NO.

BASIC STUDY
ON
PRSP/PUBLIC FINANCIAL MANAGEMENT
FINAL REPORT

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Foreword

The study team would like to submit the final report of Basic Study on PRSP/Public Financial Management in Twelve (12) African Countries, and inform Japan International Cooperation Agency (JICA) that the study has been completed. This report describes the results of a literature search and field surveys, and analyses of the above study commissioned by JICA for the period of September 2004 to October 2005.

During the study, we received indispensable support, and valuable comments and suggestions from many concerned persons. We express our sincere thanks to staff members of Regional Department IV of JICA in Tokyo, and JICA overseas offices, Embassies of Japan, JICA Regional Support Office, JICA Experts, and Project Formulation Advisors in the countries we visited. We also thank officials of the governments and donors, and staff of civil society organization in the countries studied for their time and intellectual contributions during our interview sessions.

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Summary

The study team has observed and analyzed situations and issues concerning Poverty Reduction Strategy (PRS) monitoring and public financial management in twelve (12) African countries (Burkina Faso, Ethiopia, Ghana, Kenya, Madagascar, Malawi, Mozambique Niger, Senegal, Tanzania, Uganda, Zambia,). In particular, the team focused on the linkages between PRS monitoring cycle, and budget formulation and execution to highlight issues related to implementation arrangements for Poverty Reduction Strategy Paper (PRSP). In addition, the budget process and its structure of the agricultural sector in Ethiopia, Tanzania, and Mozambique are analyzed from the point view of budgetary interactions between the central government and local governments. It was assumed that the ongoing implementation of decentralization policies characterizes the way these interactions take place. Based on the observations and analyses, the study team has rendered recommendations regarding JICA's PRS monitoring and public financial management assistance. To implement such assistance effectively, the team has identified issues which have been compiled in a public financial management handbook for JICA staff and its affiliates to use.

Background of PRSP

The PRSP approach emerged from reflections on past aid policies and debt reduction schemes under the Heavily Indebted Poor County (HIPC) initiative. The basis of the PRSP approach was formed through development of the sector approach, the Comprehensive Development Framework (CDF) and the Millennium Development Goals (MDG) of which all have roots in the lessons learned from the structural adjustment programs. Furthermore, under the HIPC initiative, PRSPs were developed as an instrument to achieve poverty reduction targets. The HIPC initiative required governments to invest resources which became available from debt reduction (shadow counter value) to poverty reduction projects and programs. The recipient countries are to implement comprehensive policies to reduce poverty according to their respective PRSP while the donors are to respect the recipient countries' ownership and align their assistance procedures to recipients' PRS monitoring and public financial management procedures. While observing the initiatives of the recipients, the donors have been piloting New Public Management (NPM), an approach adopted in developed countries, to support governance of recipient countries. Donors have also introduced the Mid-term Expenditure Framework (MTEF), the Activity Based Budgeting (ABB) and the Performance Budgeting.

Issues regarding PRS monitoring

In all the countries studied, a coherent cycle involving drafting of policies according to PRSP, financing of budget, and transparent and accountable execution, reporting and auditing procedures of budget was generally weak. All countries faced difficulties in: linking the PRS process with the budget cycle; maintaining effective PRS monitoring system and structure; and performing public financial management.

Regarding the issue of linking the PRS process with the budget cycle, the MTEF must reflect the contents of the PRSP; however, the adequacy of MTEFs differed from one country to another. Integration of sectoral strategies, annual plans and budgets with PRSPs were examined. The annual budget was not compiled within the MTEF in some cases. By feeding back the PRS monitoring outcomes, the cycle of 'policy-making – budget formulation and execution – monitoring and auditing' is developed; however, the annual monitoring schedule and the budget cycle did not match in some countries. In countries such as Ghana, the two schedules synchronized but this did not mean that the monitoring outcomes were reflected in the budget formulation. According to the SPA budgetary support working group (2004), the only country which has complete linkage between the PRS monitoring and the budget cycle is Rwanda, a country not examined in this study. The same study suggests Ghana, Madagascar, Mozambique, Tanzania and Uganda have partial linkage.

With regards to PRS monitoring system and structure, in some countries, the organization responsible for monitoring and those responsible for budget formulation were not well coordinated. Sectoral ministries and the parliament did not understand PRSP well. Generally, local governments have weak capacity to participate in PRS monitoring. Capacity development of local governments is a common challenge for all the countries studied. The statistic department, which plays a vital role in PRS monitoring, had inadequate capacity in few countries. Many countries were narrowing down the number of PRSP indicators as too many indicators excessively inflated monitoring activities. In some cases, the linkage between the PRSP indicators and the MDGs was not clear.

Issues regarding public financial management

Various challenges were identified regarding public financial management. At the budget formulation stage, some countries had not fully incorporated the Mid-term Expenditure Framework (MTEF) into the budget cycle and situation differed from one country to another. All countries faced one or more problems regarding but not restricted to comprehensiveness, accuracy, structure and process concerning the annual budget. Particularly, the weak capacity of local governments to formulate budgets is likely to become a major challenge with the progress of decentralization.

At the budget execution stage, fiduciary risk was high in all the courtiers studied. The World Bank's Country Finance Accountability Assessment (CFAA) has pointed out the problem of delay in budget execution; flawed use of funds; inappropriate process; and inefficiency. Widespread corruption is an overarching problem. All countries have introduced some form of information system as part of the public sector reform package albeit the impact differed from one country to another. Uganda, Burkina Faso and Ethiopia started small and made good progress while Ghana introduced a large-scale system from the outset and is facing problems in many system components.

With regards to external auditing, the auditing department of all study countries tended to lack resources, personnel, and capacity. Delay in submission of audit reports is notable in many countries. Autonomy of external audits is questionable in some cases. In Ethiopia, the autonomy of the audit department is maintained by having the department report directly to the parliament while in Tanzania, the audit department reports to the minister in charge of finance, consequently putting the autonomy of external audits into question.

PRS monitoring and donor support to public financial management

In the countries studied, donors played various roles to support policy-making and improvement of budget system. For the donors, the challenges are to enhance the predictability of development assistance and to align aid with the policy and budget cycle of recipient countries. The donors are aiming to reduce transaction costs of recipients by setting up joint missions and sharing of framework for performance evaluation. In countries such as Uganda and Tanzania, efforts to formalize aid coordination are underway. With favorable outcomes from aid coordination in the pioneering countries, other countries may follow suit.

Decentralization and public financial management at the sector level

In this study, the agricultural sector of Ethiopia, Mozambique and Tanzania were taken as examples to assess the progress in decentralization and public financial management at the sector level. In the three countries, decentralization including the administrative and financial functions is underway. Powers are devolved to branches of central government organizations and local governments such as region, district, prefecture and city.

In the three countries, as the agricultural sector comprises a high proportion of GDP and many of the poor reside in rural areas and engage themselves in agriculture, the development of the agricultural sector is expected to boost poverty reduction in rural areas. Policies that combine national level policies such as development of agricultural market, and research and development; and micro level policies which mitigate constraining factors in agricultural production and give technical support to farmers are effective.

The development budget of local governments, however, is very limited and the majority of the local government budget is spent on recurrent expenses. If development budget is secured at the local government level along with the progress of decentralization, the policy intervention of the central government and the service provision to the farmers by the local governments can be streamlined. In such a case, capacity development of local governments, particularly in the area of budget formulation and execution, which comprise public financial management and ensures implementation of policies, is a precondition.

Japanese aid and challenges

Structuring to meet the challenges -- Attending donor meetings is extremely important but is time consuming. One way to tackle the problem may be to divide the tasks by for example, attending meetings with macro-economy specialist and local staff, as observed in one occasion. Enhancement of training on PRSP and public financial management to JICA staff, project formulation advisors and experts is also a challenge. In addition to knowledge on PRSP and public financial management, the process and outcome of Japanese assistance in Tanzania and cases of Uganda, Tanzania and Burkina Faso, all pioneer PRS countries, provide valuable insights for those in charge of other countries. By assigning an expert on PRS and public financial management to the regional offices they become: a focal point for information sharing; a consultation point for matters too difficult for country offices to handle on their own; mobile and take part in government and donor meetings. The regional offices can act as technical backup of country offices. Training of staff in the country offices including those employed locally is also an option.

Support to PRS process -- Japanese assistance must be positioned within the development context of recipient countries by engaging in policy dialogues with recipient governments and coordinating aid. Disclosure of information to enhance predictability of aid is integral to formulating and execution of budgets in recipient countries. By disclosing aid information, reactions from other donors are expected (e.g. personnel expenses are high, project budget should be redirected to common basket etc.); however, the reactions are unavoidable challenges in improving the quality of Japanese aid. In a world where aid coordination is progressing at the global level, information disclosure should not be taken as an ‘extra service’ but rather as a ‘due process’. In countries at the advanced stage of aid coordination, assistance may be given to donor meetings and not to the recipient country. For example, in promoting policy dialogue with a recipient government within an aid coordination framework, drafting of documents based on information gathering and analysis is necessary. If Japan is to intellectually contribute to this activity, Japan will be supporting the aid coordination and the PRS process.

Support to public financial management -- Although Japan does not have much experience in this area; reduction of fiduciary risk and the related public financial management reform are major challenges in the developing world. In this regard, it should be seen as an opportunity for Japan to enter into a new arena. As a matter of fact, JBIC assisted the public financial management sector of Ghana and Malawi, and experience and knowledge have been accumulated among those involved in development assistance. JICA has experience in supporting customs in Asia. Support to public financial management of recipient countries can be given not only by directly assisting public financial management but also through implementation of technical cooperation projects. For example, in an agriculture project, it is possible to enhance the capacity of the counterpart organization in public financial management while transferring agricultural technology. This type of assistance is also important from the viewpoint of sustaining the achievements of the project.

The challenge is in identifying appropriate individuals in Japan. Main candidates are:

- Economists and financial management specialist with work experience in international organizations,
- Certified public accountants and business management consultants working in an audit corporation, and
- Individuals with experience in budget formulation in central or local governments.

However, it is the demand that creates the supply and tendering is necessary to grow the pool of such people. It is also possible to utilize existing JICA schemes to develop public financial management specialists. For example, by utilizing the Overseas Long-term Training Program, one year can be spent on obtaining a masters degree and another on on-the-job training in the Department for International Development (DFID) or the Overseas Development Institute (ODI) of UK which both have rich experience in public financial management. Setting up a new expert training course on public financial management at the Institute for International Cooperation is another option. Those already equipped with accounting and budgeting skills can be trained to pursue their career in international cooperation and those already in the development field can be trained in public financial management.

Development assistance scheme and project formulation -- Considering the status of PRSP and public financial management in Africa and the progress in aid coordination, Japan needs to revise its aid schemes and project formulation process. In sectors where sector-wide approach (SWAps) is in place, the current process of conducting project formulation missions and ex-ante assessment missions to formulate projects should be revised. In countries at an advanced stage of PRS process and aid coordination, local staff should perform a greater role in project formulation. This is because it is necessary to participate in negotiations with the recipient government and donors regularly to understand the intentions of sectoral ministries and donors before formulating a project. In assessing the sustainability of projects in ex-ante assessments, the budget of the counterpart organizations and the recipient governments need to be scrutinized for availability of funds necessary for maintaining activities related to the projects. By introducing the viewpoint of public financial management into ex-ante assessments, the sustainability of projects can be enhanced. It is also necessary to examine the budget of counterpart organizations and recipient governments at the mid-term and terminal evaluations to measure the impact of projects.

The current PCM method also needs reviewing. There is need to develop program evaluation methods that can be applied in countries at an advanced stage of program approach. It is also important to align the project cycle of JICA with PRS monitoring and aid coordination framework. For example, when implementing a JICA project within a sector approach framework, monitoring cycle of the project should be in line with that of PRS monitoring.

Abbreviation

ABB	Activity Based Budgeting
APR	Annual Progress Report
CAS	Country Assistance Strategy
CDF	Comprehensive Development Framework
CFAA	Country Financial Accountability Assessment
CPAR	Country Procurement Assessment Review
CPI	Corruption Perceptions Index
CSO	Civil Society Organization
DFID	Department for International Department, U.K.
EC	European Community
E-HIPC	Enhanced Highly Indebted Poor Countries Initiative
FAO	Food and Agriculture Organization of the United Nations
F-PRSP	Full Poverty Reduction Strategy Paper
GDP	Gross Domestic Product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HIPC	Highly Indebted Poor Countries
IDA	International Development Association
IFMIS	Integrated Finance Management Information System
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
JBIC	Japan Bank of International Cooperation
JICA	Japan International Cooperation Agency
JSA	Joint Staff Assessment
MDBS	Multi-Donor Budget Support
MDGs	Millennium Development Goals
MoU	Memorandum of Understanding
MTEF	Mid-term Expenditure Framework
NEXI	Nippon Export and Investment Insurance
NPM	New Public Management
ODI	Overseas Development Institute
O-HIPC	Original Highly Indebted Poor Countries Initiative
PAF	Performance Assessment Framework
PCM	Project Cycle Management
PER	Public Expenditure Review
PRGF	Poverty Reduction Growth Facility
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
SAPS	Special Assistance for Project Sustainability
SDR	Special Drawing Rights
SPA	Strategic Partnership with Africa
SWAPs	Sector Wide Approaches
TOR	Terms of Reference
UNDP	United Nations Development Program
USAID	US Agency for International Development
WB	World Bank
WFP	World Food Program

Burkina Faso

CAS-PR	Country Assistance Strategy Progress Report
CSLP	Cadre Strategique de Lutte Contre la Pauvreté
INTOSAI	International Organization of Supreme Audit Institutions
PACR	Projets d'Appui aux Communes Rurales
PRGB	Programme de Renforcement de la Gestion Budgétaire
WAEMU	West African Economic and Monetary Union
WAMO	World Association of Management Organizations

Ethiopia

AFA	Annual Fiduciary Assessment
AfDB	African Development Bank
BIS	Budget Information System
CSA	Central Statistical Agency
DAG	Development Assistance Group
DPPC	Disaster Prevention and Preparedness Commission
DSA	Decentralization Support Activity
EPRDF	The Ethiopia People's Revolutionary Democratic Front
ERSC	Economic Rehabilitation Support Credit
FSCB	Food Security Coordination Bureau
JBAR	Joint Budget and Aid Review
MEFF	Macroeconomic and Fiscal Framework
MOFED	Ministry of Finance and Economic Development
NPV	Net Present Value
PEP	Public Expenditure Program
PIP	Public Investment Program
PSCAP	Public Sector Capacity Building Program
SDPRP	Sustainable Development and Poverty Reduction Program
WMU	Welfare Monitoring Unit

Ghana

ADMU	Aid and Debt Management Unit
BPEMS	Budget Preparation and Expenditure Management System
CAGD	Controller and Accountant General's Department
CCS	Comprehensive Communication Strategy
CFMRP	Comprehensive Financial Management Reform Programs
CHRAJ	Commissioner for Human Rights and Administrative Justice
CWIQ	Core Welfare Indicator Questionnaire
DPMU	District Planning Monitoring Unit
ERP	Economic Recovery Program
GDHS	Ghana Demographic Health Survey
GRPS	Ghana Poverty Reduction Strategy
ICR	Implementation Completion Report
IPPD	Integrated Personnel and Payroll Database
MDTA	Multi-Donor Technical Assistance
MTDP	The First Medium Term Development Plan
NCWD	National Commission on Women and Development
NDPC	National Development Planning Commission
NIPMG	National Inter-agency Poverty Monitoring Group

PFMTAP	Public Financial Management Technical Assistance Project
PSIA	Poverty and Social Impact Analysis
PUFMARP	Public Financial Management Reform Program
PURC	Public Utilities and Regulatory Commission
RPCU	Regional Planning Coordinating Unit
RPMG	Regional Planning Monitoring Groups
SAPS	Special Assistance for Project Sustainability
WAJU	Women Juvenile Units

<u>Kenya</u>

BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung
CSPR	Civil Society for Poverty Reduction
EPSRC	Economic and Public Sector Reform Credit
ERS	Economic Recovery Strategy
GNI	Gross National Income
IP-ERS	Investment Program for Economic Recovery Strategy for Wealth and Employment Creation
KANU	Kenya African National Union
NAPRAP	National Poverty Reduction Action Plan
NARC	National Rainbow Coalition
NDP	National Development Plan
NPEP	National Poverty Eradication Plan
PSAC	Programmatic Structural Adjustment Credit
PSMTAP	Public Sector Management Technical Assistance Program
PSRTAP	Public Sector Reform Technical Assistance Project
TNDP	Transitional National Development Plan

<u>Madagascar</u>

AU	African Union
STA	Secretariat Technique de l'Ajustement

<u>Malawi</u>

AGO	Accountant-General Office
CABS	Common Approach to Budgetary Support
DGEM	Donor Group on Economic Management
DIP	District Implementation Plans
DLG	Department of Local Government
EPD	Economic Planning and Development
FIMTAP	Financial Management Transparency and Accountability Project
KfW	Kreditanstalt für Wiederaufbau
MEJN	Malawi Economic Justice Network
MFAAP	Malawi Financial Accountability Action Plan
MK	Malawi Kwacha
MOF	Ministry of Finance
MPRSP	Malawi Poverty Reduction Strategy Paper
NSO	National Statistics Office
PAP	Poverty Alleviation Program
PPEs	Pro-Poor Expenditures
PSIP	Public Sector Investment Program
TWC	Technical Working Committee

Mozambique

DDP	District Development Plan
DPFP	Decentralized Planning and Financing Project
DPG	Development Partners Group
FIL	Fundo de Iniciativa Local (Local Initiative Fund)
MCF	Municipal Compensation Fund Fundo de Compensação Autárquica (FCA)
NSDPF	National Strategy for Decentralized Planning and Financing
PAF	Performance Assessment Framework
PAPs	Program Aid Partners
PARPA	Plano de Acção para a Redução da Pobeza Absoluta (The Action Plan for the Reduction of Absolute Poverty)
PROAGRI	Programa Nacional de Desenvolvimento Agrário (National Program for Agricultural Development)
PSP	Provincial Strategic Plan

Senegal

CWIQ	Core Welfare Indicators Questionnaire
PDFE	Programme Décennal de l'Education et de la Formation
PDIS	Programme de Développement Intégré du Secteur de la Santé
PRP	Poverty Reduction Program Programme de Lutte contre la Pauvreté (PLP)

Tanzania

ASDP	Agricultural Sector Development Program
ASDS	Agricultural Sector Development Strategy
DADP	District Agricultural Development Program
FASWOG	Food and Agriculture Sector Working Group
NPES	National Poverty Eradication Strategy
RDS	Rural Development Strategy
TAS	Tanzanian Assistance Strategy

Uganda

BFP	Budget Framework Paper
DCI	Development Cooperation Ireland
EFMP	Economic and Financial Management Project
GNP	Gross National Product
IFMS	Integrated Financial Management System
LGDP	Local Government Development Program
MGLSD	Ministry of Gender, Labor and Social Development
MIS	Management Information System
MoFPED	Ministry of Finance, Planning and Economic Development
MoLG	Ministry of Local Government
MoPS	Ministry of Public Service
NIMES	National Integrated Monitoring & Evaluation Strategy
OED	Operations Evaluation Department (World Bank)
OPM	Office of Prime Minister
PAF	Poverty Action Fund

PEAP	Poverty Eradication Action Plan
PFAA	Public Finance and Accountability Act
PFAR	Public Finance and Accountability Regulations
PMA	Plan for Modernization of Agriculture
PMAU	Poverty Monitoring and Analysis Unit
PMES	Poverty Monitoring and Evaluation Strategy
UBOS	Uganda Bureau of Statistics

Zambia

CSPR	The Civil Society for Poverty Reduction
DDCC	District Development Coordinating Committee
GRZ	Government of the Republic of Zambia
HIP	Harmonization in Practice
IFIs	International Financial Institutions
IFMIS	Integrated Financial Management Information System
NAPRAP	National Poverty Reduction Action Plan
NDP	National Development Plan
PEMFA	Public Expenditure Management Financial Accountability Reform Programme
PEMFAR	Public Expenditure Management Financial Accountability Review
PDCC	Provincial Development Coordinating Committee
SAGs	Sector Advisory Groups
TNDP	Transitional National Development Plan

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Chapter 1. Overview of Study Results

1. Objectives of Study and Method

1-1. Objectives of Study

The objectives of this study are as follows:

(a) Identify and analyze issues and challenges regarding PRS monitoring and public financial management through review of Annual Progress Report (APR)[1], Public Expenditure Review (PER)[2] and Medium-Term Expenditure Framework (MTEF)[3] conducted by recipient countries, and Country Financial Accountability Assessment (CFAA)[4] and Country Procurement Assessment Report (CPAR)[5] carried out by the World Bank and other donors.

(b) Taking two to three countries as an example, conduct analyses on public financial management centered on central level budget structure for a particular sector with reference to the status of decentralization.

(c) Taking into account the outcomes of the above two analyses, propose practical assistance programs and methods for JICA regarding issues related to PRSP implementation cycle, budget formulation and execution system, and PRSP implementation process with particular reference to budgetary assistance framework.

By conducting this study it was hoped that understanding of PRS process and public financial management will be enhanced among staff of JICA and its affiliates, and policies to support aid coordination and public financial management framework will be established in the study countries.

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[1] An annual report compiled by recipient governments regarding implementation and progress status of poverty reduction strategies.

[2] An analysis method for public sector management. An analysis and evaluation report of the public sector and public expenditure compiled by the World Bank with the aim of identifying the weakness and strength of public expenditure management capacity of recipient countries. It mainly focuses on the budget structure; however, it deals with issues regarding the public sector in general such as public sector reform, decentralization and organizational restructuring.

[3] A 3-year national framework budget compiled by the finance ministry of recipient countries which includes macro-economic analysis. It considers the optimum allocation of finance according to sectoral development plans. It is an approach to effectively allocate the limited budget. It aims to achieve balance in the macro-economy, strategic budget allocation and efficient budget execution and is utilized as a means to provide financial backing to activities planned in the PRSP.

[4] Analyzes the public and private financial management systems and financial accounting environment in order to manage financial risks and enhance financial management capacity of debtors.

[5] Aims to evaluate the soundness of procurement structures of the public sector. Analyzes the public procurement system from the point of view of legal framework, organizational strength and variance between the de facto and the de jure.

1-2. Study method

This report is an outcome of the study held from September 2004 and October 2005.

<Year one>

During the first year of the study, the first (in Ghana and Malawi, October 2-16), second (Zambia and Mozambique, October 29-November 13), third (Burkina Faso and Ethiopia) and fourth local study (Uganda, February 12-23 2005) were conducted, in addition to literature reviews. The study team participated in a workshop in Kenya and reported on the study results (February 8-11, 2005). The countries covered in the studies are shown in Table 1-1 below. Study results from local consultants employed by the JICA Mozambique office were incorporated in this report.

<Year two>

Information was gathered through literature reviews and interviews with JICA staff and former project formulation advisors. At the same time survey results from the first year was revisited. Interviews with the World Bank and PEFA secretariat were held in Washington DC. Public financial management performance evaluation report and indicators being developed by PEFA was reviewed and the outcome was reflected in the manual (fifth overseas assignment). At the sixth overseas assignment, research was carried out in Madagascar and Kenya. The team participated in the second workshop in Kenya (26-28 September 2005) and reported the preliminary findings of the study. Feedbacks from the participants were referred to while compiling the report. In the same mission, the study team participated in the PFM Seminar of the Overseas Development Institute in London and conducted an interview with a former manager of Oxford Policy Management.

Table 1-1 Countries Covered in Study (Documentation Study and Local Study)

Areas studied	Uganda	Ethiopia	Ghana	Kenya	Zambia	Senegal
PRS monitoring	Literature and local survey	Literature and local survey	Literature and local survey	Literature and local survey	Literature and local survey	Literature
Public financial management	Literature and local survey	Literature and local survey	Literature and local survey	Literature and local survey	Literature and local survey	Literature
Agricultural sector		Literature and local survey				
Areas studied	**Tanzania**	**Niger**	**Burkina Faso**	**Madagascar**	**Malawi**	**Mozambique**
PRS monitoring	Literature	Literature	Literature and local	Literature and local	Literature and local	Literature and local survey local consultants

			survey	survey	survey	
Public financial management	Literature		Literature and local survey	Literature and local survey	Literature and local survey	Literature and local survey local consultants
Agricultural sector	Literature					Literature and local survey local consultants

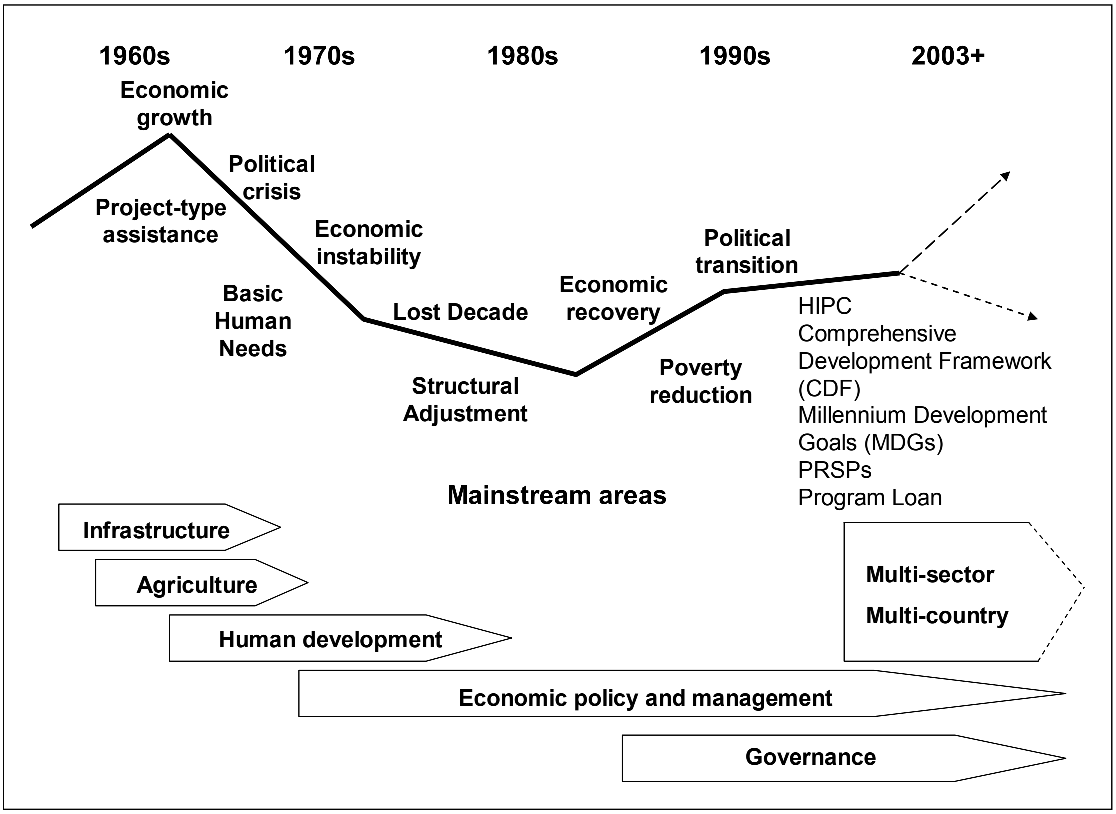
2. Overview of Study Results

2-1. History of Aid until PRSP

In the 1960s, the dominant mood in Africa was a feeling of great optimism about the future, and the World Bank took the lead in carrying out large-scale agricultural and infrastructure-related projects. However, the dramatic advance over the previous colonial-era economies did not take place. In the 1970s, projects focusing on basic human needs such as extending the average life span were carried out. However, economic conditions in many African nations deteriorated due to external factors such as the oil shock and currency crisis as well as weak governance and mistakes in economic management. Projects in the transportation and health sectors were carried out.

