specifically as direct budget support (Foster and Leavy, 2001). In this primer, the terms budget support and direct budget support are used interchangeably.

There are a number of reasons for providing budget support. These have been well articulated by DFID, which has moved strongly toward this form of support. In 2001/02, direct budget support accounted for about 25 percent of total DFID disbursements in country programs (Teuten, 2002). The potential advantages of budget support identified include the following (*ibid.*):

- Further reduction of transactions costs due to the pooling of both donor and government funds.
- Recognition of recipient government leadership, and empowerment of the government to manage spending rationally.
- Encouragement of a greater results orientation by the government.
- Increased attention to policies and priorities as opposed to operational matters.
- Increased attention to systemic government weaknesses and cross-cutting reforms.
- Promotion of accountability within the recipient country.
- Greater clarity and predictability of funding.

Budget support raises a number of concerns regarding the soundness of host-institution financial management systems, because donors need to ensure that funds will be used as intended. The decision whether or not to engage in budget support thus requires careful assessment of financial management systems, of a country's commitment to sound policies, of its capacity to deliver on results, and of the organizational and incentive structures that shape decision-making in the host country (Graeme, 2001: 4; Lawson et al., 2002: xi). One of the main conclusions of the Lawson et al. study on budget support (2002: x) is that "few, if any, of the postulated positive effects of budget support are automatic. Budget support needs to be accompanied by work on crosscutting administrative issues, on local government effectiveness and probity, and at the sector level (*ibid.*).

Donors' fiduciary concerns about budget support are legitimate, but bypassing government

systems only perpetuates the problem of weak institutional capacity. Accordingly, donors represented in the SPA have established the Addis Ababa principle favouring the use of government systems whenever possible. The principle, enunciated in November 2001, reads as follows:

All donor assistance should be delivered through government systems unless there are compelling reasons to the contrary; where this is not possible, any alternative mechanisms or safeguards must be time-limited, and develop and build, rather than undermine or bypass, government systems.

An intermediate solution to the provision of budget support is for donors to take responsibility directly for the delivery of certain goods and services included in the government budget. In this case, the funds are managed outside of the government's financial management and accountability framework. This approach may be adopted for expediency or as an interim measure when fiduciary considerations militate against the use of government procedures. Examples in CIDA include much of our support for the Bangladesh health SWAp, and support for sexual and reproductive health in Nicaragua.

## **G. CIDA's Accountabilities and Responsibilities Under PBAs**

How CIDA engages in PBAs as both donor and partner depends to a considerable extent on how it interprets its accountabilities and responsibilities towards Parliament and the Canadian taxpayer. This section provides some discussion of how to approach these issues under PBAs (based on Lavergne, 2002b).

As was pointed out in a recent issues paper drafted for CIDA, the first thing that needs to be recognised in discussions of accountability is that there are several levels or types of accountability (Schacter, 2001). That paper identified three levels. In fact, there are many more than that, if one considers the different agents that may be involved in development cooperation (including executing agencies that intermediate between donors and recipients), and the different accountabilities that exist as part of any management hierarchy. However, for

present purposes, it is useful to consider four important and fundamentally distinct levels of accountability, all of which are important to the success of development cooperation:<sup>13</sup>

- CIDA's accountability to the Canadian government.
- The accountability of the recipient to CIDA.
- The accountability of developing country institutions to their own constituencies.
- CIDA's accountability to the recipient and to other donors.

The Office of the Auditor General of Canada has defined modern accountability as follows (OAG, 2002: 5):

Accountability is a relationship based on obligations to demonstrate, review, and take responsibility for performance, both the results achieved in light of agreed expectations and the means used.

Accountability for CIDA is thus an obligation associated with stewardship over resources entrusted to it. A key concept here is that of "agreed expectations." What are these expectations? The precise answer depends on one's understanding of accountability, whether one takes a bureaucratic or rules-based approach, or a results-based perspective as currently advocated by Canada's Treasury Board and Auditor General's Office. Taking the latter perspective, the obligations entrusted to CIDA can be interpreted to include the following:

- Striving for results.
- Managing risk and uncertainty to maximize expected results, using a portfolio management approach.
- Taking a non-bureaucratic approach to rules and regulations that promotes innovation, learning, and effectiveness.
- Making efficient and effective use of resources.

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<sup>13</sup> These four levels correspond to the three levels identified in the issues paper mentioned above, plus CIDA's accountability to recipients and other donors.