In the 1980s, the emphasis was on the stabilization of the macro-economy, liberalization of trade and prices, and the introduction of policies such as democratization. The World Bank and IMF started their structural alignment program. Although macro-economic and structural reforms did lead to some degree of economic growth in some countries, other countries did not achieve a turnaround from their customary conditions. In the 1990s, emphasis was placed on the capacity and sense of ownership of developing countries' governments, and aid policies shifted to Comprehensive Development Framework (CDF), Millennium Development Goals (MDGs) and Poverty Reduction Strategy Papers (PRSPs).

Figure 1-1 Trend of development assistance policy



(1) History of Aid after Structural Adjustment Program and PRSP

The basic principles of PRSP emphasize the country's sense of ownership of poverty-reduction strategies, a focus on results, a comprehensive approach, an emphasis on partnerships and a medium to long-term perspective. As shown in Table 1-2 these PRSP principles reflect the lessons learned through the structural adjustment program and the subsequent sector approach, CDF and MDGs.

Table 1-2 Five PRSP Principles and Correlation with Aid History

Five PRSP Principles	Structural adjustment program	Sector approach	Comprehensive Development Framework (CDF)	Millennium Development Goals (MDGs)
Ownership	Examination of lack of ownership in structural adjustment	Developing country guides the formulation of strategies	Emphasis on leadership of developing country	
Results-focused			Introduces indicators and checks extent of achievement	Introduces numerical goals

Comprehensive approach		Comprehensive emphasis on sector	Focus on comprehensive development	
Emphasis on partnership		Presupposes participation of development partners, civil society, NGOs and others	Partnership with development partners guided by developing country	
Medium to long-term perspective				Medium and long-term goals to be achieved by 2015 are set
Other	Concept of economic structural reform is carried over			

Source: Prepared by study group

a) Lessons learned from structural adjustment program

In the 1980s, the World Bank and IMF introduced a structural adjustment program in which loans were provided to developing countries with heavy debt contingent upon the country's commitment to satisfy certain conditions. The conditions were intended to achieve economic and structural reforms such as the abolishment of the government's market intervention, privatization, deregulation and the introduction of foreign investment, and were consistent with the conservative philosophies of the Thatcher administration in the UK and the Reagan administration in the US. The conditions did not merely address economic issues, but also included political conditions such as democratization.

Observers have pointed out that the structural adjustment program was problematic in that it was a "one size fits all" program that did not adjust for the particular developing country's specific issues and therefore the country did not feel a sense of ownership, it relied excessively on market mechanisms to ensure appropriate distribution of resources, and liberalization of the economy hurt the poor. PRSP addressed these issues by emphasizing the developing country's sense of ownership and reconfirming the role of the developing country's government, or institution. However, the PRSP carried on the structural adjustment program's policy of introducing economic and structural reforms by tailoring them to the individual country's current needs.

b) Development from sector approach

In the 1990s, more attention was given to a sector approach in which strategies are established for each sector and the developing country's government works together with development partners. This approach was intended to address problems with the structural adjustment program such as the developing country's lack of any sense of ownership, as well as the damage caused by the development partners all carrying out their own projects (the developing country's government is unable to gain an understanding of the situation, the government's transaction costs increase, etc.). The main emphasis when carrying out the sector approach is the sense of ownership felt by the developing country's government.

According to Harrold, Peter and Associates, this approach is characterized by (1) comprehensive of sectors, (2) the sector's strategies and framework, (3) participation of related parties, (4) commitment of major development partners and (5) strengthening of local capacities.[6] The comprehensiveness led to the PRSP's comprehensive approach. (3) and (4) led to the PRSP's emphasis on partnerships, or the participation of the developing country's civil society, NGOs and development partners.

c) Development from Comprehensive Development Framework (CDF)

The CDF was proposed by the World Bank in 1998 as an approach that considers a developing country's development in terms of its institutional, structural and social aspects as well as its economic aspects. This approach emphasizes the developing country's ownership and cooperation with development partners, carried over from the sector approach. The comprehensiveness is also the same. The CDF sets indicators and introduced an emphasis on results, or achieving the indicators during a set period. This was carried over into the PRSP principle emphasizing results. The PRSP approach was propounded the year after the CDF announcement (1999); the PRSP is seen as a three-year action plan based on the CDF concept and ethos.[7]

d) Development from Millennium Development Goals (MDGs)

The UN Millennium Declaration was adopted at the United Nations Millennium Summit in September 2000, and sets forth eight goals and 18 targets to be achieved by 2015. It also adopts 48 indicators to determine the progress made in achieving these goals and targets. The MDGs are the first long-term plans allowing 15 years to reduce world poverty, and the PRSP serves as medium-term development strategies tailored for a specific country that will lead to achievement of the MDGs.[8]

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6 "The Broad Sector Approach to Investment Lending: Sector Investment Programs", World Bank Discussion Paper, 1995

7 "Case Studies for PRSP Process: Experiences in Tanzania, Ghana, Vietnam and Cambodia," Japan International Cooperation Agency's Institute for International Cooperation, 2004.

8 "Case Studies for PRSP Process: Experiences in Tanzania, Ghana, Vietnam and Cambodia," Japan International Cooperation Agency's Institute for International Cooperation, 2004.

(2) Development from HIPC Initiative

Under the HIPC Initiative, governments of Highly Indebted Poor Countries (HIPC) that receive debt relief are required to spend the money that would have otherwise been spent on debt repayment (shadow counterpart funds) to reduce poverty. PRSP is the plan followed to achieve this poverty reduction. PRSP's emergence here is due to past aid policies as well as debt relief and poverty reduction under the HIPC Initiative (please refer to the next section for more information on the HIPC Initiative and PRSP).

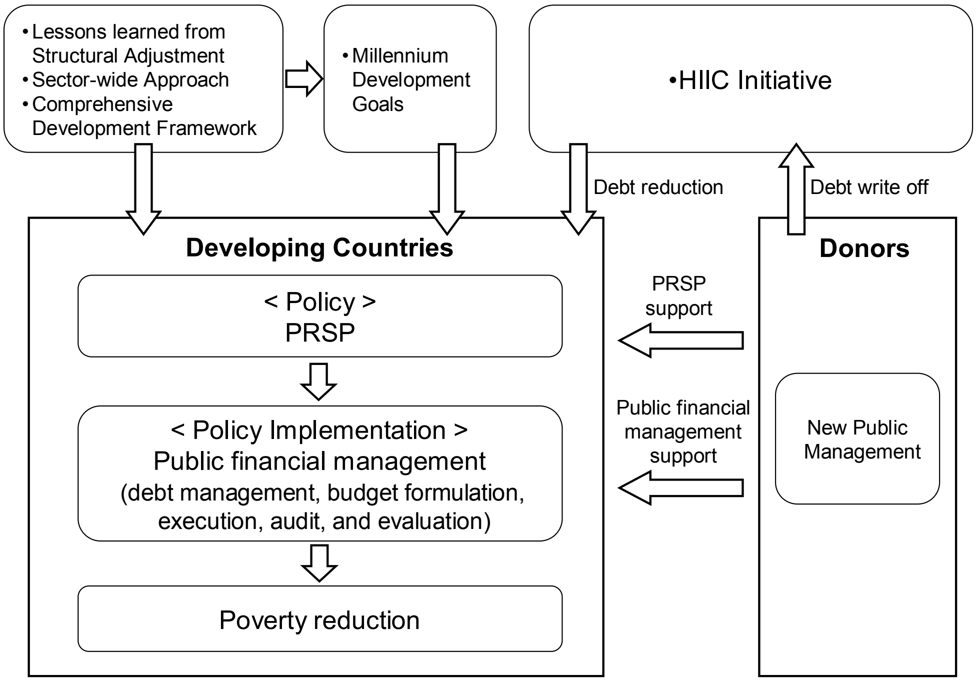
Before the HIPC Initiative, developing countries tended to have their debt rescheduled and receive debt relief on the condition that they carried out certain policies, but in contrast PRSP is a flexible process based on the five PRSP principles whose introduction aims at the implementation of policies that will reduce poverty under the leadership of the debtor countries. Its approach differs considerably from the previous conditionalities.

(3) Developed Nation's New Public Management (NPM) and Impact on Trends in Aid for Developing Countries

The UK, New Zealand and other developed nations introduced new public management (NPM), an administrative management theory that advocates the use of private-sector corporate methods in government administration. Although NPM has been labeled as an Anglo-Saxon theory,[9] Japan has taken note of NPM when conducting administrative reforms, and some local governments enthusiastically adopted NPM. Given the spread of NPM among developed nations, some development partners suggested that NPM be used as a theoretical framework when providing aid to improve governance in developing countries. In Africa, where the British influence is strong, some developing countries tried introducing NPM to improve governance. Given the importance of governance in the public financial management cycle consisting of policy implementation, budget formulation, budget execution and audits, it was thought that introducing the Mid-term Expenditure Framework (MTEF), Activity Based Budgeting (ABB) and Performance Budgeting would enhance the quality of public financial management. Figure 1-2 shows the background of PRSP and public financial management.

[9] Soshiro Osumi, "Public Management: Theory and Practice of Strategic Administration," 2002

Figure 1-2 Background of PRSP and Public financial management



2-2. HIPC Initiative and PRSP

Of the countries targeted for the studies described in this report, Tanzania, Uganda, Mozambique and Burkina Faso have prepared multiple Annual Progress Reports (APRs) and have been termed "developed nations implementing PRSP" (please refer to Table 1-2). In particular, in 1997 Uganda was the first to establish a Poverty Eradication Action Plan (PEAP) through broad consultation with development partners. Uganda is a model country for the PRSP approach, highly praised for its sound economic management and policy implementation in the 1990s, reaching the HIPC completion point in 1998, and being the first to have its PRSP approved by the World Bank and IMF boards (May 2000). Like Uganda, Tanzania has already carried out three APR. Of the French-speaking countries, only Burkina Faso has prepared three APR. Ghana has prepared two APR (in 2003 and 2004), but officially it has only submitted only one APR because only the 2004 APR was submitted to and approved by the World Bank and IMF boards.

With the exception of Kenya, all the countries included in this study participate in the enhanced HIPC Initiative. As of September 2004, all 12 countries had reached the HIPC decision point. With the exception of Zambia, ten countries had reached the HIPC completion point and were applicable for the debt relief program (see Table 1-3).

Table 1-3 Progress of PRSP and Enhanced HIPC Initiative (as of Aug. 2005)

Country Covered in Study	Year PRSP was established	Number of APR prepared	HIPC Decision Point (R: reached; x: not reached)	HIPC Completion Point (R: reached; x: not reached)
Tanzania	2000	3	R	R
Uganda	2000	3	R	R
Ghana	2003	1	R	R
Zambia	2002	2	R	R
Mozambique	2001	3	R	R
Burkina Faso	2000	4	R	R
Ethiopia	2002	1	R	R
Malawi	2002	3	R	R
Senegal	2002	1	R	R
Niger	2002	2	R	R
Madagascar	2003	1	R	R
Kenya	2004	1		

Source: Prepared using the World Bank and IMF (2004) *Poverty Reduction Strategy Papers-Progress in Implementation* (Washington DC: World Bank and International Monetary Fund), September, Table 1, p.12.

(1) Developments Leading to Enhanced HIPC Initiative

Bilateral debt relief agreements under the HIPC Initiative are carried out using the Paris Club framework. The Paris Club grew out of informal talks held between Argentina and its creditors in 1956 to discuss rescheduling its delinquent external debt, and it now functions as a forum in which to discuss sovereign nations' public debt.[10] Since then, up until the HIPC Initiative and the PRS process—which serves a central role in carrying out the Initiative—were adopted in 1999, the vantage point for the external debt problem changed to a focus on a) debt collection, b) debt rescheduling, c) aid and structural adjustment, d) sustainability of development under conditions of debt—in other words, determination of debt sustainability, and e) debt forgiveness and poverty reduction.[11]

The Paris Club's primary means of dealing with the debts of developing nations (including HIPCs) generated since the 1970s has been to reschedule debt on the condition that it will be repaid, but this ended up merely postponing any resolution to the problem many debtor countries had in repaying their debts. The structural adjustment loans given to HIPCs by international financial organizations in the 1980s failed to improve their governments' ability to

[10] NEXI web site (http://www.nexi.go.jp/insurance/ins_parisclub/ins_parisclub.htm); the London Club provides a forum for discussing and negotiating problems with loans made by the private sector to governments.
[11] WB. 2003. The Heavily Indebted Poor Countries (HIPC) Debt Initiative: An OED Review.

repay debt and effectively generate the economic growth necessary for this. Given this chain of events, in 1996 the IMF and World Bank boards adopted the HIPC Initiative,[12] having also been influenced by NGO movements that had gained influence over international financing frameworks.

One important reason for the adoption of the HIPC Initiative lay in the decision to attribute HIPC debt problems to government insolvency rather than temporary illiquidity, thus breaking off that particular debate. This change in the way debt problems were viewed was crucial in examining the characteristics of the HIPC Initiative. Based on this new understanding, international financial organizations such as the IMF and World Bank, in addition to bilateral creditor nations, committed themselves to debt rescheduling and partial debt forgiveness.[13] Unlike past debt rescheduling, the HIPC Initiative applies one standardized rule to all debtor nations and resolves debt problems fairly and openly.

The primary goals of the Original HIPC Initiative (O-HIPC) agreed on in 1996 were to reduce debt to levels at which debts could be repaid and economic growth could be sustained and to allocate the money that would have been used for debt repayment over the next 20 to 30 years to social areas with the aim of reducing poverty. Under the Enhanced HIPC Initiative (E-HIPC) adopted in 1999, the conditions for eligibility as an HIPC and the conditions for reaching the Decision Point were relaxed, and there were cases in which many of the countries that reached the Decision Point under the easier conditions (particularly the countries called the "millennium rush group") were subsequently deemed to have failed in carrying out development policies in a sound manner.[14]

(2) PRSP as New Type of Conditionality

In 1997, Uganda became the first country under O-HIPC to establish a Poverty Eradication Action Plan as its comprehensive development policy after broad consultation with stakeholders, and was subsequently praised for its sound economic management and policy implementation. In 1998, Uganda reached the Completion Point and received debt relief. Using Uganda's approach as reference, the establishment and implementation of a PRSP was proposed

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[12] The HIPC Initiative does not have any powers of coercion over the participating governments and organizations.

[13] WB. 2003; Since international credit is retained the debt is not actually cancelled, but instead a fund is set up and the fund takes over the cancelled debt.

[14] WB. 2003. Six countries that reached the Decision Point under O-HIPC (of these, this study covers Burkina Faso, Mozambique, Tanzania and Uganda) and nine countries that reached the Completion Point from January to July 2000 under E-HIPC (of these, this study covers Senegal, in addition to those above) were praised for their sound policies. In contrast, the so-called "millennium rush group" that reached the Decision Point from August to December 2000 (of these, this study covers Madagascar, Malawi, Niger and Zambia) subsequently had poor results, and of these only two countries were praised for sound policies. Ethiopia and Ghana, covered in this study, reached the Decision Point in May 2001 and February 2002, respectively.

as a mechanism to promote debt relief when Enhanced HIPC (E-HIPC) was adopted in 1999.[15]

Prior to the HIPC Initiative, developing countries' debt tended to be rescheduled and cancelled on the condition that individual policies were put in place, but in contrast the basic goal of PRSP was to strengthen the debtor country's policy establishment and implementation functions and reinforce government mechanisms. Based on its guiding principles,[16] PRSP is a flexible process under which the debtor country takes the leadership role in implementing policies to reduce poverty, and differs from the previous conditionalities. Also, from the perspective of the development partners, the introduction of PRSP[17] to promote the HIPC Initiative was a turning point in that it rescued the HIPC Initiative from the tendency to view it as a loan process and restored it to its role as grant loan aid, and highlighted the need for close coordination between loan aid and grant loan aid in reducing poverty.

(3) New Financial Resources and Improving Public financial management Abilities

One of the main concerns of those involved in designing the HIPC Initiative was whether it would be possible to replace the funds previously raised through loans with another source of funds under strict debt management to ensure that the country did not fall back into crisis mode after debt relief was completed. This led to the realization that fiscal aid through grants and aid for programs and projects had to be increased to avoid sudden fund shortfalls following the reduction in loans.

This highlighted the issue of fiduciary risks in the debtor nation's public financial management system. With loans, fiduciary risk could be absorbed by interest rates and using expected economic growth as collateral. In contrast, the issue of how the fiduciary risk posed by fiscal aid provided through grants would be addressed brought up a new problem. According to the assessment of the World Bank's Country Financial Accountability Assessment (CFAA) and Country Procurement Assessment Report (CPAA), in general the fiduciary risk represented by debtor nations' budget execution, procurement, accounting and auditing mechanisms are extremely high. In light of this, interest in raising debtor nations' public financial management abilities heightened as the HIPC Initiative and PRS process progressed.

(4) Debts of 12 Countries Targeted in Study and Status of Debt Relief

This section discusses (1) the structure of external debt, (2) relative size of external debt and estimated amount of debt relief through E-HIPC, and (3) principal and interest

15 Ibid.

16 The five guiding PRSP principles are: (1) ownership of poverty-reduction strategies, (2) a focus on results, (3) a comprehensive approach focusing on the many aspects of poverty, (4) an emphasis on partnerships with debtor nations, aid organizations, NGOs and the private sector, and (5) a medium to long-term perspective on poverty reduction.

17 The PRSP concept was subsequently expanded and termed the "PRS Process."

payments made on external debt and estimated amount of principal and interest payments once E-HIPC has been applied. These issues will be discussed for the eleven countries covered in this study and eligible for the HIPC Initiative, introduced in the previous section, and Kenya, which has currently been deemed “debt sustainable” and is not eligible for the HIPC Initiative. This discussion will enable the reader to understand the condition of the debt of the countries covered in this study, which determined the adoption of PRSP as a condition for debt relief.

a) Structure of External Debt

Table 1-4 shows the status of external debt in 2002 by creditor for the 12 countries covered in this study. With the exception of Mozambique, proportion of public debt exceeds 70% for the other 11 countries, indicating that they depend heavily on loans from bilateral and multilateral financing organizations. Almost all of the loans have low interest rates, primarily from multinational financial institutions such as the World Bank. The exception is Mozambique, which has a relatively low percentage of public loans, at 55%, and receives 33% of its loans from the private sector. As shown in Table 1-5, total loans make up 73% of the value of Mozambique’s exports, the lowest among the 12 countries. The high growth in exports is likely encouraging the private sector to make loans to the public sector.

Table 1-4 Structure of External Debt in 2002

Country	Total Debt		Official Debt					Private Sector Debt, etc.		
	Mill. US$	%	Bilateral		Multilateral		Official Debt Total	Private	Short-term	IMF
			Con-ces-sional	Non-con-ses-sional	Con-ces-sional	Non-con-ses-sional				
Burkina Faso	1,580	100%	8%	1%	77%	2%	89%	0%	3%	8%
Ethiopia	6,522	100%	33%	3%	56%	3%	95%	2%	1%	2%
Ghana	7,338	100%	16%	4%	54%	2%	76%	11%	8%	5%
Kenya	6,031	100%	27%	2%	47%	3%	79%	7%	13%	1%
Madagascar	4,518	100%	22%	20%	46%	1%	90%	2%	5%	3%
Malawi	2,912	100%	14%	0%	75%	2%	92%	0%	4%	3%
Mozambique	4,609	100%	20%	2%	32%	1%	55%	33%	8%	4%
Niger	1,797	100%	13%	8%	67%	1%	89%	3%	2%	6%
Senegal	3,918	100%	24%	6%	53%	3%	85%	1%	7%	6%
Tanzania	7,244	100%	30%	5%	49%	0%	84%	1%	9%	6%
Uganda	4,100	100%	8%	4%	76%	1%	89%	1%	4%	6%
Zambia	5,969	100%	22%	11%	44%	2%	79%	2%	2%	17%

Source: World Bank (2004), "Africa development indicators - from the World Bank Africa database."
Note: Amounts of the total debt are expressed in current prices.

Table 1-5 Relative Size of External Debt

and Committed Debt Relief under Enhanced HIPC Initiative

Country	Nominal GDP in 2002 (Mill. US$)	Relative Size of External Debt in 2002					Committed Debt Relief Under E-HIPC in 2003[1]		
		Total[2]		Debt in NPV/ Export Value %	Debt Service /Export Value %	Per Capita Debt (US$)	Debt Relief in NPV (Mill. US$)	Debt Relief in N.Value (Mill. US$)	Decision Point/Completion Point
		(Mill. US$)	% to GDP						
Burkina Faso	3,127	1,580	51%	140%	16%	134	553	930	Jul-00/Apr-02[3]
Ethiopia	6,059	6,522	108%	408%	11%	97	1,275	1,930	Nov-01/floating
Ghana	6,160	7,338	119%	147%	8%	362	2,186	3,700	Feb-02/floating
Kenya	12,330	6,031	49%	135%	14%	192			
Madagascar	4,400	4,518	103%	185%	10%	275	814	1,500	Dec-00/floating
Malawi	1,901	2,912	153%	175%	7%	271	643	1,000	Dec-00/floating
Mozambique	3,599	4,609	128%	73%	6%	250	2,022	4,300	Apr-00/Sep-01[3]
Niger	2,171	1,797	83%	135%	7%	157	521	900	Dec-00/floating
Senegal	5,037	3,918	78%	135%	12%	399	488	850	Jun-00/floating
Tanzania	9,382	7,244	77%	107%	9%	206	2,026	3,000	Apr-00/Nov-01[3]
Uganda	5,803	4,100	71%	174%	11%	167	1,003	1,950	Feb-00/May-00[3]
Zambia	3,697	5,969	161%	387%	28%	583	2,499	3,850	Dec-00/floating

Source: World Bank (2004), "Africa development indicators - from the World Bank Africa database."
Note 1. Amounts of debt relief are estimated by assuming that all the commitments are implemented.
Note 2. Total external debts is in current prices.
Note 3. Burkina Faso, Mozambique, Tanzania, Uganda also reached decision and completion point under the original HIPC initiative.

b) Relative Scale of External Debt and Estimated Amount of Debt Relief via E-HIPC

Table 1-4 compares external debt to GDP and exports in 2002. Excluding Kenya, which is not eligible for HIPC status, all countries have reached the Decision Point or Completion Point for E-HIPC,[18] and have already received partial debt relief. For this reason, Burkina Faso, Ghana, Mozambique, Niger, Senegal and Tanzania fell below the debt sustainability standard (net present value of external debt is more than 150% of exports) determining HIPC eligibility in 2002. The ratio of external debt to exports is particularly high in Ethiopia and Zambia, and Madagascar and Malawi also have relatively high percentages of external debt. Uganda's relatively high ratio of external debt can be attributed to the fact that it

[18] Burkina Faso, Mozambique, Tanzania and Uganda reached the Decision Point and Completion Point under the former HIPC. These four countries had also reached the Decision Point and Completion Point under E-HIPC as of 2002.

continued to raise funds through borrowing after it received debt relief.

Table 1-5 shows the estimated amount of debt that would be cut via E-HIPC as of 2003. This represents the estimated amount of debt relief at present value (the discounted value using the estimated market rate for the future principal and interest payments) and the nominal value (the total future principal and interest payments without discounting) assuming the debt relief that has been committed to. Although there is a one-year difference in the year examined, a comparison of the total debt and estimated debt relief at nominal value in 2002 shows major discrepancies in the percentage of debt to be cut, ranging from Senegal at 22% and Mozambique at 93%. The average debt reduction is about 50%.

Table 1-6 External Debt Service Paid and Due after Enhanced HIPC Initiative Relief

	1998	1999	2000	2001	2002	2003	2004	2005
Burkina Faso								
Debt service paid	57	61	48	33	42			
Debt service due after enhanced HIPC Initiative relief						26	27	27
Debt service/exports (in percent)	18	24	23	15	18	9	8	8
Debt service/government revenue (in percent)	16	16	16	11	11	5	5	4
Debt service/GDP (in percent)	2	2	2	1	1	1	1	1
Ethiopia								
Debt service paid	101	127	112	197	149			
Debt service due after enhanced HIPC Initiative relief						88	89	88
Debt service/exports (in percent)	10	14	11	21	15	9	9	8
Debt service/government revenue (in percent)	9	11	10	16	12	6	6	5
Debt service/GDP (in percent)	2	2	2	3	2	1	1	1
Ghana								
Debt service paid	560	521	533	243	267			
Debt service due after enhanced HIPC Initiative relief						163	104	112
Debt service/exports (in percent)	22	21	22	10	10	6	3	3
Debt service/government revenue (in percent)	41	53	78	26	39	17	10	8
Debt service/GDP (in percent)	7	7	11	5	4	2	1	1
Madagascar								
Debt service paid	166	106	65	45	50			
Debt service due after enhanced HIPC Initiative relief						54	73	73
Debt service/exports (in percent)	21	12	5	3	7	5	6	6
Debt service/government revenue (in percent)	42	25	14	10	15	10	13	11
Debt service/GDP (in percent)	4	3	2	1	1	1	1	1
Malawi								
Debt service paid	90	65	103	74	47			
Debt service due after enhanced HIPC Initiative relief						67	39	51
Debt service/exports (in percent)	16	13	23	15	10	14	8	9
Debt service/government revenue (in percent)	22	21	35	24	14	19	10	12
Debt service/GDP (in percent)	5	4	6	4	2	4	2	2
Mozambique								
Debt service paid	104	60	18	27	42			
Debt service due after enhanced HIPC Initiative relief						47	51	57
Debt service/exports (in percent)	41	9	2	3	4	4	3	3
Debt service/government revenue (in percent)	23	12	4	7	8	8	8	7
Debt service/GDP (in percent)	3	1	0	1	1	1	1	1
Niger								
Debt service paid	17	19	22	34	53			
Debt service due after enhanced HIPC Initiative relief						26	29	29
Debt service/exports (in percent)	5	6	8	12	17	7	8	8
Debt service/government revenue (in percent)	9	11	14	19	21	9	10	9
Debt service/GDP (in percent)	1	1	1	2	2	1	1	1
Senegal								
Debt service paid	207	178	165	138	165			
Debt service due after enhanced HIPC Initiative relief						146	141	139
Debt service/exports (in percent)	15	12	13	10	11	9	8	7
Debt service/government revenue (in percent)	26	22	21	17	16	13	12	11
Debt service/GDP (in percent)	4	4	4	3	3	2	2	2
Tanzania								
Debt service paid	224	193	154	92	109			
Debt service due after enhanced HIPC Initiative relief						100	129	148
Debt service/exports (in percent)	21	16	12	6	7	6	7	7
Debt service/government revenue (in percent)	29	20	16	9	10	8	9	10
Debt service/GDP (in percent)	3	2	2	1	1	1	1	1

Uganda								
Debt service paid	110	98	91	72	60			
Debt service due after enhanced HIPC Initiative relief						100	129	148
Debt service/exports (in percent)	15	12	14	11	9	12	15	16
Debt service/government revenue (in percent)	16	13	14	12	8	13	16	17
Debt service/GDP (in percent)	2	2	2	1	1	2	2	2
Zambia								
Debt service paid	147	126	139	142	123			
Debt service due after enhanced HIPC Initiative relief						187	223	210
Debt service/exports (in percent)	16	15	16	13	11	14	16	13
Debt service/government revenue (in percent)	24	23	30	22	20	27	31	28
Debt service/GDP (in percent)	5	4	4	4	3	5	5	5

Source: World Bank (2004), "Africa development indicators - from the World Bank Africa database."

c) Principal and Interest Payments Made on External Debt and Estimated Principal and Interest Payments through Application of E-HIPC

Table 1-6 exhibits the principal and interest payments made through 2002 and the estimated principal and interest payments assuming that all of the debt relief committed to is given in 2003. The figures reflect the debt reductions gradually made for each country, and indicate that some countries gradually decreased their principal and interest payments from 1998 through 2002 (Burkina Faso, Mozambique, Tanzania and Uganda). These payments clearly decreased in 2003 for Burkina Faso, Ethiopia, Ghana and Malawi, showing the strong influence of the money used for principal and interest payments and freed up by debt relief. However, other countries saw their principal and interest payments level off or rise somewhat from 2003, indicating that the money previously used for principal and interest payments and freed up debt relief was being cancelled out by other repayments. Since this debt structure reflects the particular country's past debt portfolio, a closer analysis would require a more detailed examination.

2-3. Relationship between PRSP and Public financial management

PRSP and public financial management are mutually related on a historical, theoretical and operational level. In this section, we will examine the ways in which PRSP and public financial management are implemented in coordination on an operation level, while touching on the theoretical background.

(1) Theoretical Relationship between PRSP and Public financial management after E-HIPC Initiative

The historical and theoretical relationship between PRSP and public financial management has already been discussed in JICA's "Fiscal Management and Aid in Developing

Countries."[19] Taking into account that discussion, the theoretical relationship will be briefly explained using a table.

- The governments of Highly Indebted Poor Countries (HIPC) are required to spend the money freed from repayments due to debt relief (shadow counterpart funds) to further objectives (i.e., poverty reduction) in accordance with the will of the countries forgiving the debt and submit a report.
- To satisfy this requirement, HIPC governments must manage the entire budget process (public financial management) appropriately. In other words, 1) a plan to achieve the objective (the PRSP) must be written and the government's budget must allocate funds for these policies (the upstream phases of the budget process), and 2) the budget must be executed, reported and audited with transparency and accountability.[20]
- In regards to the upstream phases of the budget process (establishing policies and budget), many HIPC governments have weak links between policies and planning on the one hand and the budget on the other. For example, prior to PRSP there were problems such as national plans that were nothing more than wish lists that were not backed up in the budget, lack of a link between the recurring budget and the development budget, and inability to predict the medium-term budget. In the PRSP, the government not only establishes a plan, but the plan costs are calculated ("costing") and items are prioritized, and the plan must be backed up by the budget.
- HIPC governments tend to lack the skills needed for the downstream phase of the budget process (budget execution, reporting and auditing), particularly the management skills needed to ensure transparency and accountability. Accordingly, these countries' public financial management systems should be assessed using financial, procurement, auditing and other diagnostic tools, public financial management should be reformed as necessary, and fiduciary risks must be reduced.
- Given this relationship between the E-HIPC Initiative, PRSP and public financial management, aid from development partners is expected to improve the beneficiary country's ability to 1) establish plans and budgets (upstream budget process) and 2) implement the budget (downstream budget process).

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[19] JICA's ""Fiscal Management and Aid in Developing Countries: New Aid Trends and Reform in Developing Countries," February 2003, pp. 10-11.

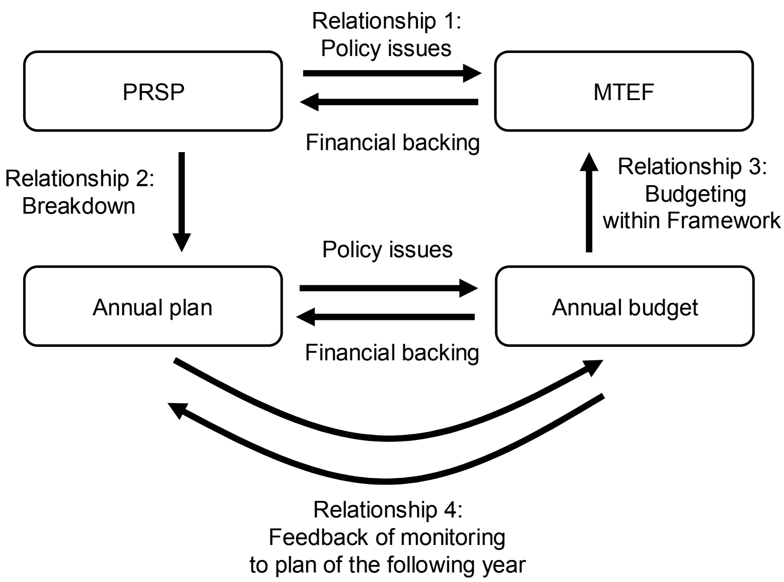
[20] The "upstream phases of the budget process" and "downstream phases of the budget process" are categories taken from the World Link's "Assessing and reforming public financial management: a new approach", 2004.

(2) Relationship between PRSP and Public financial management at Operational Level

How are PRSP and public financial management carried out in an interrelated manner at an operational level, including aid? The operational point of view is very important for JICA in its search for an effective way to provide aid in these fields. The relationship between the two at an operational level can be divided into four categories. First we will look at three of these categories: 1) relationship between PRS process and budget cycle, 2) relationship between PRS process and general budget support and 3) relationship between PRS process and public finances, procurement and auditing.

1) Relationship between PRS process and budget cycle

Figure 1-3 PRS Process and Budget Cycle



Relationship 1: PRSP and Mid-term Expenditure Framework (MTEF)

The PRSP is typically a three-year medium-term plan. Without fiscal backing, the plan cannot be implemented. When the three-year mid-term expenditure framework (MTEF) is implemented during the same period under the PRSP, the MTEF serves as the PRSP's fiscal backing. However, to do so the MTEF must reflect the PRSP. For example, if the PRSP proposes to prioritize the implementation of policies in the health sector at the district level, the budget for this sector at the district level must be guaranteed in the MTEF.

However, the MTEF is not a prerequisite for PRSP implementation. As in Zambia's case, a PRSP can be implemented by backing it up in a fiscal budget even without an MTEF.

However, there is a risk that, without a medium-term expenditure plan, the plan would be slapdash because the fiscal budget would tend to be based too heavily on the current socio-economic conditions. Having an MTEF also gives the development partners a sense of reassurance in regards to HIPC, which tend to have serious problems with public financial management.

Relationship 2: PRSP and fiscal implementation plans and relationship 3: MTEF and fiscal budgets

Based on the PRSP medium-term plan, each sector devises strategies and fiscal implementation plans; these plans are carried out through allocations from the fiscal budget within the limits of the MTEF. When establishing a fiscal implementation plan, milestones must be set to determine the pace at which the goals expounded in the PRSP will be achieved over the three-year period. Uganda has an annual implementation plan based on its PRSP, but in Ghana and Zambia's case they have goals to be achieved in a three-year period but have not broken them down into milestones for each year.

The fiscal budget must be formulated within the limits of the MTEF, but confirmation of fiscal restraint is also essential. There are cases in which, during the budget execution stage, expenditures are made with no regard for the budget, so not only must spending be checked against the budget, but budget execution conditions must also be confirmed.

Relationship 4: Monitoring, fiscal plan, fiscal budget

The extent to which the plan has been achieved as well as the budget execution status must be monitored every year, and the results reflected in the plan and budget for the following year. If the achievement rates for indicators in the education sector—particularly as relates to elementary education—are poor, the policies for the next fiscal year must be changed and steps must be taken to allocate a greater portion of the budget to this area. According to a study by the Strategic Partnership for Africa Budget Support Working Group[21], Ghana, Tanzania, Uganda, Zambia, and Mozambique reflected the results of their PRS review in the budget for the next fiscal year. However, these are the results of a questionnaire given to the government itself and should be interpreted with caution.

[21] SPA Budget Support Working Group（2003）"Survey of the Alignment of Budget Support and Balance of Payments Support with National PRS Processes."

Table 1-7 Utilization of PRS Results

Country	Budget Execution Information is Utilized in PRS Reviews	Accomplishment information is Utilized in PRS Reviews	PRS Reviews are Reflected in Following Year Budget Formulation
Ghana	O	O	O
Ethiopia	O	O	O
Gambia	O	O	O
Rwanda	O	O	O
Senegal	O	O	
Malawi	O	O	O
Zambia	O	O	O
Niger	O	O	O
Mozambique	O	O	O
Tanzania	O	O	O
Burkina Faso	O	O	
Uganda	O	O	O

SPA Budget Support Working Group （2003） *"Survey of the Alignment of Budget Support and Balance of Payments Support with National PRS Processes"*

There are two ways to indirectly determine whether monitoring results can reflected in the next year's plans and budget: a) checking the content of the annual progress report (APR) and b) confirming the consistency between the annual monitoring schedule and the budget formulation schedule.

a) Content of APR

Uganda's review includes the activities for the next fiscal year as well as revisions to its targets, but these aspects are not included in Ghana, Tanzania, Zambia and Mozambique's reviews (refer to Table 1-8). However, Ghana included an update on new activities and revisions to its targets in the 2003 APR released in March 2004.

Table 1-8 Annual Reviews

Countries (ordered by PRSP age)	Policy measures	Update of new actions	Review of indicators	Revision of targets
Ghana	O		O	
Ethiopia	O	O	O	O
Gambia	O	O	O	
Rwanda	O		O	
Senegal				O
Malawi	O			
Zambia	O	O	O	
Niger	O	O	O	O
Mozambique			O	
Tanzania	O			
Burkina Faso	O		O	
Uganda	O	O	O	O

SPA Budget Support Working Group （2003） *"Survey of the Alignment of Budget Support and Balance of Payments Support with National PRS Processes"*

b) Consistency between annual monitoring schedule and budget formulation schedule

If there is a link between these two processes, there is enough of a margin to reflect the monitoring results in the plan for the next fiscal year and the budget. Ideally, the schedule should be ordered as follows: a) review of achievements in the previous fiscal year, b) review of policies for the next fiscal year, c) establishment of budget guidelines for the next fiscal year (including a budget ceiling), d) budget proposals and budget requests based on the budget guidelines from all the government ministries, e) discussion between the Ministry of Finance and other ministries, f) establishment of the government proposal, g) Cabinet decision and submission to Parliament, and h) debate and approval of budget proposal by the Parliament. Table 1-9 outlines this ideal schedule (assuming that the fiscal year starts in January).

Ghana released its PRSP APR before the May policy review, and the schedule was set so that the analysis results and recommendations could be reflected in the review of policies to formulate the budget. The issue to keep in mind with this timing is that it results in a time lag, so that the PRSP progress review for a particular year (for example, fiscal 2003) is reflected in the budget two years later. On the other hand, in Zambia the final proposal for the following fiscal year's budget was formulated in November, when its APR was released. With this schedule, monitoring results and recommendations could not be expected to be reflected in the budget for the following fiscal year.

However, in reality even if the PRS review and budget cycle correspond, the review results are not automatically used in formulating a budget. According to a study by the Strategic Partnership for Africa Budget Support Working Group (2004), only Rwanda showed any consistency in the timing of its PRS review and budget cycle. However, this study consisted of a questionnaire and should be interpreted with caution.

Table 1-9   PRS Monitoring and Annual Budget Schedule

	PRS Monitoring Schedule	Schedule for Budget Formulation
January		
February		
March	Report to civil society	
April	Confirmation of review for previous fiscal year	
May		Review of policies for next fiscal year
June		Budget guidelines (including budget ceiling)
July	Medium-term progress review	Budget requests from ministries, start of negotiations with Ministry of Finance
August		
September		
October	Medium-term progress review	Cabinet decision, submission to Parliament
November		Parliamentary discussion
December		Approval

Table 1-10   Relationship between PRS Review and Budget Cycle

	Completely interrelated	**Partially interrelated**	**Not interrelated**
Is there a correlation between the PRS review and the budget cycle?	Rwanda	Benin Ghana Madagascar Mozambique Tanzania Uganda	Burkina Faso Mali Niger Senegal

Source: SPA Budget Support Alignment Survey, 2004

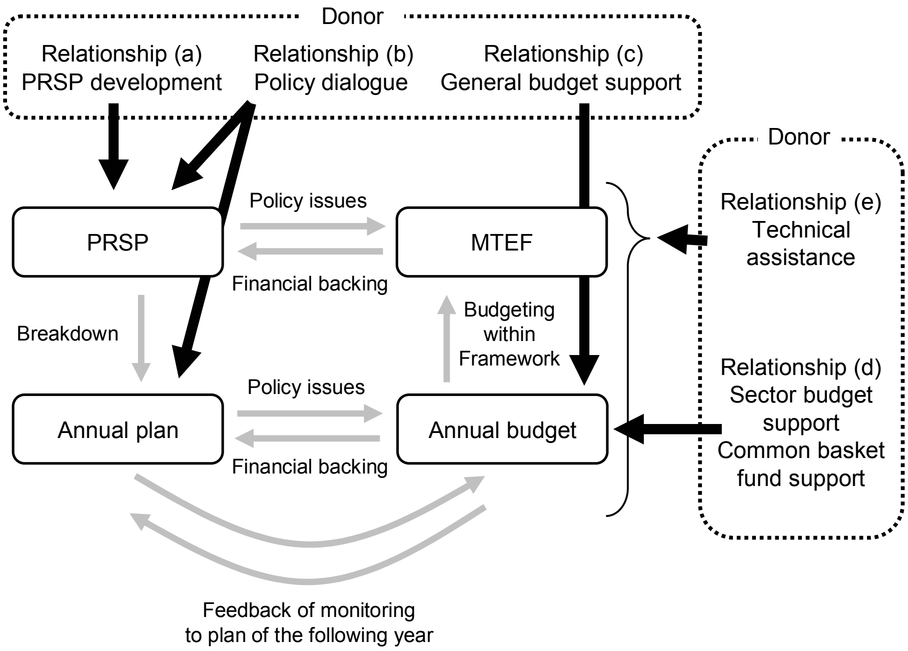
2) Relationship between PRS Process and Public Finances, Procurement and Audits

Even if poverty-reduction measures established in the PRSP are backed up in the budget, the policy goals will not be achieved effectively unless the downstream phase of the government's budget cycle (execution, reporting, auditing) is managed appropriately. Accordingly, a public finance, procurement and auditing system as well as the government's capacity to manage such a system is crucial. In reality, many HIPC governments face issues such as a low budget execution rate or inability to predict even if the budget is based on the PRS, inaccurate recording of expenditures for PRS budget items, making it unclear as to whether the funds were used for the specified purpose, a procurement process rife with corruption, and little incentive in related ministries to observe the budget because audits are not conducted with any severity. For example, in Zambia, which suffers from many public financial management problems, the Ministry of Finance and National Planning does not ascertain the possible expenditure limits, resulting in a vicious cycle in which the budget is underestimated, the ministries naturally form plans in excess of the budget amount, the shortfall is covered with a supplemental budget and the source of funds for the supplemental budget is not ascertained. In addition, ministries carry out projects even without the budget allocation for it, causing expenditures to exceed the budget. Situations such as this in which public finances are not being managed properly put the outcome of PRS at risk.

Countries and international institutions providing aid for the PRS process through general budget support are confronted with fiduciary risks posed by problems with the downstream phase of public financial management. This is the risk that the Parliament (the parliaments of both the country providing aid and the beneficiary country) would not fulfill its accountability obligation in regards to the aid funds (a clear explanation and report on the way in which the aid money was spent and explanation as to whether it was used for the intended objective). Reducing fiduciary risk requires that the risk be thoroughly evaluated, public financial management issues be clarified and reform programs be implemented. This is a key reason that the development partners supporting the PRSP process through general budget support should support programs to reform public financial management.

3) Relationship between PRS process, public financial management and donor assistance

Figure 1-4 PRS process, budget cycle, and donor assistance



Relationship (a): PRSP Formulation Support

Principally, PRSPs are meant to be formulated through participatory processes with ownership of developing country governments. In few cases donors have sent specialists to advise on the formulation PRSP.

Relationship (b): Policy Dialogue

Prior to commencement of the new fiscal year, developing country governments and donors hold dialogues to discuss on policies and aid policies for the coming year taking into account the progress of PRS and monitoring outcomes of donor assistance. Subsequently, donors draft the annual assistance plans and the recipient governments formulate the annual plan incorporating plans of donors. Normally, donors engaged in general budgetary support hold policy dialogues.

Relationship (c): General Budgetary Support

It is a financial support encompassing all budget subjects of developing countries. The financial assistance given is usually not earmarked. In most cases, donors need to be satisfied with the MTEF in order for them to go ahead with general budgetary support. Once agreeing on the MTEF, donors are expected to commit for multiple years.

Relationship (d): Sectoral Budgetary Support and Common Basket

In sectoral budgetary support, donors pour aid money into the budget of sectoral ministries or to that of the finance ministry. Sectoral ministries and donors may pool funds into a common basket and implement sectoral programs. A common basket may be established outside the recipient government budget. Donors are expected to commit for multiple years and the amount of assistance planned gets reflected in the MTEF.

Relationship (e): Technical Assistance

In some countries, general and sectoral budgetary support is on the rise. Regardless, technical assistance on PRSP formulation, budget formulation and budget execution are being implemented.

Progress with PRS and public financial management is essential to raising the predictability of aid given by development partners. Aid predictability involves predicting both the quantity and the timing. In regards to quantity prognoses, the development partner would decide on the aid amount for the following fiscal year based on the results of a review of the previous fiscal year, and the government would keep this amount in mind when determining policies and budget proposals. In Table 1-11, there would be enough time if the results of the previous fiscal year’s review were released in April, but in would be preferable if there were more time between the release of the results of the previous fiscal year’s review and decisions on policies for the next fiscal year, given the general budget support from the development partner (see Table 1-11).

Table 1-11 PRS Monitoring, Annual Budget and General budget support Schedules

	PRS monitoring schedule	Budget schedule	General budget support schedule
January			
February	Report to civil society		
March	Confirmation of previous fiscal year review		Performance evaluation review
April			Decision on amount of aid for next fiscal year
May		Decisions on policy for next fiscal year	
June	Progress review	Decisions on budget guidelines (including budget ceiling)	
July		Ministries' budget requests, start of negotiations with Ministry of Finance	
August			
September	Progress review		Performance evaluation review
October		Cabinet decision, submission to Diet	
November		Discussion in Diet	
December	Progress review	Approval	

The issue of predictability of aid is not restricted to general budgetary support. If the donors disclose the aid schedule of technical assistance to recipient countries, they will be able to formulate policies and budgets with knowledge of forthcoming technical assistance.

It is also important for the government of the country receiving aid to be able to predict when the general budget support will be disbursed. The implementation of policies will be determined to a large extent by whether the aid is disbursed at the beginning of the fiscal year or at the end of the fiscal year. The Strategic Partnership for Africa Budget Support Working Group conducted a study on the degree of satisfaction with the correlation between the country's budget cycle and the aid. Table 1-12 below provides the results on a five-level scale.

Table 1-12 Degree of Satisfaction with Correlation between Budget Cycle and Aid

Country	Degree of satisfaction (out of 5)
Uganda	2.5
Ethiopia	2.7
Ghana	3.5
Kenya	3.0
Zambia	3.3
Senegal	1.0
Tanzania	3.3
Niger	3.2
Madagascar	3.0
Malawi	2.4
Mozambique	1.3

Source: SPA, Survey of the Alignment of budget support and Balance of payment support with national PRS processes (2003)

Those interested in promoting general budget support emphasize that it improves aid efficiency and, in particular, reduces the government's transaction costs. General budget support practices attempt to have the government a joint mission in which all of the general budget support donors participate, the donors monitor progress use a shared format (Tanzania, Mozambique and Ghana's Performance Assessment Framework, or PAF), and each development partner then decides on the amount of support it will offer, rather than having each development partner conduct their own reviews and use the results to determine the budget support amount.

Ghana has taken this even further, and in 2004 began joint work with the policy matrix and performance assessment framework (PAF) for general budget support in the World Bank's Poverty Reduction Support Credit (PRSC). Also, general budget support donors and the World Bank's PRSC joint mission was held simultaneously with the IMF's Poverty Reduction and Growth Facility (PRGF) mission in an attempt to reduce the government's transaction costs. If this kind of joint mission and shared monitoring method were adopted in all countries, it would likely have an impact on PRS monitoring mechanisms.

As described above, development partners sent a Joint Budget Support Mission to Ethiopia to review the advisability of general budget support from the World Bank's Poverty Reduction Support Credit (PRSC) and their development partners. Also, the World Bank discontinued the Public Expenditure Review (PER) in 2004 and carried out a Joint Budget and Aid Review with the Ethiopian government and other development partners. The success of these efforts would make Ethiopia's aid much more efficient.

2-4. Comparative Analysis of PRS Process and Public financial management Issues

The previous section elaborated on the conceptual and practical aspects of PRSP and public financial management. In this section, the outcomes of the study carried out for the 12 countries and the common challenges these countries face in PRSP and public financial management is summarized.

(1) Comparative Analysis of PRS Process

PRS process of the study countries was comparatively analyzed from the following five viewpoints: 1) Monitoring System, 2) Consistency of PRS Monitoring with Policies and Budget, 3) Content of Annual Progress Report (APR), 4) PRS Monitoring System, and 5) Aid cooperation for PRS monitoring.

1) Monitoring System

A monitoring system must be set up to enhance the effectiveness of PRS monitoring. Improving the capacity of the monitoring system is an issue shared by all countries, and development partners have provided various forms of aid to deal with the problem. Capacity building in monitoring divisions would be a relatively easy area in which Japan could support the PRS process. The monitoring system can be considered from the following perspectives.

Perspective 1: Has the ministry and department responsible for monitoring been determined?

The government ministry or division responsible for monitoring is stipulated in the countries covered in this study. The ministry in charge of economic development and planning or the finance ministry was responsible for monitoring, but there were also some countries in which economic planning and finance were combined in one ministry (as in Ethiopia and Burkina Faso). The important question here is not which ministry carries out the monitoring, but whether there is coordination between the department in charge of monitoring and the department in charge of the budget.

In Uganda the Poverty Monitoring and Analysis Unit (PMAU), in Tanzania the Poverty Monitoring Steering Committee and in Mozambique the Poverty Observatory have been set up as new monitoring organizations. In cases such as these in which a new organization is established, the question of whether it was established through legislation is crucial in terms of whether a “legitimate” organization carries out the monitoring. Uganda’s PMAU has enough authority to monitor, coordinate and reflect the monitoring results in policy and the budget.[22] In contrast, the authority invested in Mozambique’s Poverty Observatory overlaps with the

[22] ODI (2003), “PRS Monitoring in Africa”, PRSP synthesis note 7

authority of an existing organization.[23]

In addition, the monitoring organizations' capacity must also be considered (technical capacity, leadership, assigned responsibilities, etc.).

Perspective 2: Does the sector ministry participate in the monitoring?

It is important that each sector's ministry participates in the monitoring framework and that measures based on the PRSP are developed in the overall government. The sector ministry should not merely submit data to the ministry in charge of monitoring, but should also determine the extent to which the sector's indicators have been achieved, conduct analysis and determine the future approach. Uganda has adopted the National Integrated Monitoring and Evaluation Strategy to carry out monitoring beyond sector boundaries. As with Burkina Faso, some countries have not yet defined a system for monitoring, but a monitoring system proposal was prepared in 2004. Zambia set up a monitoring system encompassing sector ministries in 2004.

Sector staff at JICA's local offices must confirm the extent to which PRS monitoring is taking place in their assigned sector. In addition, they must check with staff in charge of PRSP and planning staff as to whether the monitoring is aligned with overall trends in PRS monitoring.

Perspective 3: Are local governments involved in monitoring?

As with sector ministries, local governments are also important stakeholders in the PRS monitoring process. The capacity of local governments becomes an issue when they participate in monitoring, and improving the monitoring capacities of local governments is an important issue for development partners. In Zambia, JICA has started a project providing training improving the province's governmental functions to build a PRSP monitoring system.

Perspective 4: Has Parliament given approval?

In many cases, Parliament's role in PRS monitoring is vague.[24] Parliament must approve the PRSP and the PRS monitoring results should be reported regularly to Parliament to ensure that the PRSP is secure in its role as a national development strategy. According to an ODI report, Uganda, Burkina Faso and Niger submit annual progress reports (APRs) to Parliament.[25] Mozambique submits socio-economic reports related to the APR to Parliament. Ghana submits reports every month Parliament members, and in Tanzania reports from civil

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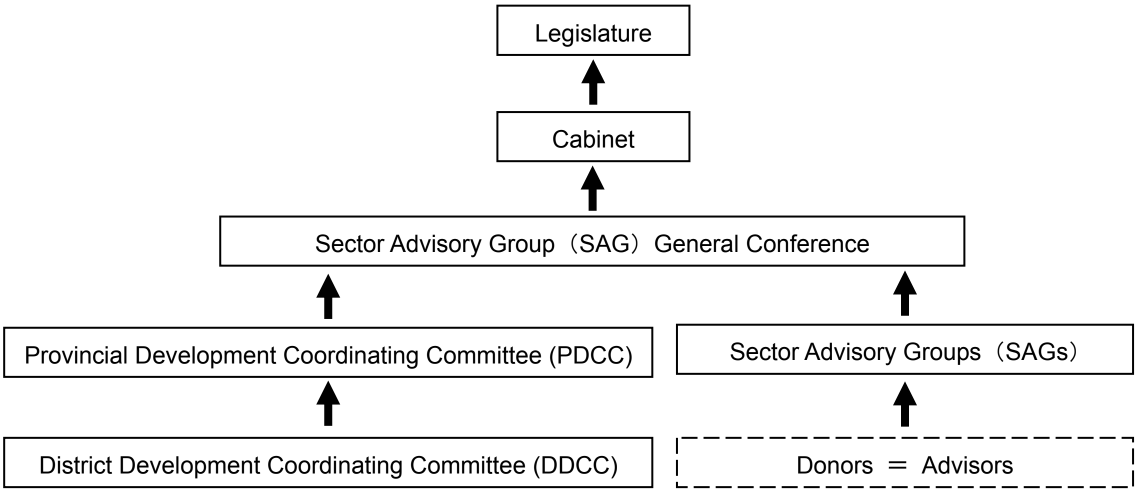
[23] Same as above.
[24] ODI (2003), "PRS Monitoring in Africa", PRSP synthesis note 7
[25] ODI(2004) "PRSP Annual Progress Reports and Joint Staff Assessments – A Review of Progress", Briefing note 9

society are consulted in Parliament.[26]

Figure 1-5 Monitoring framework



Source: Prepared by study group with reference to materials collected locally.