- Demonstrating performance in terms of all of the above.

Demonstrating performance is an important part of accountability. Questions arise about demonstrating performance under PBAs, because of how difficult it may be to attribute outcomes to any particular party's contribution. Resolving these questions requires that a proper distinction be made between *demonstrating performance* and *demonstrating results*. Although CIDA is accountable for results, performance cannot be demonstrated only by reporting on higher-level outcomes over which donors often do not have very much control. Demonstrating performance is about telling the story in terms of CIDA's contribution to outcomes. This is not just a story about results, but also about what the Agency is doing to achieve those results. It should include reporting on strategy, risk management, compliance, efficiency, and cost effectiveness. Ideally, reporting should combine information on results with information on each actor's own performance in contributing to those results.

Two fundamental features condition donor accountability for results under PBAs: the fact of working in partnership with others, and the principle of local ownership. The principle of partnership is fundamental, because if donors are working in collaboration with each other and with local institutions, it becomes much more difficult to assign credit or attribution for particular results. It thus becomes imperative to think in terms of joint responsibility and joint accountability for results. Although this does not absolve each party from taking responsibility for its own performance, the measurement of performance will have to be adjusted to the circumstances, and should include an assessment of how each party contributed to the efforts of the partnership as a whole.

The principle of local ownership also has major implications for how donors think about accountability for results, because there is an obvious tension between the principle of local ownership, and the traditional attempt to ensure results by incorporating all of the necessary controls and resources to guarantee success under the project approach. Under a local ownership model, CIDA's role becomes a catalytic one that addresses issues of sustainability by respecting local conditions and resource limitations. Controlling for results is actually contrary to the aims of promoting local ownership and detrimental to sustainability of results over the

long term, and donors must recognize the cost, in terms of lost opportunities for learning by doing, when donor control is imposed over the design, implementation, monitoring, and evaluation of development interventions. Releasing controls in a way that is respectful of local ownership does not imply an abdication of responsibility. Rather, it involves recognition of certain responsibilities that might have been less apparent in the past. It involves a recognition that sustainable development based on institutional strengthening and local ownership cannot be achieved using a control-based model of development cooperation.

This model involves some new accountabilities, responsibilities for which CIDA needs to hold itself accountable, and for which the Auditor General and Parliament, even recipient country partners, should be holding CIDA accountable. Project documentation should speak to how CIDA will address these responsibilities. Among the responsibilities that come to the fore under PBAs are the following:

- Making strategic choices about engaging in PBAs.
- Adopting new strategies for risk management that involve an optimal balance between donor control and local control, and that promote rather than hinder local ownership.
- Promoting the accountability of local institutions to their own constituencies.
- Promoting local ownership.
- Promoting the enhancement of local capabilities.
- Engaging in collaborative procedures and behaviour that enhance partnerships and coherence, and reduce transactions costs.

In a recent workshop on accountability under PBAs held in CIDA on April 1, 2003, representatives of Canada's Auditor General's Office and Treasury Board identified a number of indicators of sound management that they would look for in assessing CIDA's participation in a PBA. These included the following:

- Quality of the institutional analysis or "readiness assessment" conducted with respect to the recipient institution.

- Justification for the choice of PBA-based support.
- The clear and transparent articulation of the elements of results-based management: clarity of purpose, articulation of realistic targets, allocation of appropriate resources, articulation of roles, responsibilities and accountabilities (including areas of shared accountability) and identification of suitable indicators for assessing progress.
- The adoption of appropriate measures to assess and manage risks.
- Details of collaborative arrangements with other donors and of CIDA's contribution to the harmonization of donor practices.
- Demonstration of results and assessment of CIDA's contribution to those results.
- What CIDA is doing to promote the accountability of host partners to their own constituents.
- Evidence of good judgement and of the application of lessons learned in the evolution of support for the program.

## H. CIDA Experience to Date

CIDA's interest and involvement in PBAs is relatively recent, considering that the original discussion paper promoting a shift to new programming approaches goes back only to the fall of 2000. Indeed, the official policy statement announcing the movement towards PBAs was made very recently, in September of 2002. However, the Agency has mobilized quickly since 2000 to develop a number of initiatives under the PBA umbrella. Although the proportion of CIDA disbursements being made under this mode today remains modest due to the time lags involved, a large number of important initiatives have already been approved.