2) Consistency of PRS Monitoring with Policies and Budget

The results of PRS monitoring should be reflected in policies and budgets, so a link between the monitoring schedule and budget schedule should be confirmed. Please refer to "2.3 Relationship between PRSP and Public financial management."

3) Content of Annual Progress Report (APR)

APRs examine and analyze achievements during a particular year, and also make recommendations for the following fiscal year and thereafter such as the need for policy changes. Please refer to "2.3 Relationship between PRSP and Public financial management."

When the World Bank and IMF examine APRs, they look at the following aspects:[27]

- Does it include sufficient information and has the extent to which indicators have been achieved been analyzed?
- Are there proposals regarding strategy changes, and do the changes represent an appropriate direction?
- Does the government inform stakeholders and development partners of the APR results?

26 ODI (2003), "PRS Monitoring in Africa", PRSP synthesis note
27 ODI(2004) "PRSP Annual Progress Reports and Joint Staff Assessments – A Review of Progress", Briefing note 9

4) PRS Monitoring System

Poverty monitoring involves ascertaining the extent to which PRSP indicators have been achieved and whether policies intended to reduce poverty are being appropriately developed. The crucial point is to institutionalize monitoring, to regularly monitor and to feed in the outcomes of monitoring into following year policies and budgets. Tanzania established a poverty monitoring master plan in 2001, and created an organizational framework, an annual schedule and fund mechanisms for poverty monitoring. Uganda is planning to set up the National Integrated Monitoring and Evaluation Strategy (NIMES); however, this is not a new monitoring and evaluation system but a coordination mechanism that will cover monitoring and evaluation systems of all sectors and levels including the central and local governments. Perspectives for analyzing monitoring systems are outlined below.

Perspective 1: Quality and Quantity of Indicators

Excessive number of indicators will complicate the monitoring process. Many countries have introduced over 50 indicators. Zambia established 250 indicators out of which 45 are core indicators. Indicators introduced should reflect priority PRS policies but Ethiopia, Malawi and Zambia's indicators do not reflect all these policies.[28] A realistic approach has been adopted whereby indicators are adopted based on the availability of data in some cases.

Perspective 2: Capacity of Statistics Departments

Monitoring must be based on objective data, and national statistics departments play a major role. However, in many cases inadequate capacity on the part of statistics departments result in inappropriate survey methods and inability to collect data as well as incomplete analyses. In Niger, due to low capacity of the National Statistics System and lack of coordination between those who carry out monitoring and those in charge of statistics, PRS monitoring and policy evaluation are not sufficiently carried out. There are many cases in which Japan and other development partners have provided aid to strengthen the capacity of statistics departments. Japan assisted the development of websites, collection of PRS related data and collection of data in rural areas as a part of capacity building of the statistics department of Tanzania.

Perspective 3: Is data shared between ministries?

Since data must be analyzed across sectors, it is inefficient for government ministries to keep administrative data to themselves. It is essential to examine whether mechanisms to

[28] ODI (2003), "PRS Monitoring in Africa", PRSP synthesis note 7

share information ("soft" aspects such as enhancing awareness and "hard" aspects such as building information systems) have been developed. In Uganda, information sharing is barred because the sectoral ministries are all developing their own system and the local governments are under pressure because several sectoral ministries collect data independently. In Ethiopia, the data flows from the district to the region and to the central government. At the same time, the department for economic development and finance at the district and the regional level collects data across sectors and utilizes the data to analyze the status of the region.

Perspective 4: Publicity on monitoring results

It is also important to confirm whether monitoring results are publicized to the general population and citizens are aware of the status of poverty-reduction status. In Burkina Faso, a socio-economic evaluation committee, which is a parliamentary appointed advisory body consisting of the civil society and representatives of the private sector, is held and the outcomes of the monitoring is reported. In Mozambique, a newly established organization, the Poverty Observatory is carrying out dialogues with donors, private companies, NGOs and the civil society regarding monitoring results. In Madagascar, APRs are widely distributed to parliamentarians, ministries, the civil society and donors. Stakeholders outside the government are starting to take part in monitoring in other countries; however, what matters is how much poverty reduction, PRS and the strategies that stem from PRS are recognized by the people. Though crucially important, cases where strategies were drafted to extend the results of monitoring did not become evident in this study.

5) Aid cooperation for PRS monitoring

Development partners determine the aid they will provide based on progress made with PRS, but there are also cases in which joint missions, joint reviews and assessment using policy matrices have been introduced to reduce the burden of developing countries' governments. Development partners went on a joint mission to Ethiopia in which development partners that do not provide general budget support also participated. A joint review was also introduced in 2004, and the World Bank discontinued its public expenditure review (PER). Perspectives when examining the extent of aid cooperation are outlined below.

Perspective: Status of Joint Mission and Joint Review Implementation

This kind of joint mission and the concomitant joint review serve as the primary forum in which the developing country's government and the development partners can discuss policies, and it would be worthwhile for Japan to consider participating. Members from Japan should participate in missions that would not result in any obligations to encourage participation in OECD missions.

Perspective: Use of policy matrix

The World Bank uses a PRSC matrix as its criterion when determining the Poverty Reduction Support Credit (PRSC), but several countries, such as Uganda, are attempting to integrate policy matrices so that it is standardized among development partners. Standardizing policy matrices reduces the transaction costs borne by the government in the beneficiary country, and the developing country's government response differs depending on whether Japan uses its own criteria to determine the aid amount or bases its decision on a policy matrix.

(2) Comparative analysis of issues concerning public financial management

Since this study focused on collecting qualitative information, it was not possible to accurately analyze public financial management in the ten countries targeted here. However, as there were some trends this next section will provide a simple analysis of several issues related to public financial management.

a) Establishing a budget

<MTEF>

Establishment of MTEF and the extent to which it is entrenched in the budget cycle differs for each country. Uganda uses MTEF as a framework for medium-term budget allocation to essentially guarantee PRSP implementation. In Uganda, MTEF is incorporated in the annual budget process as part of the budget framework, giving MTEF a real meaning. In contrast, countries like Senegal and Ethiopia do not establish MTEF at all. Ethiopia currently has three types of medium-term outlook that take the place of MTEF, and these are augmented while serving as the guidelines for preparing the federal and state governments' annual budgets. In Tanzania, MTEF and the annual budget process are closely interrelated, but it has been pointed out that there is a weak relationship between feedback on the PRSP annual review and the MTEF/annual budget.

While other countries have MTEF, factors such as an inadequate sense of ownership over the MTEF lead to problems such as a vague relationship between the PRSP and the annual budget (as in Ghana, Mozambique, Malawi and Burkina Faso) and very recent introduction of MTEF (as in Kenya and Zambia), which reduces the usefulness of MTEF in these countries. Even the development partners have widely different thoughts on MTEF's utility. It appears that this kind of medium-term fund allocation framework is viewed as important in the English-speaking areas, while the medium-term fiscal outlook is not seen as important in the French-speaking areas. Some feel that, given the enormity of other issues such as annual budget formulation and execution, these problems should be addressed before debating MTEF.

<Annual budget>

Overall, the countries studied for this report still confront many problems concerning budget comprehensiveness, accuracy, composition and equitable drafting procedures. Of these countries, Uganda's national budget process is relatively well established. Accuracy in predicting revenue is high, at a 95% execution rate. However, it takes time to reflect the results of the APR review in the budget, and there is not enough time between the time the Parliament approves the budget and the start of the fiscal year. Zambia, Malawi and Mozambique face many problems, including delays in establishing the budget, inaccurate revenue estimates, and the failure to reflect large public funds (including funds from development partners) in the budget documents.

Traditionally, the finance ministries in French-speaking countries have strong authority over the formulation and execution of budgets, and budgetary control is good compared to that in the English-speaking areas, where the sector ministries maintain considerable discretion over budget formulation and execution. However, local governments' ability to establish budgets is weak compared to the central government, leading to many problems.

b) Process of budget execution

<Integrated Financial Management Information System (IFMIS)>

The 12 countries surveyed have introduced IFMIS, which uses computers, in some format. In almost all cases, large-scale systems are introduced as part of programs to reform public services supported by development partners (particularly the World Bank and EC). IFMIS has been relatively successfully introduced in Uganda, Burkina Faso and Ethiopia. In all cases, the countries intend to gradually standardize the hardware and software, and the project started with the adoption of the system as a small-scale pilot while departments gradually integrated their independents systems. Once the new systems were running smoothly, they were expanded into other organizations and modules were added, thus gradually increasing the scope of the system. Tanzania began introducing IFMIS in 1995 and it was adopted by all central government ministries, but it has yet to be introduced to local governments. The payroll system and debt management system still function as separate systems.

In contrast, Ghana provides an example of failure. Since it introduced a large-scale, complex system from the start, the large number of components caused problems in the system and it was not restored as an integrated system. As a result, parts of the system were operational, but other parts went unused. As a result, the system ended up leading to extremely high operating costs. Senegal's ministries had previously introduced information technology, but equipment and software procurement was not uniform and IT staff did not remain with the government (due to low salaries and poor working conditions), complicating attempts to streamline operations using IT. Zambia began introducing IFMIS in 2004, and future developments should be watched carefully.

<Fiduciary risk and corruption>

According to the Country Procurement Assessment Review (CPAR) and the Country Financial Accountability Assessment (CFAA)[29], the World Bank's diagnostic tools, the fiduciary risks and transparency and accountability of public finances in the 12 countries studied here are marked by many problems, such as delays, leakage of funds, improper procedures and inefficiencies. In particular, it has been reported that, without exception, the public financial management capacities of local governments—capacities that are attracting considerable attention due to recent progress in decentralization—are inferior to those of the central government.

Since fiscal aid from development partners has surged in the PRS process, many are worried about the fiduciary risks posed by the beneficiary countries. There is not enough information to compare the fiduciary risk within the public sector, the extent of corruption and the degree of accountability in the 12 countries, but the 2003 corruption index gives some idea of the general condition (please refer to Table 1-13). This index measures the extent of corruption in subjective terms by questioning the private sector concerning the corruption likely to be met with when receiving services in the public sector such as license fees. Burkina Faso and Niger are not included in the table, but the other countries covered in this study rank in the lower range, indicating that services in the public sector face many problems. For this reason, many development partners use programs to reform public services to provide aid for enactment, amendment and execution of legislation, organizational change, reduction of corruption, knowledge and skill improvement and compliance with moral discipline.

[29] CPAR and CFAA may not be released in accordance with agreements with the government concerned, as in Kenya's case.

Table 1-13 2003 Corruption Perceptions Index (CPI)

Order	Country[1]	CPI in 2003[2]	Number of Surveys[3]
Best: 1	Finland	9.7	8
21	Japan	7.0	13
70	Ghana	3.3	6
76	Senegal	3.2	6
83	Malawi	2.8	4
86	Mozambique	2.7	5
88	Madagascar	2.6	3
92	Ethiopia	2.5	5
92	Tanzania	2.5	6
92	Zambia	2.5	5
113	Uganda	2.2	6
122	Kenya	1.9	7
Worst: 133	Bangladesh	1.3	8

Note 1 : Burkina Faso and Niger are not included in this table.

Note 2 : 'CPI 2003 Score' relates perceptions of the degree of corruption as seen by business people, academics and risk analysts, and ranges between 10 (highly clean) and 0 (highly corrupt).

Note 3 : 'Surveys used' refers to the number of surveys that assessed a country's performance. A total of 17 surveys were used from 13 independent institutions, and at least three surveys were required for a country to be included in the CPI.

Source: Transparency International (2004), "Global Corruption Report 2004," pp. 284-286.

Information acquired from interviews in local studies indicates that employees of the central government in Ethiopia and Burkina Faso have high moral discipline. However, it has been pointed out that, even in these cases, the moral discipline regarding public financial management deteriorates in the lower levels of local governments.

c) Audits and reports

<External accounting audits>

In general, the audit boards in the 12 countries studied suffer severe inadequacies in terms of their budgets, personnel and abilities, and are unable to audit government organizations and other public organizations adequately or in a timely manner. For example, audit reports tend to be submitted late in Burkina Faso, Malawi, Mozambique and Senegal. Senegal, in particular, had a five-year backlog of audits as of 2004. In general, the French-speaking countries are less concerned about audits and reports when compared to the English-speaking countries. However, this kind of backlog is just a matter of degree, and is a problem seen by almost all study groups.

There are also discrepancies in the independence of the countries' audit boards. Ethiopia's audit board is obligated to report directly to the parliament and has a strong degree of independence, but Tanzania's audit board submits its audit reports to the Minister of Finance rather than the parliament, lowering its independence. Also, Burkina Faso's audit board must submit its reports to the parliament and the president and is not completely independent from the administration.

2-5. Status, modality and timing of aid from development partners for PRSP and public financial management process

Studies have identified an important point concerning aid from development partners, namely that multiple development partners combine general budget support and technical cooperation as necessary. It is worth nothing that technical support for public fiscal reform programs has been provided in all of the countries studied, primarily by general budget support donors (please refer to the table below for more information on each country's reform programs and aid donors).

Table 1-14 Aid for public financial management reform projects and programs

Country studied	Project and program	Aid donor
Uganda	Economic and fiscal information management project	World Bank, DFID, Denmark, Norway
Ethiopia	Requested development partners for the dispatch of six experts	Currently being coordinated by development partners (Japan is also considering providing aid)
Ghana	Public financial management reform program (recently succeeded by comprehensive fiscal management reform program)	World Bank, DFID, EC, Canada (became a comprehensive program and IMF, Japan (JBIC) and US also participated with aid)
Kenya	Public sector reform technical assistance program	World Bank, etc.
Zambia	Public expenditure management and fiscal management accountability reform program	(Countries that plan to sign the MOU) Denmark, Finland, Ireland, Norway, Holland, Sweden, EC, DFID, GTZ, World Bank, UNDP, IMF
Tanzania	Public financial management reform program	Denmark, EC, Japan, Finland, CIDA, DFID, World Bank, Norway
Burkina Faso	Plan de Renforcement de la Gestion Budgétaire (PRGB)	World Bank, IMF, EC, etc.
Madagascar	Public sector reform program	World Bank, EC, etc.
Malawi	Malawi financial accountability action plan	EC, DFID
Mozambique	National fiscal management system	15 countries providing general budget support plus IMF

For example, in Ghana the international organizations (World Bank, IMF, EC) and aid countries (DFID) that provide general budget support became the primary aid donors for public financial management reform. The same situation is true of Uganda, Tanzania and Mozambique. Since Zambia was recognized as having problems with public financial management, as indicated by the IMF's announcement that the Poverty Reduction Growth Facility (PRGF) was off-track, the EC is the only development partner that provides general budget support. However, countries and organizations such as DFID and the World Bank that actively provide general budget support in other countries are providing technical aid for public financial management reform. The IMF announced that the PRGF was on track in December 2004, and general budget support is expected to increase when public financial management reforms get started.

It is only natural that the World Bank, DFID, EC and others that promote an expansion in general budget support would provide technical cooperation for public financial management reform in HIPC, given the problem of fiduciary risk described above. In reality, judging from the results of an evaluation of the public financial management systems carried out in these countries, they face the same problems despite some differences. Also, the public financial management reform programs carried out from the mid 1990s through the present did not achieve the intended results. For these reasons, many African countries will require continuous and expanded technical aid to address public financial management reforms.

2-6. Decentralization and public financial management at the sector level —Using the agricultural sectors in Ethiopia, Mozambique and Tanzania as case studies—

In this chapter, socio-economic conditions in Ethiopia, Mozambique and Tanzania will be briefly introduced, the background and current status of decentralization policies will be summarized, and some of the recent trends in aid for public financial management will be discussed. In addition, the agricultural sector will be used to discuss the extent to which decentralization and public financial management has affected this sector, and we will also touch upon aid from development partners.

(1) Overview of socio-economic conditions in three countries

Table 1-15 shows the characteristics of the three countries' macro-economic conditions, decentralization status and human resources in the agricultural sector. Most of the population in these three countries is engaged in agriculture, and the agricultural population is extremely poor (particularly in Ethiopia). The literacy rate is relatively high in Tanzania, but overall the education level is low. Also, the short average life span and high HIV/AIDS infection rate indicate that there are reasons for anxiety concerning the future labor supply. Agricultural self-sufficiency is high in Ethiopia and Mozambique, making the countries very susceptible to climate changes and other shocks; emergency food aid is required almost every year.

Table 1-15 Indicators Characteristic of Decentralization and Agricultural Sector

	Ethiopia	Mozambique	Tanzania
1. Macro-economy			
1990-99 average annual economic growth	4.8%	6.3%	3.1%
1999 proportion of GDP contributed by agricultural sector	49%	32%	48%
Proportion of ODA in national budget	35% (1999)*1	60%(2000)	45%(2003)
2. Decentralization and local government's revenue			
Type of country	Democratic federal republic	Republic	Federal republic
Start of decentralization measures	1994	1994	1998
Reason for decentralization measures	To resolve tribal problems	To redress centralization of power	To improve administrative services
2003 subsidies from central government	Maximum 75%	66% (municipality)	70－80%
3. Human resources in agricultural sector			
1999 GDP per capita	USD 100	USD 230	USD 240
Agricultural population %	88.6% (1995)	82.7% (1990)	84.2% (1991)
1995 poverty level	31%	38%	20%
1998 literacy rate (men: women)	42%:30%	58%:27%	83%:64%
July 1995 agricultural land per capita	0.17Ha	0.18Ha	0.10Ha
1998 average life span (men: women)	42:44	44:47	46:48
1997 HIV/AIDS infection rate	9.3%	14.2%	9.4%

Source: World Development Report, others (2000)
Note 1: Figures are the study group's estimates.

(2) Issues surrounding decentralization

The three countries have been developing decentralization policies since before the PRSP were established, and this process was accelerated by the establishment of PRSP. Ethiopia's decentralization policies originated in 1994 when the federal constitution was enacted and the establishment of state governments was guaranteed in accordance with the tribes' right of self-determination[30]. Authority was transferred to the states beginning in 1996. When the PRSP was adopted in 2002, authority began to be partially transferred from the state governments to the district governments. In Mozambique, the municipal law went into effect in 1997, allowing municipalities with independent parliaments and finances to be established.

[30] Ishihara (2001), "Decentralization and Tribal Politics in Ethiopia." At the same time, the constitution guaranteed the tribes' right to separate.

After the PRSP was established, the local administrative organization law went into effect in 2003, setting off a full-scale transfer of power to state and district governments. In Tanzania, the Cabinet approved measures to reform local administration in 1998, and a local administration reform program was implemented from 1999.

Ethiopia, Mozambique and Tanzania's PRSPs raised the issue of poverty reduction in local communities, encouraged more accelerated decentralization policies in these three countries, and expanded local governments' autonomy and administrative authority. However, while local governments were expected to play bigger roles, decentralization created a sense of urgency around the issue of improving local governments' administrative capacities. In other words, when transferring autonomy and administrative authority as well as financial resources to local governments as part of decentralization policies, local governments' human resources had to be both secured and their capacities improved to ensure effectiveness.

1) Characteristics of decentralization in three countries

Table 1-15 shows the characteristics of decentralization policies in Ethiopia, Mozambique and Tanzania in terms of transfer of authority. As will be shown, each country's particular brand of decentralization is marked by different characteristics. Political decentralization and administrative devolution (or an intermediate version) have been differentiated here. Decentralization policies have been implemented in the three countries through political decentralization, including the right of self-government (decentralization), and administrative devolution (deconcentration), in which the central government ministries transfer administrative authority to local governments. Mozambique legally recognized the role of its traditional leaders (chiefs) as tax collectors.

a) Ethiopia

Ethiopia's decentralization is characterized by the strong independence of the state governments and the rapid progress made recently in devolving power to districts ("woreda"). The federal constitution enacted in 1994 guaranteed tribes' right to set up their own state governments, and the transfer of power from the federal government to the states created state governments with strong independence. An administrative body is set up in the state composed of a parliament and state governor under the auspices of the state constitution, and the administration is managed using state taxes and local subsidies over whose use the federal government has no authority (block grants). In the secondary decentralization currently underway that started in 2002, the transfer of power from the state governments to the district governments and the shift of financial and human resources has been accelerated. This decentralization has resulted in the establishment of parliament at the district level, and is therefore a political form of decentralization (decentralization).

b) Mozambique

Mozambique's decentralization is characterized by 1) the district government's success in securing independent financial resources and subsidies and its expanded authority to establish and execute budgets and 2) improvements in city administrative and public fiscal functions through the establishment of municipalities. The districts experienced an administrative form of decentralization [31], and the municipalities experienced political decentralization. However, administrative power remains extremely centralized, and the government has been slow to establish systems with which to fulfill its accountability obligations to local communities.[32] Also, as noted above, the role of traditional leaders (chiefs) as district tax collectors is legally recognized.

c) Tanzania

While the administrative services directly carried out by the central government have been reduced in Tanzania, authority is being transferred to the districts and the governments aims to ensure accountability to local citizens.[33] Political decentralization is occurring in the districts. Previously, the administrative structure was organized vertically and top down by sector, consisting of the central government, states, districts, regions and villages. In its role as a local office of the central government, the state government took the central role in providing administrative services to local residents. In contrast, in the current local decentralization the state's role is shrinking to one of supervision and technical guidance over the district administration. The district and village governments are expected to function as local self-governing units, and district councils and village councils composed of democratically-elected members have been established. The chairman of the district council also serves as the district and village president. However, the district governor is appointed by the president and the executive officers ranked underneath the governor are appointed by the district council, sustaining the central government's administrative control to some extent.

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[31] The advisory committee to the district chief bears little resemblance to a parliament (refer to Table 1).

[32] World Bank (2003), "Project Appraisal Document on a Proposed Grant from the International Development Association in the Amount of SDR 29.9 Million to the Republic of Mozambique for Decentralized Planning and Financing Project."

[33] Unless otherwise noted, this chapter is primarily attributed to the World Bank's (2004), "Project Appraisal Document on a Proposed Credit in the Amount of SDR 35.6 Million to the United Republic of Tanzania."

Table 1-16 Changes in Autonomy and Administrative Authority through Decentralization

<table>
<tr><th>Ethiopia</th><th colspan="2">Mozambique</th><th>Tanzania</th></tr>
<tr><td>Federal government
Parliament ⇔ President
Abridgement of authority⇓
Policy/advisory supervision</td><td colspan="2">Republican government
Parliament ⇔ President
Abridgement of authority ⇓
Policy/advisory supervision</td><td>Federated republican government
Parliament ⇔ President
Abridgement of authority ⇓
Policy/advisory supervision</td></tr>
<tr><td>State
State assembly ⇔ state governor
Expansion of power⇑
Policy/advisory supervision</td><td colspan="2">State
State governor
Abridgement of authority ⇓
Advisory supervision</td><td>State
State governor
Abridgement of authority ⇓
Advisory supervision</td></tr>
<tr><td>Zone
Administrative government
Abridgement of authority ⇓
Policy/advisory supervision</td><td rowspan="3">Municipalities
City council ⇔ Mayor
Expansion of power⇑
Establishment and execution of budget</td><td rowspan="2">District
District chief⇔ (advisory council)
Expansion of power⇑
Establishment and execution of budget</td><td>District
District council ⇔ governor
Expansion of power⇑
Establishment and execution of budget</td></tr>
<tr><td>District
District council ⇔ District chief
Expansion of power⇑
Establishment and execution of budget</td><td>Region
Development committee/Executive officer</td></tr>
<tr><td>Village
Development committee ⇔Mayor</td><td>Village
Traditional leader
Expansion of power⇑
Tax collection</td><td>Village
Village council/Executive officer</td></tr>
</table>

Source: Prepared by study group using various documentation.
Note: Administrative units that experienced expanded authority are indicated by shading.

2) Characteristics of public financial management under decentralization

Public financial management at the local government level in all three countries is characterized by independent financial sources such as tax revenue in addition to funds over whose use the central government has no control, local subsidies and common basket funds whose use is restricted, project funds that are donated and a rise in these funds recently. Originally it was not anticipated that local governments would have much independent revenue, but the central government has reallocated income, and funds from development partners have made their way to central governments through general budget support, common basket funds and on-budget project funds.

a) Ethiopia

In Ethiopia, the aforementioned local subsidies whose use is not restricted (block grants) flow from the federal government to the state government (from 1992) and from the state governments to some district governments (from 2001). The federal assembly decides the method for calculating allocation of grants, and the amount of block grants to each state is essentially automatically determined using these calculations. The state governments set the budget. This is based on the political objectives of decentralization, namely to eradicate political considerations from budget allocation and expand local government's discretionary authority, and attempts to prevent conflict between tribes. Further, when development partners provide aid to a specific state, the amount of this aid is deducted from that state government's block grants in order to prevent distortions in allocation of funds through the agendas of development partners. This system addresses unbalances in fund allocation caused by the concentration of development partners' aid in a particular state.

An equation set by the state assembly is also used to allocate block grants from the state to the district. However, the district government does not have adequate authority to execute budgets; this is not a major problem if recurring expenses comprise the majority of the budget as heretofore, but if the development budget increases in the future the budget's execution rate could decrease unless management abilities and assimilation capacities are improved.

b) Mozambique

The focus of Mozambique's decentralization policies was on strengthening district government's authority and administrative capacities. Doing this required that the national budget grant development funds to the district governments and that the district government's tax revenue be raised at the same time. The 2003 local administrative organization law granted the power of establishing and executing budgets to district governments, raising district governments' independence from state and central governments. This law also included government with resident participation, enabling plans and budgets to be formulated with resident participation through advisory councils.

According to the local administrative organization law, the districts' revenue sources consists of the districts' independent tax revenue, subsidies from the state with no restrictions on use, and the budget secured by the sector departments as part of the sector ministries' budget. However, in reality the district relies on funds from the central government for the majority of its finances, meaning that the district's budget for development and investment is heavily influenced by delays and shortfalls in the allocation of funds from the central government, and it is difficult to carry out the budget as planned. In 2000 the traditional leaders were given the right to collect taxes[34] in an effort to improve district finances.

Mozambique's municipalities are able to secure their own revenue, and the municipal councils determine the rate of taxation and commission rate. However, there have been major disagreements among municipalities regarding expansions in independent financial resources

[34] The traditional leader (the village community's chief, etc.) receives a commission from the collected tax revenue.

since these municipalities were first founded. While there are some municipalities that have enough independent financial resources to compensate for a considerable portion of the financial resources that had been provided through subsidies from the central government, other municipalities still rely on the central government’s subsidies for the majority of their financial resources. In addition to independent resources, municipalities use the central government’s municipal trusts as financial resources, as well as subsidies that can be allocated in the central government’s general budget expenditures and local development funds, and can receive subsidies that can be allocated to small-scale public investment as a development budget. The amount of the aforementioned subsidies is calculated uniformly using a specific equation and variables such as the population. There is little chance that municipalities’ independent resources will increase dramatically in the future, and they will likely continue to rely on subsidies from the central government for some time to come.

c) Tanzania

As with Ethiopia and Mozambique’s local governments, Tanzania’s local governments also rely heavily on subsidies from the central government. These subsidies do not go through the central sector ministries but are administered directly from the finance ministry to the local governments. Approximately 20% of spending in the public sector is done at the local government level, with the primary spending categories being education, water, roads and health. However, the majority of spending at the local government level consists of recurring expenses, leaving only a small amount for a budget for development and investment. As a result, the local government does not have enough experience with administrative services such as establishing development plans and budgets, managing expenditures and evaluating results.

Given the difficulties in securing a development and investment budget at the local government level, a development budget with restrictions on its uses was allocated for the first time in 2003. After the agricultural sector’s development plan was established in 2002, the Tanzanian government planned a USD 11 million budget for 2003 and allocated a development budget allowing the district government to carry out a plan based on the District Agricultural Development Plan (DADP). In 2004 the government received the results of the DADP assessment from the Ministry of Agriculture and Local Development and allocated and executed a budget.

(3) Agricultural sector from perspective of decentralization and public financial management

In all three countries, agricultural production comprises a large part of GDP and the majority of this production takes place in rural areas. Also, since many of the impoverished families distributed across these regions are engaged in agricultural production, development in the agricultural sector would go a long way to reducing poverty in these regions. In recognition of this situation, all PRSP emphasize the importance of strengthening agricultural public services to reduce poverty. Each country faces different problems in its agricultural sector, and their prioritization of issues and countermeasures have their own characteristics. However, in all cases the complementary relationship between policies at the national level, such as the agricultural market and research and development, and regional and direct policies intended to reduce the constraints faced by farmers and enhance agricultural capacity are extremely important.

As described above, the local government's fiscal conditions place extreme limitations on development budgets, and almost the entire budget is for recurring costs. However, decentralization measures have resulted in the allocation of a development budget to regional governments, and communities now aim to shape public assets and strengthen administrative services. Decentralization has improved the level of services provided by the local governments, and policies are expected to gain in effectiveness if the central government and local government work together in providing public services. In the agricultural sector, an integrated approach in which the central government's policies, institutional interference, regulations and supervision work in harmony with the local government's direct services to agricultural providers is now possible.

However, it is essential that local governments' capacity be improved, particularly capacities in the public financial management sector, involving the budget allocation and execution that ensures policy implementation.

a) Ethiopia

In Ethiopia there are two kinds of agricultural services: the federal services provided directly by the Ministry of Agricultural and Local Development, and local services carried out by the state and district along with the rural beneficiary. Given the current fast pace of decentralization, the role of the Ministry of Agricultural and Local Development is limited to establishing policies, research and development, and coordinating external aid and food security programs at the federal level. The staff development function in the agricultural sector is also shifting to the states.

b) Mozambique

PROAGRI is a program that has taken a sector-wide approach. The Mozambique government and development partners established the plan from 1992 to 1995, and it 1999 it began to be implemented as a five-year program.

In the first phase of PROAGRI, the Ministry of Agriculture and Fisheries (the current Ministry of Agriculture and Local Development) was slated for reorganization. The intention was to focus the ministry's main role on strengthening market mechanisms, and shift the rest of its authority and functions to local governments and private-sector organizations in order to reinforce administrative functions and efficiency. The common basket fund established to implement PROAGRI was monitored by a joint government/development partner working group and groups such as internal fiscal management committees, but the fund's management was designed to become part of the Mozambique government's public financial management.[35] The proportion of the agricultural sector's budget that was allocated to the district level was 40% when PROAGRI started in 1999, but had increased to 60% by 2003, demonstrating that decentralization was progressing even in terms of budget allocation.

The reforms to the Ministry of Agricultural and Local Development were planned for full-scale implementation in phase II of PROAGRI. These reforms were deemed necessary because providing local farmers with services was important in achieving the PROAGRI objectives, and the administrative abilities strengthened in Phase I had to reach down to the local government level. Also, since there had been little consistency with the Decentralized Planning and Financing Project (DPFP) supported by the World Bank and others in Phase I, close coordination with DPFP was essential for Phase II of PROAGRI.

c) Tanzania

Tanzania received loans from the World Bank and started a participatory agricultural development project from 2003. This project was intended to improve farmers' incomes and food security in the community, and provided financial and technical support for small-scale agricultural development projects that the community and farmer groups planned and carried out themselves. The first component of this project was that farmers and farmer groups planned and carried out small-scale projects called "sub-projects," while receiving aid from the prefectural and district offices of agricultural educators as well as NGOs and the private sector. The second component involved strengthening the village, prefectural and central systems that support and manage this kind of project and reinforcing their abilities to coordinate. In this way, reinforcement of local government organizations was emphasized.

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[35] World Bank, October 2003, "Memorandum of the President of the International Development Association, International Finance Corporation and the Multilateral Investment Guarantee Agency to the Executive Directors on a Country Assistance Strategy for the Republic of Mozambique."

(4) Aid from development partners

1) Aid for regional government's public financial management field as the foundation of services

In Ethiopia, Mozambique and Tanzania, the development partner's budget support was accepted as an aid modality, and the partners focused on the public financial management capacities of the central and local governments (another chapter will deal with this issue in more detail). Also, even in cases in which agricultural sector aid was provided through SWAP and other programs, efforts were made to reduce aid transaction costs in accordance with the aid cooperation framework being shaped in the PRS process.

The role of local governments in providing public services to agricultural producers was extremely important in aid in the agricultural sector. However, local governments' weak fiscal regulations and high fiduciary risk could significantly harm the development effect of the resources provided by agricultural sector aid. Given these conditions, the governments of these three countries and their development partners established many programs to strengthen local government capacities and made investments in them. The characteristics of these capacity-building programs shared by all three countries are that the programs provided an actual development budget and abilities were developed in on-the-job training while carrying out the actual work, such as devising a budget, procuring funds, managing funds and auditing.

a) Ethiopia

Unlike Mozambique and Tanzania, Ethiopia did not have the common basket fund, or SWAP, as of this study (December 2004). The primary focus of the federal government and development partners was food security in Ethiopia's agricultural sector, and measures that cut across different sectors were taken, including measures to address emergency aid and agricultural and local development. Decentralization enhanced the importance of the district government's role in providing these public services in the agricultural sector.

Food security measures can be categorized as emergency food aid and developmental food aid. The productive safety net program falls into this latter category, and is a large-scale program prioritized by the federal government. In the program's first fiscal year (2004/05) USD 180 million, or approximately 10% of the federal government's budget, was set aside as the budget, and the World Bank, EC, CIDA, Ireland, DFID, USAID and WFP have already announced that they will provide aid.[36] The funds will be granted from the federal government's food security budget, and given by the federal government to those states and districts suffering from chronic food shortages. The districts will implement the program, and it

[36] Ibid. p.13.

will use a resident participation method. They will also be responsible for identifying the households suffering food shortages and coordination during the process of selecting and carrying out plans for public projects.

b) Mozambique

One of the most important objectives of PROAGRI is to reduce transaction costs by consolidating development partners' procedures through the establishment of a common basket fund. Until now, 18 development partners, centered on the EC[37], have participated in the program, and of these 11 development partners provided funds directly to PROAGRI. Before PROAGRI was implemented, there were approximately 100 independent projects in the agricultural and natural resource management sector. However, aid coordination with PROAGI has reduced the number of independent projects to about 20 as of 2003.

c) Tanzania[38]

The main development partners behind projects currently being planned or implemented in Tanzania's agricultural sector include Japan, IFAD, the World Bank, the Africa Development Bank, Denmark and Ireland. JICA is in charge of the taskforce office for the Food and Agriculture Sector Working Group (FASWOG) established under the office for agricultural sector development strategies, and is also in charge of the office for the unofficial development partner conference for Rural Development Strategy (RDS). Development studies' aid schemes were used as the technical aid for these JICA activities. Further, JICA helped the Tanzanian government with development strategies and programs, and formulation of district agricultural development plans. In addition, recently JICA devised a master program for horticultural development in Coast Province and formulated an action plan based on this, and also provided assistance for the establishment of a national irrigation master plan. Other major programs include phase II of an agricultural sector program started in 2003 and an agricultural service support program currently in planning and supported by the FAO, Ireland and World Bank.

2-7. Specific examples of JICA aid and issues to consider strengthening aid system

This section will state the issues that need to be addressed by JICA in engaging in support in the PRS monitoring and public financial management area under four headings: 1) Japan's aid system for PRS process, 2) Aid for PRS process, 3) Aid for public fiscal management reform and 4) JICA project formation, aid scheme development.

[37] In terms of money and the extent of its involvement in PROAGRI, the EC is a leading donor.
[38] This section can be attributed to a report by the study group evaluating the Plan to Strengthen Tanzania's Coast Region Agricultural Development Aid System.

(1) Japan's aid modalities and procedures for PRS process

a) Participation in donor coordination

In countries with good aid cooperation, the beneficiary country's needs must be considered along with trends among other development partners. For this reason, Japan should participate actively in various donor conferences and contribute to the conferences. Conversely, in countries without much aid cooperation, there are some cases in which Japan has participated in conferences and prepared comments, exceeding the capacities of local systems, but since the aid cooperation is in the initial stages efforts must be made to create systems. In cases in which the planning officers cannot address the issues, local staff should be put in charge.[39] Another possibility would be to propose that development partners streamline their conferences.

Macro-economic conditions, PRSP and public financial management and sector conditions must be accurately ascertained, so it is worth considering employing an adviser well versed in local conditions. The Zambia office has contracts with advisers such as former government officials and economists and makes use of their expertise. Utilizing local resources is essential to establishing an aid system for the PRS process.

b) Pre-dispatch training on PRSP/public financial management

Before their dispatch to countries that have introduced PRSP, JICA employees, experts and planning officers are trained in PRS, public financial management and overall trends in aid cooperation as part of their pre-dispatch training, but this training always calls for revisions. It is important that they not only gain an understanding of current trends, but also learn about case studies in other countries. Learning about examples in Uganda, Tanzania and Burkina Faso, which were the first countries to introduce PRS, and the history of Japan's cooperation in Tanzania, would be very beneficial for planning officers to be dispatched to other African countries. The same would be true for sector experts, in addition to planning officers in charge of PRS and aid cooperation, because when carrying out projects it is crucial that they always be aware of the PRSP framework.

For those assigned to give technical assistance in the field of public financial management, challenges in public financial management and aid coordination framework of the host country are of great concern. Those engaged in general budgetary support process would pay attention to fiduciary risk and monitoring procedures of general budgetary support. Necessary knowledge will differ depending on the nature of engagement with public financial management.

There are also cases in which experts and planning officers' TOR must be revised. For

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[39] According to a questionnaire given at a workshop in Kenya in February, there has not been any progress in utilizing local staff.

example, the TOR of experts dispatched to sectors should clarify participation in the sector's donor conferences and information compilation as well as drafting, implementation, monitoring and evaluation of sector programs.

c) Mechanisms at local offices

As described above, employees, experts and planning officers that are not in charge of PRSP must form and implement projects within the PRSP framework. For this reason, offices should have mechanisms by which employees and planning officers in charge of PRSP can convey that country's monitoring status and trends among other development partners to other staff. Some possible mechanisms include a mailing list to share information, briefings from those in charge to the office manager and transmission to staff. Conversely, planning officers in charge of PRSP must understand Japan and JICA's aid scheme.

d) ODA Taskforce

It is difficult to participate in aid cooperation forums such as donor conferences without discretionary powers from the local office. Up until this point, no one has complained of difficulties due to lack of discretion in the local office,[40] but other development partners give the impression of being able to make considerable commitments at the will of the participants in the conference, including use of funds. This is likely related to who participates in the donor conferences. It is worth considering whether, depending on the level of the conference, a planning officer should attend, the JICA office head or the consulate, or whether responsibilities should be delegated to the local taskforce.

In countries with good aid cooperation, there are many issues that JICA cannot resolve by itself (such as participation in budgetary support). In these cases, it is essential for JICA office and the consulate to share information, discuss and take action in tandem. In this respect, vitalization of local taskforces is extremely important.

e) Use of Regional Support Offices of JICA

It is worth considering the use of regional offices to compensate for the inadequate capacities of local offices. Regional offices have experts in PRS and public financial management, and they could provide technical backup for local offices if they would provide consultation when it is difficult for the offices to respond, provide comments and participate in meetings with the government and other development partners. In particular, the French-speaking countries in the east African regions have experienced considerable regional integration, and mechanisms in the public financial management field are being standardized. In light of these conditions, it would be extremely effective if an expert covering this region would

[40] Several problems were brought up at the Kenya workshop.

be sent to the Senegal regional office.

(2) Aid for PRS process

It is important to discuss measures with the beneficiary country, participate in the aid cooperation framework and position Japan's aid within the context of the beneficiary country's development in implementing PRS. Cooperation would be possible in the following areas:

The extent to which Japan can disclose aid information itself is a major issue. Not only is the information disclosed by development partners important in devising government budgets, but it is indispensable in raising the predictability of the budget's execution. If Japan were to take the lead in disclosing information, other development partners could be requested to do the same. By disclosing aid information, the reactions from other development partners could be predicted (for example, personnel costs are high, project costs should be added to the common basket, etc.). However, these reactions are crucial to improving the quality of Japan's aid. With aid cooperation taking on a global scale, the disclosure of aid information is not a superfluous service in aid activities, but rather a due process (currently, guidelines are being prepared by the aid cooperation team).

When disclosing aid information, one issue that must be considered is the introduction of an information system capable of disclosing information for MTEF at local JICA offices. The head office would provide guidelines on the information system and disclosure content, and each local office would create and manage its own information system. In the case of MTEF, it is typical for expenditure categories to differ by country, so local offices would have to create the information system. Also, the information disclosure timing should coincide with the PRSP and beneficiary government's budget cycle. This would result in effective disclosure of aid information.

There are cases in which development partners hold joint missions and joint reviews, and Japan could also participate as long as it would not have to make any commitments. These forums can become places in which the government and development partners can discuss policies.

In countries with good cooperation between donors, aid could be provided to donor conferences rather than aid to the beneficiary country. Papers based on collected information and analysis is prepared in donor cooperation and when dialogues are held with beneficiary governments. Sharing this work with development partners could support the aid cooperation framework and the PRS process if Japan were to send staff. Sending staff to the frontlines of the PRS process would also be an effective way for Japan to obtain information.

The World Bank's Analytical and Advisory Service[41] should also be considered in

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[41] This method is used for CFAA, CPAR, PER and other sector studies. This kind of study was listed in the World

regards to ways in which Japan could make intellectual contributions in the PRS cycle. A budget of approximately 10-30 million yen over several months would be required for the analysis need to establish policies. A high-quality study analysis could be carried out jointly within the aid cooperation framework with local and third-country researchers as well as Japanese universities and consultants.

(3) Aid for public financial management reform

Regardless of whether there is general budget support or common basket support, reducing fiduciary risk and the related reforms in public financial management are extremely important issues for technical aid. This is a valuable opportunity for Japan to expand its cooperation into a new area. Previously, JICA's technical cooperation has focused on improving the quality of public services, but these improved services cannot be expected to continue nor can the invested money be expected to have a long-term impact unless the service delivery mechanisms and the capacity of the government organization improves.

The grant component was approved for addition to the World Bank's PRSC at the 2002 IDA13 replenishment negotiations. Of these grants, 16% would come from the Japanese government's contributions, second to America with 20%. The Japanese government indirectly donated approximately USD 8.8 million of the USD55 million given to Tanzania in 2004. Given this, aid to public fiscal reform and monitoring of PRSP effects are important issues for Japan.

The technical cooperation aid program in the aid and liability management field currently being formed in Ghana through JICA and JBIC's collaborate is the first attempt of its kind. This program is a medium-term aid concept using JICA's technical cooperation scheme and based on the technical aid carried out over one year in JBIC's Special Assistance for Project Sustainability (SAPS). This approach has the following advantages: a) projects can be formed from a longer perspective by combining JBIC and JICA schemes in technical cooperation, b) benefits of forming a project on the basis of the knowledge earned in JICA aid and a relationship of trust with the government, c) in the event that yen loans are provided again for sector budget support and general budget support, the knowledge and experience gained in collaborative technical aid would provide useful information for new yen loan programs and d) fiscal aid through JICA's technical aid and JBIC's yen loans could become mutually complementary programs. This kind of collaborative project provides one direction for JICA and JBIC's future collaborations and is an important issue for consideration.

In Ethiopia, the Ministry of Finance and Economic Development requested development partners for the dispatch of six experts in five fields (an expert in econometrics to revise and examine economic models through econometrics, a macro-economist to improve

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Bank's Country Assistance Strategy (CAS), implemented over three years.

economic analysis and economic models, an expert in poverty to analyze and monitor poverty indicators, an expert in information management to collect and analyze household survey data, and an expert in public financial management to analyze poverty and consolidate the budget process)[42]. The development partners have continued to discuss ways of address this request (as of December 2004). This ministry, which is in charge of planning and budgets, holds a central role in PRS monitoring, and this would be a valuable opportunity for Japan when it wants to take an active role in the PRS process and public financial management field. These requests for the dispatch of experts should be taken seriously. However, these experts would be monitored and evaluated by other development partners as well as the beneficiary government, and therefore only a well qualified expert should be sent.

Are there adequate human resources to support developing countries in public financial management in Japan? This is a frequently asked question. People who can support public financial management are available in Japan albeit perhaps not as many as in other fields such as agriculture. Main candidates are:

- Economists and financial management specialist with work experience in international organizations,
- Certified public accountants and business management consultants working in an audit corporation,
- Individuals with experience in budget formulation in central or local governments.

Gathering human resources from audit corporations in the recipient country may be another option. One thing clear is that it is the demand that creates the supply and tendering is necessary to grow the pool of such people.

Specialists may be sourced externally. It is also possible to utilize existing JICA schemes to develop PFM specialists. At the same time it is important to equip staff, experts, project formulation advisors and local staff in other areas with basic knowledge on public financial management. As mentioned later, when forming and conducting a technical cooperation project, it is necessary to understand the financial system of the recipient government and counterpart organizations. Table 1-17 summarizes current JICA and other schemes that may be utilized to develop specialists in the area of public financial management. For example, by utilizing the Overseas Long-term Training Program, one year can be spent on obtaining a masters degree and another on an on-the-job training in the Department for International Development (DFID) or the Overseas Development Institute (ODI) of UK which both have rich experience in public financial management. Setting up a new expert training

[42] A macro-modeling econometrician, macro-economist, poverty specialist, information specialist, public finance and expenditure specialist.

course on public financial management at the Institute for International Cooperation is another option. Those already equipped with accounting and budgeting skills can be trained to pursue their career in international cooperation and those already in the development field can be trained in public financial management.

Table 1-17 Options to develop specialists in the area of public financial management

Schemes	Public Financial Management Specialist	Expert Project Formulation Advisor	JICA Staff	Local Staff
Required skills	**high**	**medium**	**basic**	**basic**
Overseas Long-term Training Program	Masters Degree and on-the-job training			
Expert Training Course	・Those with work experience in accounting firms and public management acquire knowledge in development ・Those who studied development acquire knowledge in public financial management			
Training Program for Experts before dispatch		Enhance the session on PRSP and public financial management		
Training by the Regional Office		Follow-up training		Use of training material compiled in this study
Others			Use of training material compiled in this study	

Source: The Study Team

Support to public financial management of recipient countries can be given not only by directly assisting public financial management but also through implementation of technical cooperation projects. For example, in an agriculture project, it is possible to enhance the capacity of the counterpart organization in public financial management while transferring agricultural technology. In other words, efforts to transfer and sustain technologies will not be fruitful unless the counterpart organizations can formulate and manage the budget. Activities to enhance the capacity of counterpart organizations in public financial management should be considered when formulating technical cooperation projects.

(4) JICA project formation, aid scheme development and preparations to receive beneficiary countries

Since countries with strong aid cooperation tend to have many sectors that have adopted the program approach, the original project formation process, involving project formation study and ex-ante evaluations, should be revised. In countries with a strong PRS process and aid cooperation, local staffs play a major role in project formation. This is because projects are formed after regular participation in donor conferences related to sector programs and discussions with the government and after trends in the sector and among development partners have been ascertained. Also, when forming projects it is essential to consider reducing the burden of the beneficiary government and other development partners, so projects should be formed based on local conditions rather than driven by a mission from Japan. As described above, the extent to which staff can form a project within the framework of the PRS process is crucial.

In ex-ante assessments, sustainability is examined as one of the five evaluation components. Normally, this is done simply by dialogue and acquiring oral commitment of counterparts. In many project plans statements similar to ‘The host government will provide the necessary budget’ are found as preconditions. In future ex-ante assessments, the budget of host governments and counterpart organizations must be examined. If budget for a project and related activities are not secured, the following actions may be taken: 1) demand the counterpart to secure the budget; 2) cancel the project; 3) design the project in a way which will realize all the targets. By introducing the viewpoint of public financial management into ex-ante assessments, the sustainability of projects can be enhanced. Such precondition as ‘The host government will provide the necessary budget’ must not be allowed. It is also necessary to examine the budget of counterpart organizations and recipient governments at the mid-term and terminal evaluations to measure the impact of projects.

Along with the revision of the project formulation process, reviewing of the current PCM method is required. There is need to develop program evaluation methods that can be applied in countries at an advanced stage of program approach. It is also advisable to review the JICA project evaluation guidelines[43] and related guidelines in order to reflect the PRSP framework and the aid coordination framework on the project cycle of all JICA schemes. In the current PCM cycle of JICA, a mid-term evaluation is held halfway through the project. To the contrary, PRS monitoring is held every year and aid coordination is based on a 12-month cycle. In a 3-year JICA project, monitoring takes place a year and a half after commencement. The monitoring cycle of such JICA projects and PRS do not match. When implementing a JICA

[43] JICA (2004), ‘Manual for project evaluation: JICA project evaluation guidelines, Revised version’

project within a sector approach framework, monitoring timing of the project should be in line with that of PRS monitoring.

Together with disclosure of aid information mentioned above, introduction of double-entry bookkeeping[44] into financial management of technical corporation projects is advisable as a measure that can be piloted at the implementation level. None of the study countries currently practice double-entry bookkeeping in accounting; however, there are donor supported projects which do. In double-entry bookkeeping, as it not only keeps track of cash movement but keeps record of assets and debts, the cost and the benefit of the project becomes clear. This enhances accountability towards stakeholders regarding project investment. Moreover, by introducing double-entry bookkeeping, dialogue between Japan and the recipient government will become more productive and practical. Managing projects based on such financial information will enhance the ownership of recipient governments.

[44] In 2004, JICA was re-launched as an independent administrative institution and adoptedprinciples of corporate accounting.

Chapter 2. Results of Status of Countries Studied

1. Burkina Faso

1-1. PRS process: Current status and issues

(1) Political and economic conditions before PRSP adoption, formulation process and endorsement

Burkina Faso's government adopted its version of the PRSP (Cadre Strategique de Lutte Contre la Pauvreté: CSLP) in July 2000. It also reached the decision point under the former HIPC in July 2000. It reached the completion point under the Expanded HIPC in April 2002 (refer to Table 2-1).

Table 2-1 Chronological table of activities in CSLP process (1997－2005)

Date	Major events
Sept 1997	• Decision point reached under former HIPC Initiative
July 2000 November	• Completion point reached under former HIPC Initiative • Decision point reached under Expanded HIPC Initiative • Burkina Faso's government adopts CSLP • World Bank's board of executive directors establishes Burkina Faso's Country Assistance Strategy (CAS)
April 2001 July September	• Organizational framework for PRSP monitoring created by ordinance of ministerial committee • World Bank approves first Poverty Reduction Support Credit (PRSC) in the amount of US$45,000,000 • Annual Progress Report (APR) announced
April 2002 May June July November	• Completion point reached under Expanded HIPC Initiative • Legislative elections held • Second PRSC is approved in the amount of US$35,000,000 • Second APR announced • National Assembly on PRSP is held • Political crisis and ethnic tensions in neighboring Cote d'Ivoire affect Burkina Faso's economy • Workshop (Bobo-Dioulasso) held
April 18, 2003 April June June-October	• Revisions to CSLP officially started • CAS Progress Report (CAS－PR) released • Third PRSC is approved in the amount of US$50,000,000 • Third Annual Progress Report is prepared
January 2004 April	• Joint Staff Assessment by World Bank and IMF announced • Fourth PRSC approved by World Bank's board of executive directors in the amount of US$60,000,000。
2005	• Plans to hold presidential election (first in 18 years since 1987)

Source: The World Bank (2004).“Burkina Faso Joint IDA-IMF Staff Assessment of the Poverty Reduction Strategy Paper Annual Progress Report.”

Burkina Faso's per capita average gross domestic product (GDP) is US$300, making it one of the poorest countries in the world. It is not rich in natural resources, and over 80% of its citizens are engaged in subsistence agriculture. It is ranked 174 (out of 177) in the United Nations Development Program's human development index, ranking it at the lowest levels. At one point it had adopted socialist policies, but socialism was abandoned by the Compaoré administration, which has been in power since 1987 (the Organization for Popular Democracy-Labor Movement) and macro-economic reforms such as privatization of companies started in the early 1990s. While participating in structural adjustment programs since 1991, Burkina Faso is also carrying out political reforms such as restarting multi-party legislative elections, which had not been held since 1978.

Economic growth has been steady, with average economic growth of 5.6% since 1994. The country's economic growth target for 2000 through 2004 is average economic growth of 7-8%, which would double per capita income within 15years (materials from Ministry of Finance and Budget, 2000). However, the political crisis in neighboring Cote d'Ivoire, which started in 2002, is hurting Burkina Faso's economy. Transportation channels to Cote d'Ivoire's ports are blocked off, and remittances to Burkina Faso from migrant workers in Cote d'Ivoire are decreasing. Adding in the impact of a drought, the 2002 economic growth rate was only 4.6% (materials from Ministry of Finance and Budget, 2003).

In 1995 Burkina Faso released its "Letter of Intent for Sustainable Human Development" and established a poverty reduction program. The actual process of establishing the PRSP began in November 1999 with consultations with various groups. During the five months through April 2000, the government consulted with the legislature, development partners such as donors, and civil society, and in June 2000 established its PRSP, the Cadre Strategique de Lutte Contre la Pauvreté (CSLP). Subsequently, an APR was prepared in 2001, 2002, 2003 and 2004, and work on establishing the revised CSLP started in April 2003.

The fact that Burkina Faso began working to reduce poverty before it adopted the PRSP was likely a major factor behind its having adopted the PRSP before any other African country.