The Agency does not have a complete inventory of these initiatives – partly because of inevitable ambiguities about what “counts” as a PBA. However, CIDA's PBA network extranet site lists 26 PBAs currently operational or under development in the Agency. This list is reproduced below as Table 5. It includes 12 SWAps, eight of which cover primary education in different African and Asian countries. It also includes two examples of general budget support in favour of Tanzania's and Ghana's PRSs. The other initiatives listed include a wide range of efforts, including for example the Nile Basin Initiative mentioned earlier, a program in Malawi

to combat HIV/Aids, and support for the Ombudsman's office in Bolivia.

Experience with PBAs is accumulating, and lessons are being learned and shared through both informal and formal arrangements in CIDA, such as the PBA network, the Working Group on Budget Support, and the Portfolio Working Group, charged with drawing lessons from examples of innovative programming in the Agency. CIDA's policy is to emphasize the use of PBAs in a limited number of countries that are poor but committed to improved governance and the effective use of resources.

Table 5 \_ List of PBA activities currently approved or being developed in CIDA

Region	Initiative	Type of support	Status
Africa and Middle East	Ghana Poverty Reduction Strategy Budget Support	General support for PRSP	Approved
	Tanzania Poverty Reduction Strategy Budget Support	Multisectoral support for PRSP	Approved
	Burkina Faso - Education	SWAp	Approved
	Ghana Agriculture and Food Security	SWAp	Under development
	Mali - Education	SWAp	Operational
	Mali - Reproductive Health and Population	SWAp	Submitted for approval
	Mozambique - Education	SWAp	Approved
	Senegal - Education	SWAp	Under development
	Tanzania - Education	SWAp	Submitted for approval
	Uganda - Education	SWAp	Operational
	Zambia - Education	SWAp	Under development
	Malawi - HIV/AIDS	Subsectoral	Operational
	Nile Basin Initiative	Regional	Operational
	Mozambique - Institute for National Demining	Organizational	Operational
	Ghana District - Wide Assistance Program	Subnational	Under development
Latin America	Nicaragua - Sexual and Reproductive Health	Subsectoral	Operational
	Bolivia - Ombudsman's Office	Organizational	Operational
	Caribbean Regional Epidemiological Centre (CAREC)	Regional	Operational
	Peru - Economic and Social Research	Organizational	Operational
Asia	Bangladesh - Health and Population	SWAp	Operational
	Bangladesh - Education	SWAp	Under development
	India - Energy Infrastructure Services Project - Phases I & II	Sub-national	Operational
	Bangladesh - BRAC (Primary Education)	NGO program	Operational
	Bangladesh - Proshika	NGO program	Operational
	Vietnam - Primary Education for Disadvantaged Children	Subsectoral	Approved

## Acronyms

BRAC	Bangladesh Rural Advancement Committee
BMZ	German Federal Ministry for Economic Cooperation and Development
DAC	Development Assistance Committee
CAREC	Caribbean Regional Epidemiological Centre
CDF	Comprehensive Development Framework
CEA	Canadian Executing Agency
CEAA	Canadian Environmental Assessment Act
CFAA	Country Financial Accountability Assessment
CIDA	Canadian International Development Agency
CIDA/AMEB	CIDA/Africa and Middle East Branch
CONTACT	Country Assessment in Accountability and Transparency
DANIDA	Royal Danish Ministry of Foreign Affairs
DFID	Department for International Development (UK)
EC	European Commission
EU	European Union
GTZ	German Agency for Technical Cooperation
HIPC	Highly Indebted Poor Countries Initiative
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
IMF	International Monetary Fund
LDC	Least Developed Country
LENPA	Learning Network on Program-Based Approaches
NGO	Non-Governmental Organization
NORAD	Norwegian Agency for Development Cooperation
OAG	Office of the Auditor General of Canada
ODA	Official Development Assistance
ODI	Overseas Development Institute

OECD	Organization for Economic Cooperation and Development
OED	Operations Evaluation Department (World Bank)
PBA	Program-Based Approach
PEFA	Public Expenditure and Financial Accountability
PFM	Public Sector Financial Management
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
RBM	Results-Based Management
SEA	Strategic Environmental Assessment
SIDA	Swedish International Development Cooperation Agency
SPA	Strategic Partnership with Africa
SWAp	Sector-Wide Approach
TBS	Treasury Board Secretariat of Canada
UNDP	United Nations Development Program
UNFPA	United Nations Population Fund
USAID	United States Agency for International Development
WHO	World Health Organization