In 1997, Burkina Faso received US$115 million (net present value) in debt relief under the former HIPC Initiative (equivalent to US$200 million in nominal terms).Thereafter, in July 2000 Burkina Faso reached the completion point under the former HIPC Initiative and the decision point under the Expanded HIPC Initiative, and in April 2002 became the fifth country to reach the completion point under the Expanded HIPC Initiative, after Bolivia, Mozambique, Tanzania and Uganda. By reaching the completion point under the Expanded HIPC, Burkina Faso received an additional US$195 million in debt relief. On the other hand, some international banks such as the Arab Development Bank, failed to provide debt relief even after Burkina Faso made the final achievements under the HIPC Initiative.

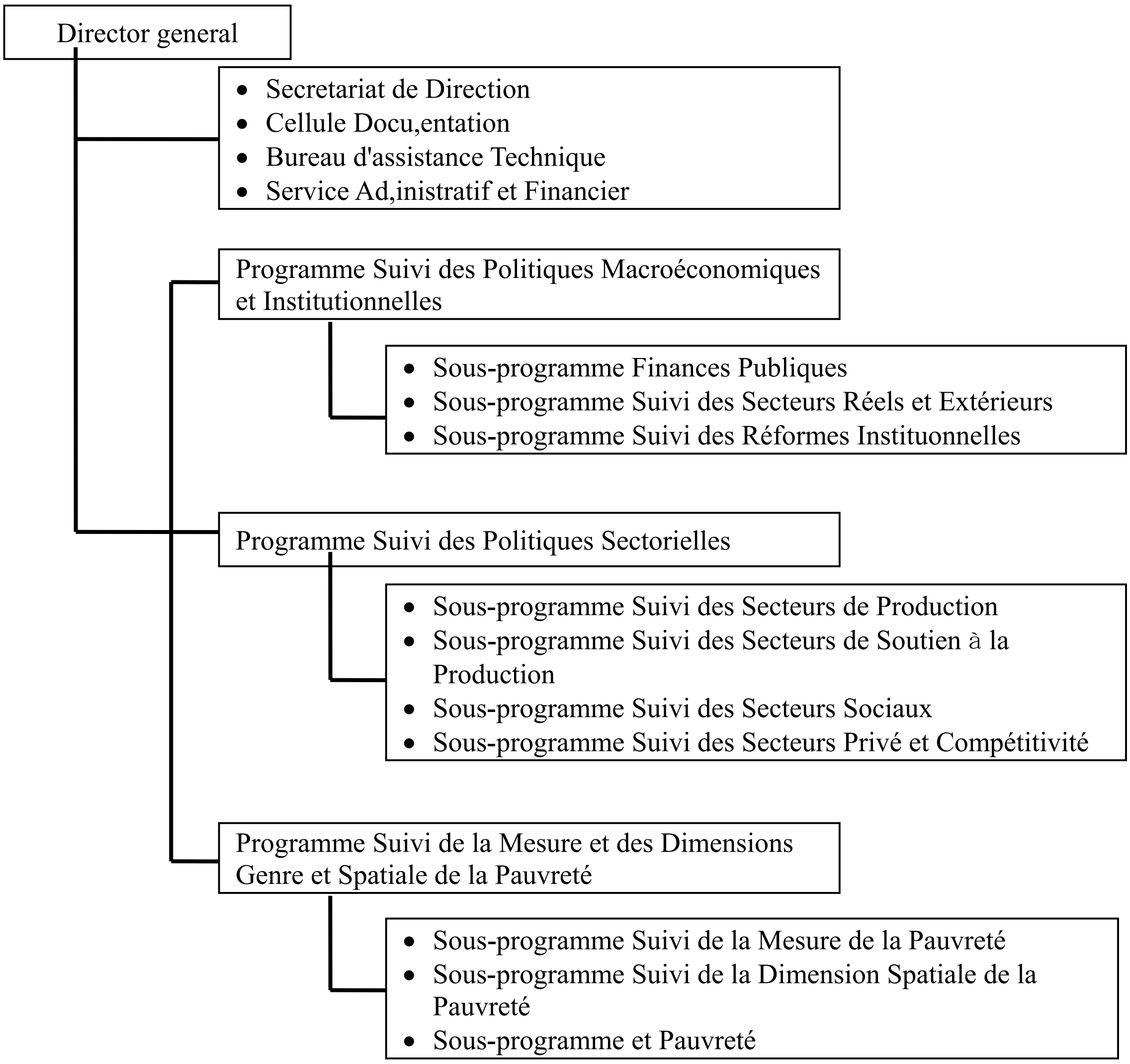
(2) Institutional framework, organization and process for CSLP implementation and monitoring

The Ministry of Economy and Development and the Ministry of Finance and the Budget play a central role in the CSLP framework. Previously the Ministries of Economy and Development and of Finance and the Budget were a single organization, but they were separated in 2002. The Ministry of Economy and Development established the CSLP and is in charge of monitoring, while the Ministry of Finance and the Budget establishes the Mid-term Expenditure Framework (MTEF), secures domestic income and external income through aid, establishes budgets for the ministries and local governments, manages budget execution, and is responsible for procurement and audits. The Economic and Social Development Policy Adjustment and Technology Bureau in the Ministry of Economy and Development and the Director of the Permanent Financial Policy Program Monitoring Bureau in the Ministry of Finance and the Budget are directly involved in the CSLP and public financial management. Figure 2-1 is an organizational diagram of the Ministry of Finance and the Budget and Figure 2-2 is an organizational diagram of Ministry of Economy and Development's Economic and Social Development Policy Adjustment and Technology Bureau.

Figure 2-1 Organizational diagram of Ministry of Finance and Budget

- Minister of Finance and Budget
  - Secretariat Particular
  - Protocole
  - Conseiller Technique
  - Permanent Financial Policy Program Monitoring Bureau Commission Nationale de Lutte contre la Fraude
  - Inspection Générale des Finances
- Vice-minister
  - Secretariat Particular
  - Bureau D'Ordre
  - Bureau D'Appui Techniaue
  - Archives et Documentation
  - Services Centraux
    - Direction Générale de la Coopération
    - Direction Générale du Trésor et de la Comptabilité Publiaue
    - Direction Générale des Douanes
    - Direction Générale des Imôts
    - Direction Générale du Budget
    - Direction Centrale du Contrôle Financier
    - Direction Centrale des Màrcheés Publics
    - Direction du Parc Auto,obile de I'Etat
    - Direction de I'Ad,inistration et des Finances
    - Direction des Ressources Hu,aines
    - Direction des Etudes et de la Planification
    - Direction des Services Infor,atiaues
    - Direction de la Commnication et de la Presse Ministérielle
    - Bureau Organisation Méthode et Evaluation
  - Services et Projets Rattaches
    - Project d'Appui aux Réformes Economiques et de la Trésorerie
    - Co,ité National de la Dette Publique
    - Ecole Nationale des Régies Financiéres
    - Comité National de Politique Economique
    - Fonds d'Appui aux Actvitées Ré,unératrices des Femmes
    - Com,ité de Suivi de I'Exécution Budgétaire et de laé Trésoreie

Figure 2-2 Organizational diagram of Ministry of Economy and Development's Economic and Social Development Policy Adjustment and Technology Bureau



Unlike other countries that have introduced PRSP, sector-specific efforts are not clarified. Typically, within the PRSP framework the ministries related to each sector take the central role in implementing and monitoring the PRSP, but in Burkina Faso only the two aforementioned ministries have specific roles in the process. However, this is not to say that the other ministries ignore the CSLP ; rather, each ministry views the CSLP as the policy that should govern all others, and its other measures are carried out as a means of realizing the CSLP. For example, the CSLP revised in 2004 adopted indicators for a new forestry sector, so the Ministry of the Environment in charge of policies for the forestry sector adopted these indicators as its top objective, and viewed its existing policies—"Rural Development Strategy 2015" and

"Letter on Decentralization and Rural Development Strategies"—as means of accomplishing the top objectives. On the other hand, it has been pointed out that sector ministries are not incorporated in the CSLP process (World Bank and IMF, Joint Staff Assessment of the Poverty Reduction Strategy Paper Progress Report).

<Annual Progress Review (APR)>

The first APR (covering fiscal 2000) was released in September 2001, that covering fiscal 2001 in June 2002, and that covering fiscal 2002 in December 2003. Preparations for the fiscal 2003 APR overlapped with work on the second CSLP, as described below, leading to delays, but it was completed in November 2004. During this process, the draft was submitted to donors in September 2004 with a request for comments, but donors forebear from making comments on the basis that the government should be solely responsible for the final draft.

The ministries did not participate in monitoring. Instead, the report on budget execution is submitted to the Ministry of Economy and Development and the Ministry's Economic and Social Development Policy Adjustment and Technology Bureau analyzes it. However, in June 2003 the government established a plan to strengthen monitoring, and changed the previous methods beginning with the fiscal 2003 review. Burkina Faso's government held a meeting of the sector-specific monitoring committee in October 2004 in anticipation of the preparation of the fiscal 2003 APR. The committee was divided into six groups (covering agricultural development and food security, social sector, economic infrastructure, economic infrastructure, structural reform and decentralization, the private sector and strengthening competitiveness, public finances and budget allocation), with participation from donors in an advisor capacity. Two international organizations and two bilateral donors participated in each committee.[1] Table 2-2 shows the donor representatives for each sector-specific committee.

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[1] According to Mr. Muto, a member of the planning task force, JICA was asked to be an observer in the economic infrastructure committee, but refused as it did not have any experience in this particular area.

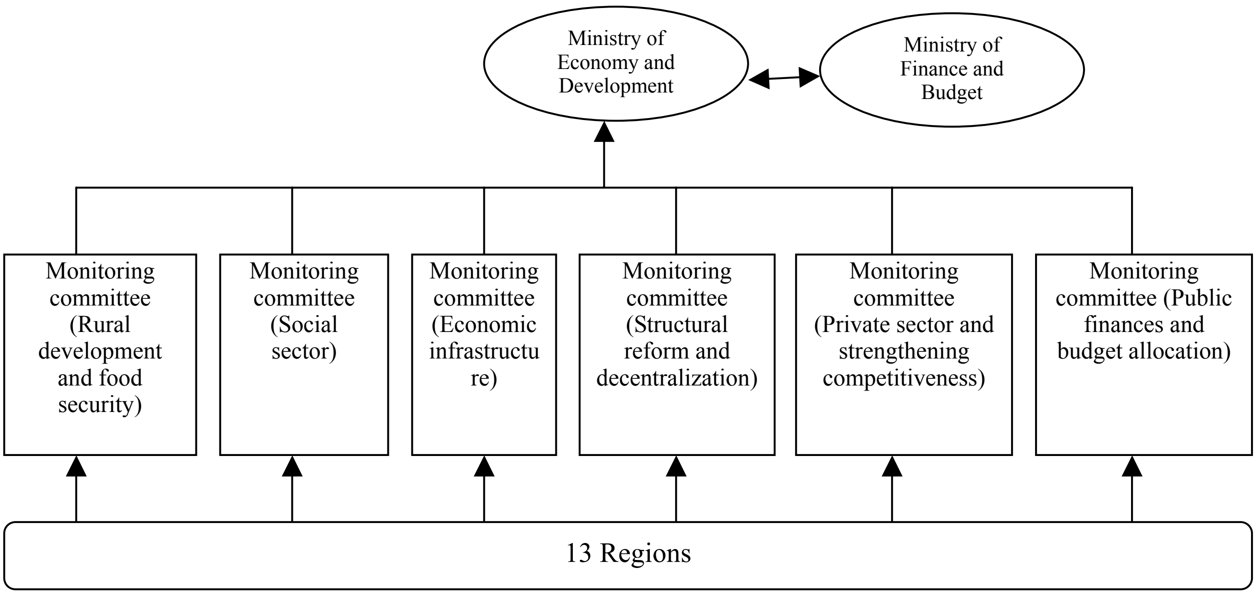
Table 2-2 Sector-specific committees and donors in charge

	Representatives from international organizations	Representatives from bilateral organizations
Agricultural development and food security	FAO, WFP	Germany, Denmark
Social sector	WHO, UNICEF	Netherlands, Canada
Economic infrastructure	EU, World Bank	Germany, Switzerland
Structural reform and decentralization	UNDP, World Bank	Germany, Sweden
Private sector and strengthening competitiveness	UNDP, World Bank	French Development Agency, Austria
Public finances and budget allocation	EU, World Bank	France, Switzerland, (Sweden)

Source: Prepared by study group based on materials from Mr. Muto, a member of the planning task force

Beginning with the preparation of the fiscal 2003 APR (carried out in 2004), a system was in place by which the CSLP was monitored by sector and the results summed up by the Ministry of Economy and Development. At this point, local governments are not involved in monitoring. According to the Ministry of Economy and Development, in the future 13 regions will introduce their own PRSP (the plan calls for a PRSP in five regions initially, followed by expansion to all regions). In the future, the results of the review for each region will be submitted to the sector-specific committees, and ultimately local governments will prepare APR (refer to Figure 2-3).

Figure 2-3 CSLP monitoring structure (future)



Source: Prepared by study group based on results of interviews.

The delay in preparing the fiscal 2003 APR has had a major impact, preventing donors providing budget support on completion of the APR from disbursing this aid (see below).

<Work to establish second CSLP>

As described above, work on the revised CSLP began in 2003. Table 2-3 provides an outline of what this work has primarily consisted of thus far.

The draft was released in October 2003, but it should be noted that a draft of the regional CSLP was also prepared (released in October 2003). This lays out the poverty reduction strategies in each region (so that each region has its own CSLP) and has attracted attention in the decentralization process, but there was no subsequent progress and local governments only prepared the second CSLP. In January 2004, an action plan proposal was released. This action plan had not been included in the first CSLP, and lays out the actions and budget needed to achieve the CSLP. The necessary budget and the indicators to be achieved are also broken down by year.

Table 2-3 Primary activities in revising CSLP

Year	Month	Description of activities
2003	10	・ Draft is released and distributed (nationwide version, regional version) ・ National assembly held
	11	・ EC compiles donors' opinions
2004	1	・ Action plan proposal spelling out priorities is released and distributed. ・ EC compiles donors' opinions
	3	・ Donors prepare list of aid amounts for Burkina Faso (compiled by UNDP) ・ Government and donors hold roundtable conference
	4	・ Debates at economic-social council (legislature's consultative body consisting of representatives from civil society and the private sector)
	6	・ Regional advisor group created
	9	・ Final draft of second CSLP issued
	11	・ Endorsed by legislature

Source: Prepared by study group based on report from Mr. Muto, expert, and results of interviews

One issue has been close affiliations with donors (improving the predictability of income through the exchange of aid information), so in March 2004 donors compiled a list of aid amounts (past aid amounts and planned amounts for fiscal 2004) and submitted it to the government (Japan did not submit this information).

NGOs also participated in CSLP revisions, but although they were involved in the process via interviews, there were no signs that their opinions were incorporated. For example, the NGO Bureau, the agency in charge of coordinating communication between NGOs, distributed materials a mere three weeks before the meeting, and some have stated that the NGO Bureau is not able to respond to issues due to limited time and financial resources. Burkina Faso has a record of participation from local residents even before CSLP was introduced. Although dialogue with civil society concerning the CSLP proceeded relatively smoothly, there were some critical views.

(3) Achievements in PRS implementation

The four pillars of CSLP, which were carried over into the second CSLP, are listed below.

(a) Promoting equitable economic growth (target of annual economic growth of 7-8%);
(b) Ensuring that poor have access to basic social services (improvements to basic services such as education, health and water supply);
(c) Creating employment opportunities and income for poor; and
(d) Promoting good governance (good governance in decentralization and judicial and financial sectors, as well as allocation of budget to reduce poverty).

According to the World Bank and IMF's Joint Staff Assessment (JSA) (released February 2004), overall progress has undercut the objectives, although there was progress in achieving several social sector indicators. The main content is as follow:

(a) Appropriate macro-economic policies have been chosen and results achieved.
(b) Policies have been adopted to strengthen economic competitiveness, improve local revenue and diversify the economy.
(c) In the education sector, the attendance rate has improved (at a faster speed than anticipated). On the other hand, progress in allocating the education budget locally has been delayed, and the textbook distribution coverage rate has dropped. The attendance rate for girls also must be raised.
(d) In the health sector, the yellow fever inoculation rate, use of health centers and rate of center staff vacancies that are filled has risen. However, it was not enough to improve output.
(e) In the governance sector, legislative elections were held and the supreme court was reformed. There was also progress with decentralization.

(f) Participation of sector ministries was weak.
(g) No consistency between CSLP and budget allocation.
(h) Civil society is participating more.

(4) Future issues

The issues most frequently brought up in this local survey by the Burkina Faso side were its limited resources (both financial and human) and, by the donor side, the institutionalization of the CSLP content and failure to budget for it as well as the weak links between the Ministry of Economy and Development and Ministry of Finance and Budget on the one hand and other ministries and local governments on the other. Donors have pointed out similar problems (particularly the former) in other countries, and indeed it is a problem common to all countries implementing the PRSP. Ways to strengthen the links between the PRSP development policies and the budget has been a major issue addressed by the Strategic Partnership for Africa's (SPA) Budget Support Working Group (see "2-9-2. (1) Status of links between CSLP process and government budget cycle").

There were also comments that, although Burkina Faso adopted the CSLP so early compared to other countries, this poverty reduction strategy should not be seen as an appeal to donors, but rather the government and citizens should view it as existing for their own benefit. In relation, donors were appointed as observers in six monitoring committees, but the government apparently has asked donors to participate more actively (not simply as observers). Another issue is strengthening Burkina Faso's sense of ownership over the process.

While the World Bank and IMF have praised the level of participation from civil society such as NGOs, as described above, there have been criticisms from some local NGOs. In addition, participation from the legislature should also be noted. Every year the APR and the government's proposal for CSLP revisions are submitted to the legislature and endorsed by this body. The legislature is a system by which the voice of the people is indirectly transmitted to the government, and the legislature's (member's) involvement (check function) in the CSLP should be strengthened.

(5) Aid from Japan and major development partners

<General budget support>

The history of budget support stretches back to the 1990s in Burkina Faso. After the CSLP was established in 2000, the aid cooperation framework was rapidly developed with the aim of improving the effect of budget support. Currently (2204), the countries and organizations providing general budget support include the EC, France, the Netherlands, Switzerland, Denmark and Sweden, and in April 2002 a memorandum of understanding (MOU) was concluded with the Burkina Faso government. Following the endorsement of the second CSLP in November 2004, the MoU was revised and the World Bank, Africa Development Bank and Germany also plan to sign the MoU.[2] Donors that are signatories to the MoU determine aid amounts using a standard evaluation matrix (currently the World Bank conducts its own evaluation). As described above, the release of the 2003 APR was delayed, and the Netherlands, Switzerland and Sweden stopped their second disbursements.

The EC plans to give a total of 275 million euro in the three-year period from 2005 to 2007, of which 150 million euro is to be allocated to budget support. The annual aid is divided into two tranches, the first of which is consistent with the IMF's Poverty Reduction Growth Facility (PRGF)[3], and the second is based on the progress made with the CSLP. EC's tranche is variable[4], with the aid amount subject to change depending on the achievements made, and progress in reforms in the public financial management sector is also considered when the aid amount is determined. Progress in the public financial management sector has received more emphasis since 2005. On the other hand, the EC is reinforcing aid in the public financial management sector and supports PRGB (described below), while it plans to request that Burkina Faso make improvements to its public financial management based on the results of the EC audit report (which covers Burkina Faso).

Data on the achievement of indicators related to CSLP are obtained in the latter half of the fiscal year, after which the aid amount for that year is determined. This lowers the predictability of the aid amount. One solution under consideration is for the EC to analyze the previous year's (y-1) APR to determine the aid amount for the following year (y+1) (refer to Figure 2-5).

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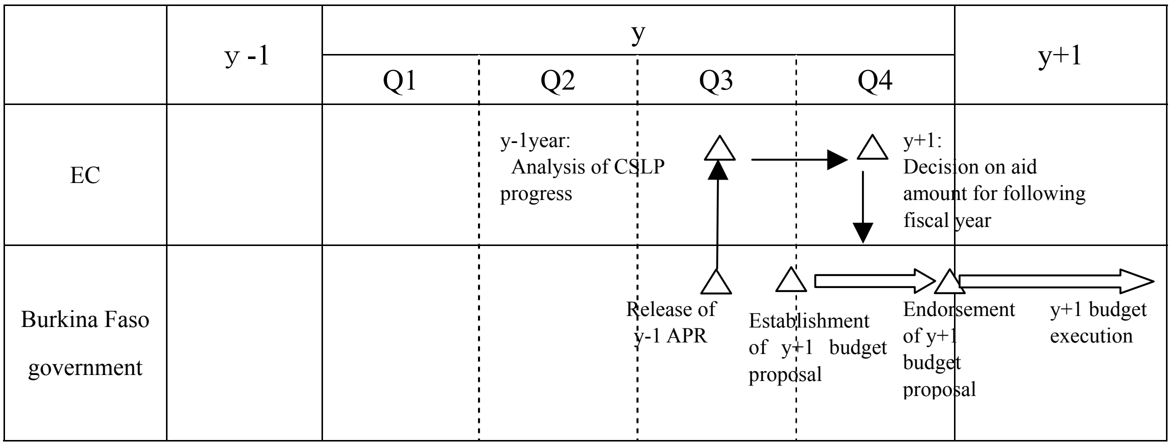
[2] Up until now, the World Bank has found the CSLP's indicator matrix to be insufficient as a condition for implementing the PRSC process, and created its own indicator matrix emphasizing public financial management.

[3] The budget support is determined based on the macro-economic policy evaluation carried out by the IMF's PRGF mission.

[4] Other MoU signatories use the fixed tranche method and decide whether to give the amount they have committed to based on evaluation results.

Figure 2-4 EC proposal for general budget support schedule (from 2005)



France (French Development Agency) provided budget support to supplement the gap between expenditures and the income previously assessed by the IMF, but it began providing general budget support in April 2003 (5 million euro/year). Managers interviewed in this study assume that France is reducing its project and increasing its program aid and budget support. Denmark submitted a five-year cooperation plan to the Burkina Faso government (a three-year plan for the macro-economic sector alone). General budget support accounts for 20% of overall aid.

General budget support comprises 40% of all aid from the Netherlands. It determines the amount of the disbursement based on the macro-economy, progress made in the social sector and the quality of its dialogue with the government, but even if all of these criteria are not cleared, the Netherlands makes it decisions based on the government's efforts.

<Sector approach>

Canada, the Netherlands, World Bank, Belgium, Japan, the Islam Development Bank and the Africa Development Bank all use the sector approach in the education sector. Of these, Canada, the Netherlands and the World Bank contribute to the common basket. However, despite its name, the common basket does not have an account held in common, and instead each donor has its own account. In October 2002 an MoU on a common fund was concluded (Belgium also signed it in 2004).

It has been pointed out that the education sector's common basket is not being used effectively. Also, in the decentralization area, authority over implementing the projects was transferred to local governments, but since the local government does not have the capacity to do this, projects are not being implemented according to plan (the section below is based on interviews from JICA experts).

Examples)

(a) Money is not being used according to the budget. A budget was created with which the prefectural department could use common basket funds to buy school materials, but it is not actually used. Even if it were used, the numbers are different.

(b) Ascertaining fraud

(c) Due to decentralization, bidding is carried out by prefectural departments but, partly because of a lack of understanding of the implementation methods, the fiscal 2004 budget's execution rate was only 50%. 120 new school buildings were to have been constructed, but only 30% were actually built.

(d) The common basket includes a budget for capacity building, but it is not actually used due to the director's lack of understanding.

In the environmental field, donor gatherings were previously held to execute treaties to prevent desertification, and the Netherlands was responsible for the summation. However, this gathering turned into a meeting in which donors could discuss general environmental issues. The activities primarily consist of information exchange and collection, and there is no common fund. Burkina Faso's government expressed interest in creating a common fund, but donors refused due to an inadequate fund management system.

<Aid to establish second CSLP>

Donor aid for the establishment of the second CSLP, which started in 2003, is as follows:

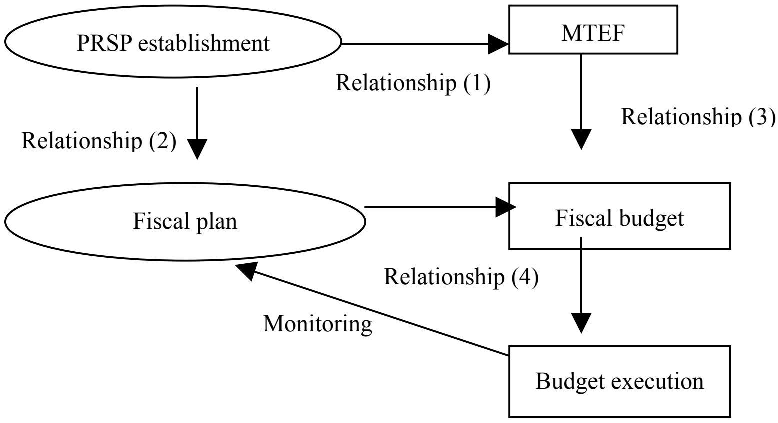
- Canada: Aid to hire consultants to establish monitoring evaluation indicators
- UNDP: Project aid for capacity building and aid for Statistics Bureau
- UNICEF: Financial aid (needs to be confirmed)

1-2. CSLP process and public financial management

(1) Status of links between CSLP process and government budget cycle

In general, the alignment between the PRS process and budget cycle is confirmed in terms of (1) the relationship between PRSP and MTEF, (2) the relationship between PRSP and fiscal plans, (3) the relationship between MTEF and fiscal plans and (4) monitoring and plans and budget for the following fiscal year (refer to Figure 2-5).

Figure 2-5 PRSP process and budget cycle



Relationship (1)<PRSP and MTEF>

In general, the PRSP is a three-year medium-term plan. The plan cannot be carried out without financial backing. Typically the three-year MTEF is established based on the PRSP, and the MTEF serves as the financial backing for the PRSP. However, the MTEF must be reflected in the PRSP for it to serve this function. For example, if the PRSP prioritizes implementation of policies in the health sector at the district level, a budget for this sector at the district level must be secured in the MTEF.

The weakness of the link between the CSLP (plan) and the MTEF in Burkina Faso has been pointed out numerous times. One reason for this weak connection was the separation of the Ministry of Economy and Finance into the Ministry of the Economy and Development and the Ministry of Finance and the Budget in 2002. However, the CSLP established in 2000 includes an MTEF (refer to CSLP Annex 9) and lays out budget amounts for the health, agricultural and water sectors through 2003 and for the education sector through 2004 (refer to Annex 1-7). The same is true of the second CSLP, and the budget to be allocated to each sector is given through 2006 (refer to Table 17 in the second CSLP). However, some have pointed to the weakness of the link in actual operations.

The second CSLP adopted new indicators for forestry, and as a result the fiscal 2005 budget for the Ministry of the Environment increased. This is an example of the link between the CSLP and budget allocation.

Relationship (2)<MTEF and fiscal budget> and Relationship (3) MTEF and fiscal budget>

Based on the medium-term PRSP, implementation plans for each year are established, and plans can be carried out by allocating the fiscal budget within the MTEF. When establishing the fiscal implementation plans, milestones must be set determining the pace at which the goals outlined in the PRSP should be achieved over a three-year period.

The first CSLP laid out the indicators in the health sector that should be achieved as milestones every year from 2000 to 2003. However, the education sector specified only some indicators, and other sectors did not specify any indicators (Table 17 of CSLP). The second CSLP lays out indicators to be achieved in each sector from 2004 through 2006 (Annex 3 in second CSLP).

The fiscal budget must be established within the MTEF, but it is essential to review fiscal discipline every year and confirm that the MTEF is being respected as medium-term expenditure indicators. There are cases of overlapping costs not conforming to the budget at the budget execution stage, so the status of budget execution must be confirmed (refer to "7. Status of public financial reforms, 7.1. Recent developments").

Relationship (3)<Monitoring, fiscal plans, fiscal budgets>

The extent to which plans have been achieved and the status of budget execution should be monitored every year, and the results reflected in the plans and budget for the following year. If the achievement rate for the indicators in the education sector—particularly indicators related to primary education—are low, policies for the next fiscal year should be changed and steps should be taken to allocate the budget according to priorities. According to a survey by the Strategic Partnership for Africa's Budget Support Working Group[5], Burkina Faso reflects monitoring results (APR) in the plan and budget for the following fiscal year (as Ghana, Tanzania and Uganda also do). However, these survey results are based on questionnaires given to government employees and caution is required in interpreting these results.

There are two ways to determine whether monitoring results are reflected in the next fiscal year's plan and budget:

(a) confirming the content of the annual progress report (APR) and
(b) confirming the consistency between the annual monitoring schedule and the schedule for establishing the budget.

<Content of APR>

According to a survey by the Strategic Partnership for Africa's Budget Support Working Group, the content of the 2003 APR is as shown in Table 2-4, and in Burkina Faso does not include recommendations for new activities and revisions of indicators based on the review. Accordingly, it can hardly be said that the monitoring results are reflected in the plan and budget for the following fiscal year, but according to the 2004 survey by the same group, it now includes recommendations for new activities and revisions to indicators.

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[5] SPA Budget Support Working Group （2003） *"Survey of the Alignment of Budget Support and Balance of Payments Support with National PRS Processes"*

Table 2-4 Content of annual review

Countries (ordered by PRSP age)	Policy measures	Update of new actions	Review of indicators	Revision of targets	Age of completed PRSP (yrs)
Ghana	●		●		<1
Ethiopia	●	●	●	●	1<2
Gambia	●	●	●		1<2
Rwanda	●		●		1<2
Senegal				●	1<2
Malawi	●				1<2
Zambia	●	●	●		1<2
Niger	●	●	●	●	1<2
Mozambique			●		2<
Tanzania	●		●		2<
Burkina Faso	●		●		2<
Uganda	●	●	●	●	2<

<Consistency with schedule for annual monitoring and establishing budget>

The annual schedule must be planned so that review results are reflected in the plan and budget for the next fiscal year, thus ensuring that monitoring results and budget formulation are linked. Ideally, the schedule would be ordered as follows:

(a) Review of previous fiscal year's achievements,
(b) Establishment of policy for next fiscal year,
(c) Establishment of budget policies for next fiscal year (including ceiling),
(d) Ministries establish and request budgets based on budget policy,
(e) Discussions between Ministry of Finance and other ministries,
(f) Establishment of government proposal,
(g) Cabinet decision and submission to legislature, and
(h) Debate and endorsement of budget proposal in legislature.

Burkina Faso's annual schedule for establishing and executing its budget is shown in Table 2-5. Up until this point, an APR is prepared between July and September, without enough time to establish the annual budget framework (February through April). Given this, from 2005 the APR will be prepared between March and April. However, the timing remains harsh.

Table 2-5 Schedule for PRS monitoring, establishment of annual budget and general budget support

<table>
<tr><th></th><th>PRS monitoring schedule</th><th>Schedule for establishing budget</th><th>Schedule for general budget support</th></tr>
<tr><td>January</td><td></td><td></td><td>IMF board of executive directors</td></tr>
<tr><td>February</td><td></td><td rowspan="2">Budget allocation framework established through review of MTEF. At this point, budget allocation based on PRSP priorities is considered. Donors are asked to provide information on the amounts they will offer</td><td></td></tr>
<tr><td>March</td><td rowspan="2">Preparation of APR (from 2005)</td><td></td></tr>
<tr><td>April</td><td>Legislature decides on budget allocation framework for following fiscal year</td><td></td></tr>
<tr><td>May</td><td></td><td>Ministries and local governments are notified of budget allocation framework</td><td>IMF mission</td></tr>
<tr><td>June</td><td></td><td>Ministries and local governments establish budgets</td><td></td></tr>
<tr><td>July</td><td rowspan="3">Preparation of APR</td><td rowspan="2">Budget negotiations held with Ministry of Finance and Budget and other ministries and establishment of budget proposal. Subsequently legislature approves budget plans in late August.</td><td>World Bank offers funds through PRSC</td></tr>
<tr><td>August</td><td>Endorsement by IMF board</td></tr>
<tr><td>September</td><td>Budget proposal submitted to legislature late in month.</td><td>World Bank’s PRSC</td></tr>
<tr><td>October</td><td></td><td></td><td></td></tr>
<tr><td>November</td><td></td><td></td><td>IMF mission</td></tr>
<tr><td>December</td><td></td><td>Legislature approves budget proposal.</td><td></td></tr>
</table>

Public Expenditure Review (PER)

Tanzania does not have an APR but instead uses its PRS monitoring results as a PER. In Burkina Faso, the PER started in 1992 and the World Bank’s mission provided aid for the review. The government began to take more initiative from about 1994, and hired consultants to carry out the review. Prior to that, public finances overall had been regularly assessed every year and ten reports had been prepared, but over the past three years it has conducted analyses in the areas deemed necessary according to requests (not on a regular basis). Until then, PER had been carried out with a particular emphasis on regional development for education, healthcare and public investment.[6] The government and World Bank formed a joint team to conduct the 2003/2004 review. The Ministry of Finance and the Budget and related ministries cooperated, and after consulting with stakeholders the review results were submitted to the World Bank’s PRSC mission.

This demonstrates that the PER is conducted with a thematic approach and is not directly related to the PRS monitoring system.

[6] This suggests that the Burkina Faso government is gradually coming to view public expenditure review, the World Bank’s diagnostic tool, as a tool useful in pursuing its own national agenda.

(2) Alignment between CSLP process and general budget support

Raising the predictability of donor aid is indispensable in promoting the PRSP and public financial management. Aid predictability has two aspects: quantity and timing. The predictability of quantity refers to development partners' decisions on aid amounts for the following fiscal year based on the previous fiscal year's review and the government's consideration of this aid amount in establishing policy and the budget. There should be a gap in the timing between the results of the previous fiscal year's review and the establishment of policies for the following fiscal year.

Burkina Faso experiences delays in decisions on general budget support because of delays in preparing the APR. As shown in Figure 2-4, the EC is currently considering adopting a scheme in which the aid amount for y+1 is determined based on the results of y-1.

In 2004 the IMF poverty reduction growth facility (PRGF) mission and endorsement by the IMF's board of executive directors were delayed, and this overlapped with delays in the establishment of the government's CSLP APR. Typically, the board of executive directors meets in August and January following the PRGF missions in late March and November, but the August meeting was cancelled and was consolidated with the January 2005 board of directors. This, in turn, led to delays in the aid decisions of donors who base their budget support decisions on the IMF's PRGF endorsement. Some donors were forced to make their decisions on spending based on the results of the IMF's Article IV consultation missions[7] carried out regularly every year.

In response, the World Bank is working to align its poverty reduction support credit (PRSC) schedule with the government's budget formulation process. In September the synopsis of the PRSC for the following fiscal year will be established and the PRSC estimate for the following fiscal year reflected in the budget for the following fiscal year established in December. Subsequently, the screening and board of executive directors' decision within the World Bank will be completed by March of the following year. Using 2004 as an example, PRSC (fourth) funds are provided in July, in the middle of the fiscal year. The PRSC consists of the two components of loans and grant aid, while the 2003 third PRSC consisted entirely of grant aid and the 2004 fourth PRSC consisted entirely of loans. The World Bank board of executive directors considers the various circumstances and makes the final decision on which component will be used, but the World Bank itself is riven by controversies over the use of general budget support in the form of grant aid.

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[7] IMF Article IV Consultations are annual conferences on IMF and member countries' macro-economic management and mandated by the implementation of Article IV in the IMF's Articles of Agreement.

1-3. Current status of public financial management reforms

(1) Recent developments

1) Current status of budget execution system

The Integrated Financial Management Information System (IFMIS) manages the execution of the national budget and creates financial management reports. An expenditure management module and national accounting module were developed and introduced in 1996, and it began operating the same year. The module was developed using standards in Francophone regions. The Technology Division of the Ministry of Finance and Budget's Treasury Department provided technical training in the IFMIS's maintenance and operation. Currently, a compensation module and revenue management are being developed, and there are plans to develop and introduce a cash management module, public liability management module and property management module.

The expenditure management module consists of the following components at the money information management stage.

(a) Budget amount,
(b) Budget amount at bid announcement,
(c) Agreed bid amount (contract amount),
(d) Contract and payment amount (comprising the contract amount, invoiced amount, and agreed payment amount),
(e) Agreed payment amount,
(f) Payment transaction amount (payments are primarily transferred to suppliers' bank account), and
(g) Amount after confirmation of payment (using receipt).

With the expenditure management module, the amount, fund obligation statement, spending request and appended documents are reviewed at each stage to determine whether the amount spent and its use were appropriate. Expenditures at the regional level are managed by the region, but otherwise expenditure management information is immediately compiled through a direct line to the Treasury department to ensure that it can ascertain the status of budget execution without delay.

Currently, the budget expenditure management module has made progress in networking the system, making it easier for government employees to access information. Also, putting regions on-line is contributing to the shift of central government functions to regions. Currently, decentralization covers five regions, and there are plans to expand this to all 13 regions in the country by 2006.

<National accounting module>

The amount after confirmation of payment—the expenditure management module's output—is put into the national accounting model and used to analyze accounting information. This module uses this accounting data compiled by the Treasury department from the ministries and regions to create information such as budget execution management information and financial statements depending on the needs of the client. The financial information submitted by donors is also prepared using this module.

Many problems concerning budget execution have been indicated, such as unstable revenue flow, particularly the flow of donor funds, corruption related to spending as well as inadequate procurement and expenditure abilities. For example, the Ministry of Education set aside a budget of approximately 12 billion CFA francs for elementary school construction in fiscal 2003, but only approximately 3.5 billion CFA francs were used.

2) Current status of procurement

Donors providing general budget support are extremely concerned about whether procurement is carried out appropriately. In 2003 a new procurement method was established, which is currently used to carry out procurement. The four objectives of the procurement method are as follows:

(a) Efficient use of financial resources,
(b) Unrestrained participation in bidding,
(c) No discrimination practiced against bidding participants, and
(d) Transparency of bidding and procurement process.

All public organizations must follow the same process; forms such as bidding documents are fixed and procurement committees set up by the ministries carry out procurement operations. The Ministry of Finance and the Budget are responsible for auditing and monitoring the ministries' procurement committees. With the aim of ensuring transparency, a public relations magazine is issued twice a month with information on bidding announcements and bidding results. Currently, a website is being developed to provide information on the legal system, bidding announcements, bidding results and other information.

3) Current status of accounting audits

The accountability of the government to taxpayers and beneficiaries of public services is an important component of the CSLP, and fiduciary risk management is an area of concern for donors of budget support. Accounting audits thus play an important role for both the government and donors.

The Accounting Audit Board was established in 2002, and consists of 11 comptrollers and three legal experts. The Board is responsible for auditing public financial management, and are required to report to the legislature and president. Also, the Board is responsible for auditing the accounts of regional urban communes, whose financial resources consist of independent revenue and subsidies from the central government. The Ministry of Finance and Budget's Audit Board is in charge of carrying out internal audits within the government, and reviews the consistency of the budget to other ministries' internal audits before expenditures were made as well as the appropriateness of procedures.

A French system was adopted for the government's budget execution system, and in this system there is a clear demarcation between those authorizing expenditures and those actually spending the money. At the end of the fiscal year, ministries submit accounting reports to the Ministry of Finance and Budget, and the Accounting Audit Board audits the financial reports compiled by the Ministry. The audit is primarily focused on whether there are any contradictions between the authorized expenditures and actual expenditures. The results are compiled in an audit report and submitted to the legislature. In the legislature, the budget and finance committee discusses the audit report and adds comments to the report. Subsequently, the final report (with the Accounting Audit Board's opinions on the comments added) is submitted to the legislature, and once it has been approved, thus completing the entire process of budget formulation, execution and audits spread over the fiscal year. A report on project management, local government management and the use of subsidies is added to the report on the national budget's execution management, and is published after it has been submitted to the president.

The Accounting Audit Board has no authority to prosecute, and in the event that it suspects wrongdoing it sends evidence that it has compiled to the attorney general for review and prosecution.

The accounting audit's annual schedule is as follows:

(a) The Ministry of Finance and Budget completes previous fiscal year's payments by March.

(b) Ministries and urban communes submit accounting and financial reports to the Accounting Audit Bureau by June.

(c) Accounting Audit Bureau prepares audit report by September and submits to legislature.

(d) Legislature debates audit report and makes comments, and Audit Board prepares final report.

However, typically discussion of the accounting audit report for the previous fiscal year overlaps with the discussion of the budget for the following fiscal year, so discussion of the accounting audit report in the legislature tends to be late. As of December 2004, the legislature's discussion of the fiscal 2003 audit report was not yet complete.

The audit ability of the Accounting Audit Board are chronically inadequate. Nationwide, 56 national schools, 32 ministries and agencies, eight other government organizations, 13 regions, 45 regional cities, 103 projects, 96 donor aid projects and 17 nationalized companies are subject to accounting audits, and the 14-member staff must cover all of them. Every year, the organizations deemed most important are chosen for an accounting audit. The audit staff must be increased from the current 14 to 30 to ensure that the audit system functions adequately.

(2) Donor aid for public financial management process

Since budget support was introduced as an important aid modality, donors are increasingly interested in reducing fiduciary risk and are accordingly providing aid for public financial reform.

<Plan de Renforcement de la Gestion Budgétaire (PRGB)>

The Burkina Faso government introduced a plan for public expenditure reform, the Plan de Renforcement de la Gestion Budgétaire (PRGB), in 2002 and the IMF provides the poverty reduction growth facility (PRGF), the World Bank provides its poverty reduction support credit (PRSC) and the EC provides bilateral government general budget support. This program was revised to include income in February 2004, and the government requested additional aid from donors. The primary objectives of the PRGB are as follows:

(a) Improve government's ability to establish budgets with CSLP and MTEF in mind;
(b) Introduce and expand IFMIS (covering income and expenditure management process);
(c) Strengthen links between CSLP and budget formulation; and
(d) Obtain information on amount of aid to be received from donors.

Strengthening IFMIS is an important component of PRGB. IFMIS was introduced with large amounts of aid from donors from the late 1990s before PRGB was established. The first phase of a project to add and extend a tax office and customs house revenue system to the current expenditure management system is currently underway with aid from Denmark. In the second phase, a procurement system and financial management system will be introduced, and currently donors are being asked for aid commitments. The EC provides aid needed to commission companies in the EU and Burkina Faso with IFMIS maintenance.

<Capacity development>

A five-year comprehensive skill development program (PACR) was set up with a loan from the World Bank (IDA credit), and the Office of the President is responsible for carrying it out. Five ministries, including the Ministry of Finance and the Budget, the Ministry of Health, the Ministry of Economy and Development and the Ministry of Local Administration, are involved in the program. The main activities of the PACR are as follows:

(a) Ascertaining the skills development needs of the participating ministries (2003-2004);

(b) Project design (through Q2 2005); and

(c) Implementation phase (2005-2007).

The Ministry of Finance and Budget plans to strengthen accounting audits, technical audits, Treasury functions, tax collection functions and customs functions under this program.

There is a great need to develop accounting and auditing skills. Various training programs have been carried out in a variety of forms, including plans for regional training on accounting preparations with participants from Benin, Burkina Faso and Senegal in December 2004. Within the PRGB framework, there are plans for seminars given by French auditors in 2005, as well as aid from the Africa Development Bank, the World Bank, Sweden and WAMO to carry out study tours, supply equipment, hold seminars and perform assessments.

(3) Donors' response to fiduciary risk

Donor aid for the aforementioned public financial management reforms can be seen as donors' attempt to address fiduciary risk. Donors interviewed in this study state that efforts to lower fiduciary risk are essential if general budget support is to be continued, and the efforts through the PRGB to come closer to meeting international standards are praiseworthy. The PRGB evaluation[8] conducted by the EC in 2004 also praised the effectiveness of these reforms. Progress with PRGB reforms carried out with the government's sense of ownership is a prerequisite for the continuation of budget support.

Some donors support the PRGB while also carrying out their own accounting audits, as seen with the EC. Earmarked funds provided through the common basket method under the sector approach can be audited, and as seen with the EU, many countries demand reimbursement of funds based on the results of the audit. In response, they have adopted a policy with general budget support protecting against fiduciary risk by improving the aid

[8] EU September 2004 report on forming action plan to strengthen public finances (PRGB) evaluation and aid program (draft)

recipient countries' overall financial management system and focusing on public financial management reforms and thorough oversight of the reforms' progress.

Donors providing general budget support stress the need to improve auditing regulations in Burkina Faso. For example, the Accounting Audit Bureau must be completely independent from administrative organizations and the country's overall audit functions need to be strengthened. They also feel that efforts should be made to align Burkina Faso's standards with WAEMU's stipulated accounting, financial management and audit standards.

1-4. CSLP process and decentralization

Decentralization is seen as a component of promoting good governance in CSLP, but measures promoting decentralization were implemented before CSLP was established. The major legal frameworks for decentralization were the 1991 constitutional regulations and the 1993 law on decentralization. In 1998, legal guidelines were established to further promote decentralization, and CSLP views these measures as specific policies to further democracy.[9] Also, along with this guidelines a national decentralization committee was established. The Ministry of Land Administration and Decentralization carries out decentralization policies. The national decentralization committee performs the following functions:

(a) Provides oversight to ensure that the 49 urban communes function properly,
(b) Supervises to ensure that the development program is moving ahead at the urban commune level, and
(c) Works to improve understanding of decentralization polices.

The committee also provides advice to the Ministry of Land Administration and Decentralization as necessary.

There are regional governments at the region, province and district level, and decentralization covers administrative organizations at all three levels for existing regions, provinces and districts. At the region and district level, government bodies are being set up so as to correspond to administrative organizations, and authority previously held by these administrative organizations such as taxation rights and the authority to formulate and approve budgets is being transferred to these government bodies (council and chairman). The administrative organization at the district level is called a "commune," but regional urban communes are currently functioning.

[9] Ministry of Economy and Development, Government of Burkina Faso (2003) Poverty Reduction Strategy Paper Progress Report 2000-2002, p. 75.

(1) Decentralization at the regional level (13 regions nationwide)

Administrative organizations at the regional level are the country's local administrative organizations, and as the head of these organizations, the governor is sent on a temporary transfer from the Ministry of National Land Administration and Decentralization, while the council is put into place. Council members and the chairman are not selected by elections for the regional legislature (Conseille). The governor administers the government under the authority of the chairman (Récident de Conseille).

The regional council does not have the right to levy taxes, but it does have the authority to manage the region's hospitals, middle and high schools and forests held by the region. Revenue generated by these efforts is the region's own financial resources. Even if the Ministry of Health or Ministry of Education invests in these facilities or human resources through the national budget, revenue generated by their operation becomes the region's funds. In addition, tolls for using local rounds and fees for various applications are the region's revenue, and the region can levy taxes on communes within the region for a share of expenses.

(2) Decentralization at the provincial level (45 provinces nationwide)

As at the regional level, administrative organizations at the provincial level are the country's local administrative organizations, and they must report back to the central government via the region. The provincial administrator (Haut Commissaire) sent on temporary transfer from the Ministry of National Land Administration and Decentralization has management jurisdiction over the local divisions of the ministries. In the future, provinces will be abolished, and there are no plans to set up government bodies such as a legislature.

(3) Decentralization at the district level (350 districts nationwide)

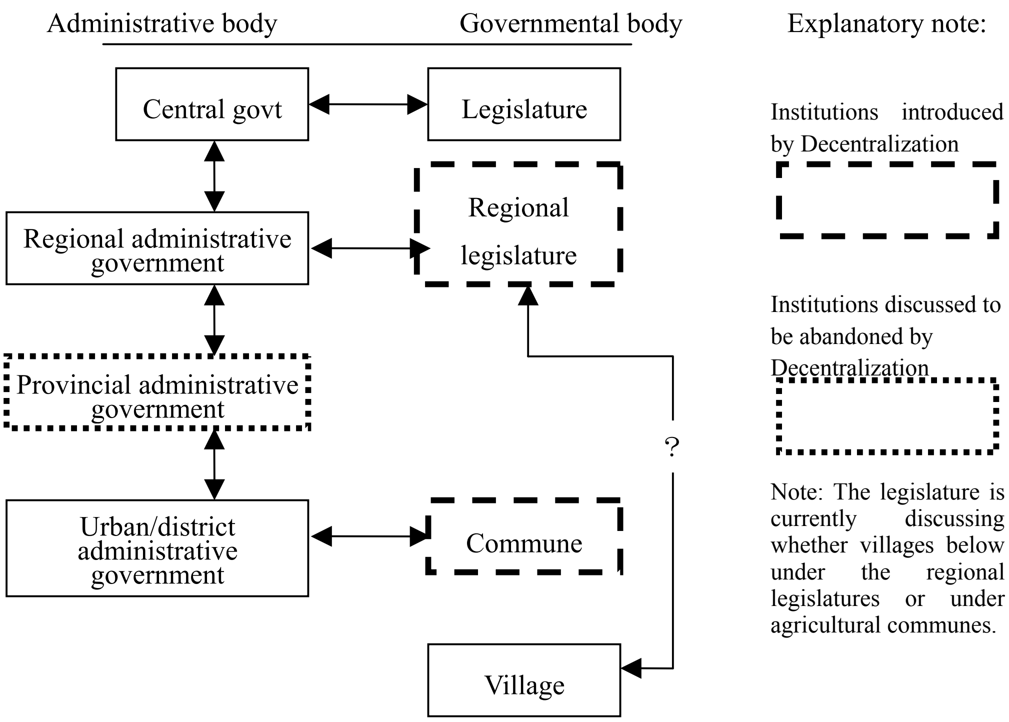
Districts are the country's local administrative units, and they must report to the central government through the region and the province. The district head (Préfet) sent on temporary transfer from the Ministry of National Land Administration and Decentralization has jurisdiction over the ministries' local divisions. Decentralization is proceeding, with communes set up as government bodies and administrative organizations coming under their authority. In this case, the administrative organizations under the commune are not required to report directly to the central government, but they can be audited by the Accounting Audit Board.

There are two types of commune: the agricultural commune and the urban common. Agricultural communes are not aligned with corresponding relationships to the existing districts' geographical administrative boundaries. Currently, the Diet is discussing specific issues such as the corresponding relationships between agricultural communes and districts and securing other revenue. 49 urban communes have already been set up, and a mayor (Merie) selected in elections represents the commune.

Communes manage health centers, elementary schools and forests, and have the authority to use the revenue as commune income. Even if the Ministry of Health or Ministry of Education is responsible for these assets or personnel, revenue from these operations becomes the commune's funds. Another financial resource is market use fees. Poll taxes were discontinued in 1984.

Regional taxes such as automobile registration taxes have been discontinued, but there is talk of reintroducing these taxes (according to information from the Ministry of Finance and the Budget). As a subsidy from the central government, 10% of gasoline taxes is granted to the communes. As of fiscal 2004, the central government had granted a total of 800 million CFA franc to the communes (about US$2 million). Grants from the central government make up about 50% of the commune's financial resources.

Figure 2-6 Schematic diagram of progress of decentralization policies



The fact that administrative services are planned and implemented near the beneficiaries through decentralization, with the aim of reducing poverty, should be praised, but there are concerns that the governance and administrative structures become complex, as described above, and transaction costs increase. There are also fears that the original goals of decentralization will not be realized due to the limited abilities of local public employees, nepotism, control by local elite and central government's inability to monitor local government. The direction of decentralization must be examined in the future PRSP monitoring process.

2. Ethiopia

2-1. PRS process: Current status and issues

(1) Political and economic conditions before PRSP adoption, formulation process and endorsement

The Ethiopian government began preparing for its PRSP in June 2001, and approximately one year later in August 2002 Ethiopia's Sustainable Development and Poverty Reduction Program (SDPRP) was submitted to the IMF and World Bank's board of executive directors.

Table 2-6 Chronology of Activities in Ethiopia's PRS Process (1995－2004)

Date	Primary events
May-June 1995 August 1995	・First national election is held in Ethiopia. The Ethiopia People's Revolutionary Democratic Front (EPRDF) won an overwhelming victory. ・EPRDF administration is inaugurated, with Meles Zenawi as prime minister.
May 1998	・Dispute with neighboring Eritrea broke out.
May 2000 Nov Dec	・Legislative elections held; EPRDF coalition wins again. ・World Bank and IMF endorse the I-PRSP. ・Ethiopia and Eritrea conclude a peace treaty.
June 2001 Nov	・The World Bank board of executive directors approve US$150 million in Economic Rehabilitation Support Credit (ERSC) for Ethiopia. ・Preparations start for establishment of SDPRP. ・Approved as country eligible for the Enhanced HIPC Initiative (reached decision point). ・Under the Enhanced HIPC Initiative, Ethiopia was promised debt relief in the amount of US$1,300 million at net present value (NPV).
Feb 2002 March July August	・As preparation for SDPRP, regional-level consultations were held. ・As preparation for SDPRP, federation-level consultations were held. ・SDPRP is completed. ・Ethiopian government submits SDPRP to World Bank and IMF board of executive directors. ・IDA-IMF's Joint Staff Assessment is released.
Dec 2003	・First annual progress report (APR) is released.
April 2004 September October	・Ethiopia reaches completion point under Enhanced HIPC Initiative (No. 13). The US$1.3 billion in debt relief and an additional US$700 million was given for a total of approximately US$2 billion. ・Interim APR is released ・Joint Budget Support Mission ・Annual Fiduciary Assessment ・MDG Needs Assessment
January 2005	・Second annual progress report (APR) planned for release.

Source: BBC Country Profile: Ethiopia, www.bb.co.uk, IMF, the (2004). The Federal Democratic Republic of Ethiopia-Enhanced Initiative for Heavily Indebted Poor Countries-Completion Point Document. Washington, D.C.: IMF, World Bank, the IMF and World Bank Support Ethiopia's Completion Point and Approve Topping-Up of Debt Relief Under the Enhanced HIPC Initiative. www.worldbank.org, World Bank, the Country Brief. www.worldbank.org

<Political, social and economic conditions at establishment>

Although Ethiopia is relatively blessed in resources, it is currently one of the poorest countries in the world with per capita revenue of US$100 in 1999 (the World Bank). The primary reason for this lies in unstable domestic political conditions, international disputes and natural disasters. Prime minister Meles Zenawi, who took office in 1995, abandoned the socialized economic model and took up a series of economic reforms by privatizing national companies, easing regulations, lowering the value of the national currency and liberalizing trade. Zenawi also reduced defense costs and promoted parliamentary democracy.

This series of economic reforms were interrupted by Ethiopia's subsequent clash with neighboring Eritrea, but during 2000 the dispute eased and domestic economic reforms were taken up again. After the dispute ended, the Ethiopian economy was revitalized and achieved steady economic growth since 2000, but in 2002 the country experienced a drought, dropping the 2003 GDP growth rate to 3.9%.

<Establishment of SDPRP>

The Ethiopian government released its I-PRSP in March 2001 and the World Bank board of executive directors approved US$150 million in Economic Rehabilitation Support Credit (ERSC) in June 2001. Subsequently, in November 2001 Ethiopia reached the decision point under the Enhanced HIPC Initiative. The debt relief granted through the Enhanced HIPC Initiative was the primary source of funding for the anti-poverty program laid out in the I-PRSP.

The Ethiopian government began the process of establishing the PRSP in June 2001. Consultation started from August 2001 and expanded to the district (Woreda) level, regional level (February 2002) and federal level (March 2002). In August 2002, Ethiopia finished its PRSP, the Sustainable Development and Poverty Reduction Program (SDPRP), and submitted it to the World Bank and IMF board of executive directors.

In December 2003 the first annual progress review (APR) was issued and Ethiopia plans to issue its second APR in early 2005. Besides these SDPRP developments, in 2002 the government is advocating stronger decentralization and since then has been transferring power at the district level with the intention of ensuring that citizens participate in the process of establishing economic growth and poverty reduction measures (MOFED, 2002).

<Debt reduction>

As described above, in November 2001 the World Bank and IMF board of executive directors decided that Ethiopia had fulfilled the conditions to reach the decision point for the Enhanced HIPC Initiative as the government had (a) restarted its macro-economic and economic structural reforms after it had finished its dispute with Eritrea and (b) had completed the I-PRSP (IMF, 2004). As a result, Ethiopia was given US$1.3 billion (net value) in debt relief.

During the time until Ethiopia reached the completion point for the Enhanced HIPC, it was given debt relief. Further, the Africa Development Bank (AfDB), OPEC, EC and Paris Club member countries gave Ethiopia interim aid for a total amount of US$5,000 million in fiscal 2001 and US$6,200 million in fiscal 2002. This brought total debt relief to approximately US$2 billion.

<Other development plans>

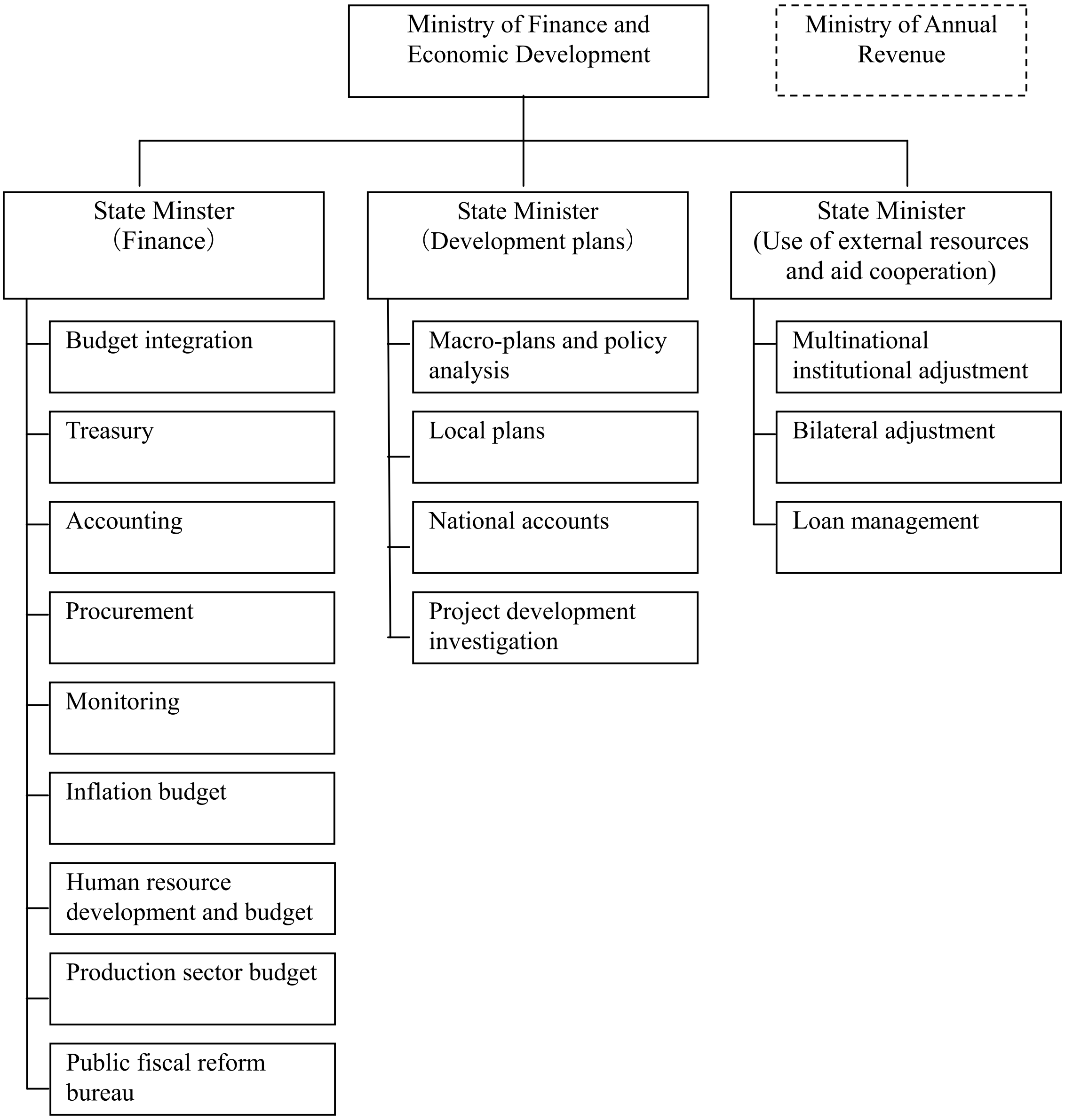
In addition to SDPRP, Ethiopia has a five-year National Development Plan, a plan prepared by the governing party. Since the governing party has been in power for a long time, the distinction between the National Development Plan and SDPRP are vague, but the National Development Plan takes precedence over the SDPRP.

(2) Institutional framework, organization and process in implementing and monitoring SDPRP

1) Monitoring implementation organizations

The Ministry of Finance and Economic Development's (MOFED) Economic Policy and Planning Department plays the central role in monitoring within the Ethiopian government. Every year, the SDPRP monitoring results are linked (or should be) to the budget formulated for the next fiscal year and, as shown in Figure 2-7, the Economic Policy and Planning Department and Budget Bureau in charge of monitoring belong to different ministers. Also, given that the MOFED recently merged the Ministry of Finance and the Ministry of Economic Development, the coordination between planning and budgeting could be weak. However, there was no indication of this in local interviews.

Figure 2-7 Organizational Chart of Ministry of Finance and Economic Development



(Source : MOFED materials ; there is a chance of changes as the organization is currently being changed.)

2) Flow of monitoring data

For example, the education-related data collected in districts (Woreda) is reported to the education bureau for the zone[10]. The zone's education bureau consolidates the data from all

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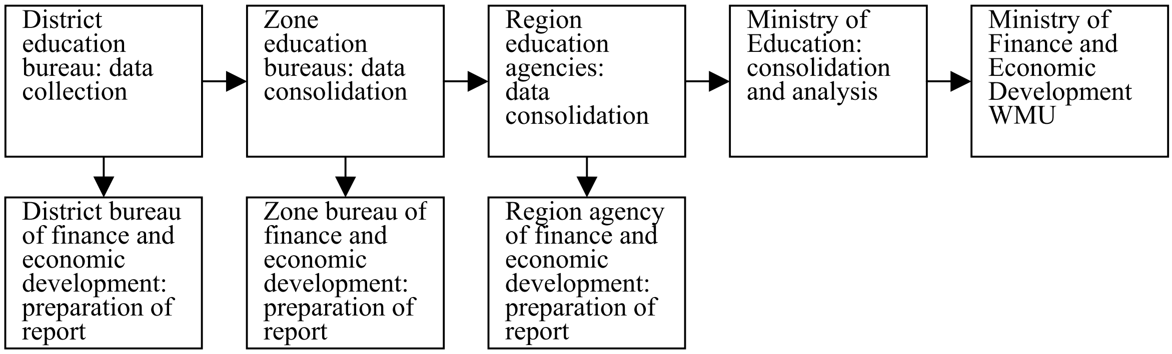
[10] Zones are administrative divisions falling in between regions and districts. Zones only have administrative functions, and the zone's bureau functions as the regional government's outpost. Its responsibilities include compiling budgets for the districts falling within the zone, coordinating the administration of the districts and compiling district

of the districts and reports to the region's education agency. The region's education agency consolidates the data from the regions and reports to the Ministry of Education. However, the data collected at the district level is reported to the Bureau of Finance and Economic Development. In the zones, data is reported to the Bureau of Finance and Economic Development at the zone level, while in the regions it is reported to the Agency of Finance and Economic Development. The Finance and Economic Development bureaus and agencies compile the data from each sector and prepare a report on the area under jurisdiction (refer to Figure 2-8).

Figure 2-8 Flow of monitoring in the case of education



Source : Prepared by study team based on results of interviews in Oromiya.

When carrying out SDPRP monitoring, the Welfare Monitoring Unit (WMU) of the Ministry of Finance and Economic Development's Bureau of Macro-Planning and Policy Analysis compiles the data from the sectors. WMU consolidates the data from the ministries, creates and maintains the database and analyzes policies. Further, the Central Statistics Authority (CSA) plays an important role in compiling the data necessary for monitoring.

On the other hand, all regions prepare progress reports integrating sector data.

The inadequate capacity of WMU and CSA impede efforts to raise the accuracy of monitoring. In June 2004, the government and donors signed a Memorandum of Understanding (MoU) concerning capacity building at both organizations and set up a pool fund.

3) Interaction between government and donors in monitoring process

<High-level forum and joint groups>

The high-level forum is the highest level organization that participates in the

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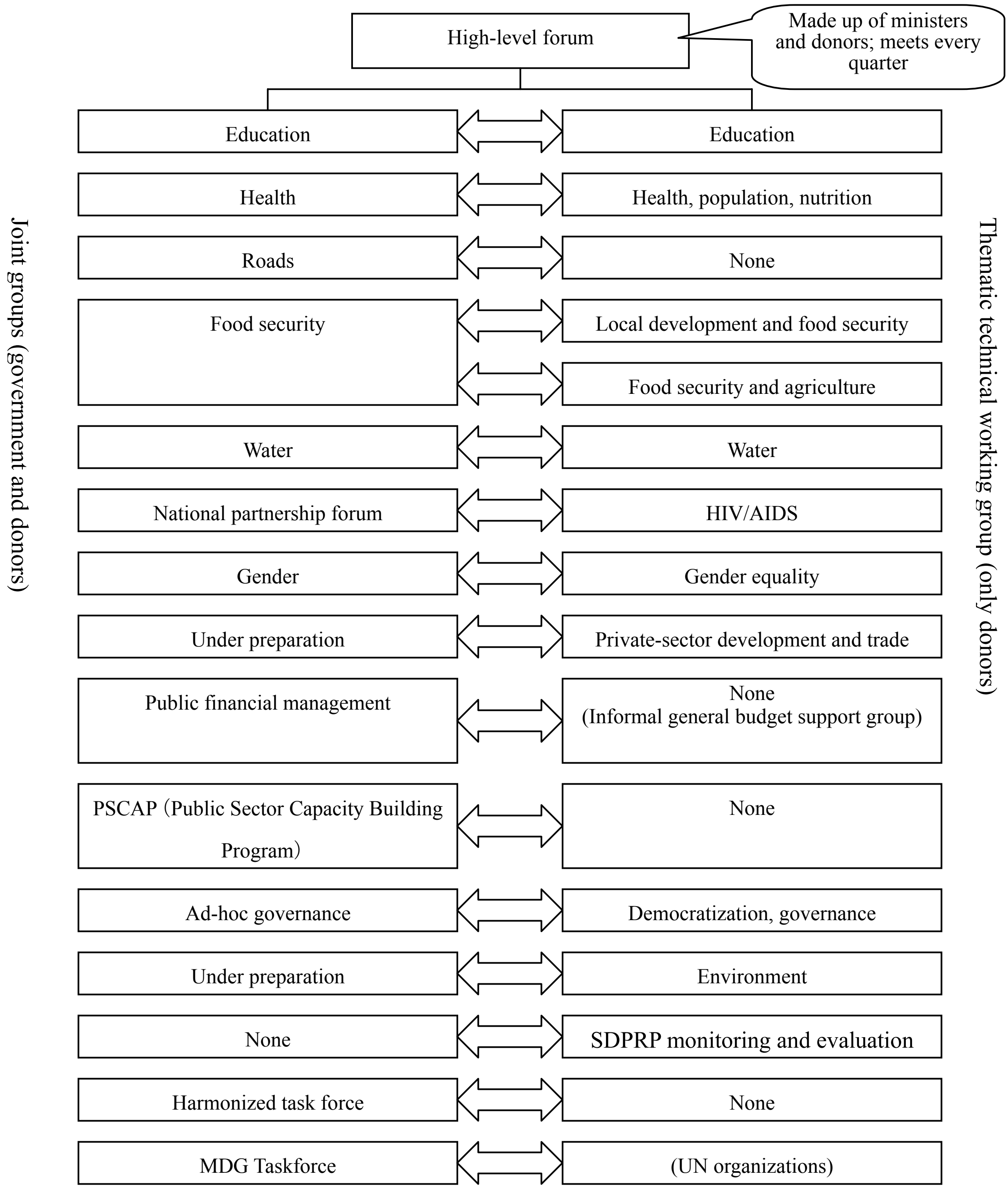
information.

implementation and monitoring of SDPRP. It is made up of the minister and donors and is held on a quarterly basis. The thematic technical working group (consisting only of donors) and the joint group (consisting of the government and donors) are subordinate organizations. As shown in Figure 2-8, the thematic technical working group and the joint group address issues according to sector. The thematic technical working group, consisting only of donors, can be considered as preparation for the joint group.

Some joint groups existed before the SDPRP was established, and others did not carry out activities. Currently, the groups' Terms of References (TORs) are being formulated. There are three sub-groups under the joint group in the PFM area concerned with (a) JBAR, (b) fiduciary risk and (c) the macro-economy. The JBAR group holds debates between the government and donors on the budget, thus fostering trust (according to interviews with the EC). Any donor may participate in the joint group.

Groups other than the high-level forum include the Development Assistance Group (DAG). DAG existed before SDPRP was established, and is made up solely of donors. DAG's executive committee consists of DFID, Ireland and USAID. Core Group (CG) used to be under DAG, but is currently no longer functioning (according to interviews with UNDP). New donors such as South Korea and China do not participate in DAG. There are ongoing discussions on revitalizing DAG.

Figure 2-9. Thematic Technical Working Group and Joint Group



Source: Prepared by study group based on Status of Joint GOE-Donor and DAG Thematic Working Groups in Ethiopia as of November 24, 2004

<Joint Budget Support Mission>

The Joint Budget Support Mission visited Ethiopia between September 21 and October 4, following up on an initial trip in May 2004, to consider whether Ethiopia should receive the World Bank's Poverty Reduction Support Credit (PRSC) and general budget support from donors. Countries providing general budget support, the IMF, the Netherlands, GTZ and USAID participated in the mission. Its objectives were:

(a) To determine the progress made with the SDPRP policy matrix (see below);､

(b) To reach consensus on revisions to indicators and activities for 2004/05; and

To discuss other issues being examined (review of budget execution over the past three years, analysis of allocation of the 2004/05 budget according to Joint Budget and Aid Review, assessment of fiduciary risk, status of improvements to Ethiopian government's system for monitoring and evaluation, status of improvements on donor side).

Two missions are planned for 2005 (the first will be in March, before the regional government had prepared a budget proposal; the second will take place from September through October after execution of the previous fiscal year's budget has been clarified and reviews of the major sectors have been completed).

There are very few other countries in which aid beneficiary countries and donors hold joint missions. Such joint missions promote dialogue between the beneficiary country government and its donors and also helps to improve aid efficiency. It should also be noted that these missions provide an opportunity for countries that do not provide general budget support to participate in dialogues concerning policy with the Ethiopian government.

4) Reviews implemented

Typically, other countries carrying out PRS compile the results of their PRS monitoring as annual progress reports (APRs). However, the World Bank conducts a Public Expenditure Review (PER), Country Financial Accountability Assessment (CFAA) and Country Procurement Accountability Review (CPAR) as needed. Ethiopia prepares APR on an annual basis, but in 2004 it introduced the Joint Budget Aid Review (JBAR) and Annual Fiduciary Assessment (AFA).

<Joint Budget Aid Review (JBAR)>

JBAR supersedes the World Bank's PER (refer to Table 2-6). JBAR reviews aid expenditures, in comparison to PER, which assess the way in which domestic resources are used. It is also directed by the World Bank rather than the Ethiopian government (according to MOFED interviews). The main objective of JBAR is to change budget allocation (sector and sub-sector level, administrative region and local region level) in accordance with SDPRP goals, as follows:

(a) Medium-term expenditures based on SDPRP;

(b) Budget for current and following fiscal years; and
(c) Aid (portion that is on budget).

The focal points for JBAR in 2004 were:
(a) Pertinence and reliability of fiscal plans,
(b) Predictability of aid,
(c) Quality of aid and effective use of aid,
(d) Allocation of budget for new initiatives such as food security, and
(e) Cost estimates and financial resource estimates necessary to implement SDPRP.

<Annual Fiduciary Assessment : AFA>

AFA supersedes the World Bank's CFAA and CPAR (refer to Figure 2-10). In October and November 2004, a consultant (employed by EC and DFID) carried out an assessment and plans to report the results of this study in December. According to the donors, the Ethiopian government was asked to participate but did not express any interest. However, the Auditing Board participating in the work. It is to be hoped that in the near future such assessments will be led by the Auditing Board and other segments of the Ethiopian government rather than by the donors.

In 2004 the World Bank did not implement CFAA and CPAR as it introduced AFA instead. However, CFAA and CPAR will be revived next year if the quality of AFA leaves something to be desired this year.

<Needs assessment of Millennium Development Goals (MDGs)>

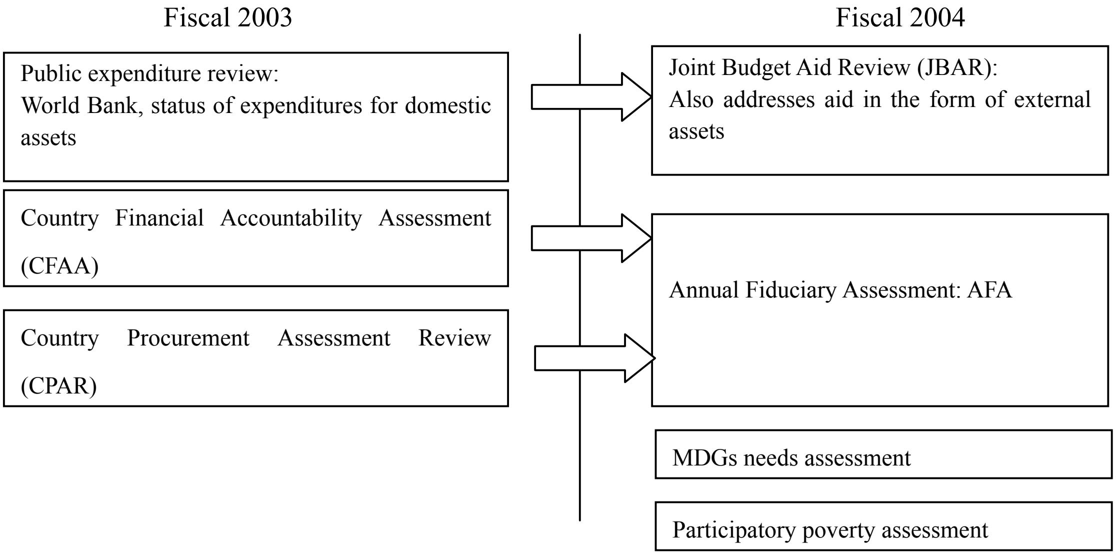
In October 2004, a needs assessment for MDGs was carried out in October 2004 with assistance from the UNDP, and it was concluded that US$122 billion was needed to achieve the MDGs. This review is preparation for the progress report to be given at next year's G8 Summit. In February 2005, a workshop was held concerning the review results, and the results of this examination of MDG progress will be used in formulating the second SDPRP.

The annual progress report (APR) will be prepared based on the results of JBAR, AFA and the MDG needs assessment from 2005. The quality of APR is certainly improving, but there are still concerns that Ethiopia's capacity is insufficient. There were also delays in releasing the APR in 2004, and although measures have been devised to improve capacity, a key issue will be whether preparation of the APR goes smoothly in 2005.

Other reviews include the planned implementation of a participatory poverty assessment as part of the formulation of the second SDPRP. It will be carried out jointly by the Ministry of Finance and Economic Development's Bureau of Macro-Planning and Policy

Analysis and the Central Statistics Authority (CSA).

Figure 2-10 New establishment and consolidation of reviews (2004)



Source: Prepared by study team

5) Policy matrix

Previously, the beneficiary country government and the donors measured the extent to which evaluation criteria had been achieved and the progress made for each PRS indicator, and then reflected the results in policies, budget and aid. However, in some countries implementing PRS, donors and governments worked together to prepare a standard matrix to improve aid efficiency. This matrix was used for monitoring, and attempts were made to link these results to policies and budgets.

Ethiopia did not have a SDPRP policy matrix when it formulated the SDPRP, but it appended it as an annex to the first APR (December 2003). This matrix adopted the logical framework approach, setting goals, outcome, output, activities and input and indicators that should be achieved at each level for each year.

The matrix was introduced because the SDPRP indicators and the World Bank's PRSC indicators were different. The government and donors began discussions to establish an integrated policy matrix, and the World Bank's PRSC matrix was subsumed within the policy matrix. Donors providing general budget support also use this policy matrix to decide on the amount of budget support they will provide for the following fiscal year (or current fiscal year).

Some countries that promote general budget support use this kind of integrated matrix. For example, introducing Mozambique's Poverty Assessment Framework (PAF) and the policy matrix should improve aid efficiency and reduce the burden of the Ethiopian government.

6) Work in establishing Second SDPRP

Ethiopia plans to establish the Second SDPRP in July 2005. As described above, this process starts with analyzing the results of the needs assessment to achieve MDGs with the help of UNDP, but the interim report stated that US$122 billion is needed to achieve the MDGs. The Ethiopian government and donors will be unable to provide this amount. Not only are MDG goals very high, but the plan must be very carefully devised to ensure that the Second SDPRP goals are realistic.

(3) PRS achievement and issues facing PRS implementation

The interim report for the Second APR (released September 2004) demonstrated that many of the indicators in the agricultural and food safety field and education field had been achieved.

The Ministry of Finance and Economic Development's Bureau of Macro-Planning and Policy Analysis is in charge of the monitoring,, but the Bureau's capacity is inadequate. In reality, the Ministry of Finance and Economic Development has asked donors to provide aid for capacity building to facilitate monitoring and evaluation, and signed a MoU about aid.

Interviews with various people involved with the Ethiopian government have remarked on the low aid predictability. Since predictability is low, it is difficult for the government to predict revenue when it is formulating the budget and the planned aid amount is not disbursed (or is delayed). As a result, projects that have been planned cannot be carried out. This is one factor behind the low budget execution rate. To ensure that national cash flow is according to plan, donor funds must be deposited into the national treasury at the promised time in the promised amount. Missing opportunities could lower the aid execution rate. As a solution, the Ethiopian government (MOFED) and donors signed a MoU as part of their plan to raise aid effectiveness.

Donors are also considering ways to enhance aid effectiveness. For example, DFID established a three-year aid rolling plan and intends to inform the government of the fixed amount for the first year and the estimated amount for the second and third years. Also, it plans to inform the Ethiopian government of the aid amount in March of every year in time for budget compilation.

On the other hand, according to those involved in the Ethiopian government, EC and AfDB's disbursements tend to be delayed. The World Bank's IDA was only 87% of what was promised. Conversely, IMF is very predictable. After the missions in March and

September-October, the board of executive directors meets and payments are made immediately.

Information on fiduciary risk is released in December 2004 (the Annual Fiduciary Assessment). According to interviews with donors, the risk is low compared to other African countries.

(4) Aid from Japan and major development partners

1) General budget support

Donors providing general budget support as of October 2004 include eight organizations and countries, namely the African Development Bank, Canada, EC, Germany, Ireland, Sweden, the UK and the World Bank. The main modalities (May 2004) are described below.

Ethiopia would prefer a commitment covering several years. General budget support makes up 12% of the federal government's budget, and given its importance in budget compilation, a long-term commitment until economic growth generates enough domestic revenue to compensate for general budget support is essential.

The Ethiopian government would prefer that aid money be disbursed early in the fiscal year. The Ethiopian fiscal year starts in early July, so it would like annual disbursements to be synchronized with this. Further, predictability is the most important aspect, and it is crucial that the aid money be disbursed at the promised time. In regards to conditionality, the Budget Support Matrix for general budget support is used, but this matrix is consolidated with the policy matrix. DFID and EC selected several indicators from the policy matrix that are then used to review the advisability of aid. Canada emphasizes the food security, local development and governance aspects of the matrix, and Germany emphasizes public financial management. It is preferable for the beneficiary country that donors use the same matrix and indicators and this would be the ideal for Ethiopia.

Table 2-7 Modalities of general budget support donors

	AfDB	Canada	EC	Germany	Ireland	Sweden	UK	World Bank
Aid estimates for 2004 -07	80 million USD	35 million USD	76 million USD	9.3 million USD	23-26 million USD	30.6 million USD	246 million USD	240-300 million USD
Commitment period	1 year	4 years	3 years	1 year; to last several years in future	Several years	1 year; to last several years in future	Several years	Several years; PRSC must be approved each time by board of executive directors
Timing of disbursement	Q1 2005	Jan 2005	Fixed tranche in July 2004, variable tranche in December	Q4 2004	Q2 2005	Q3 2005	Q4 2004	Q3 2005
Conditionality	Budget Support Matrix	Budget Support Matrix	15 indicators selected from policy matrix	Budget Support Matrix	Budget Support Matrix	Budget Support Matrix and IMF's PRGF	50 indicators selected from policy matrix	Budget Support Matrix
Response			Value of fixed tranche changes according to fiscal budget proposal and variable tranche changes depending on APR	Aid for next year is determined based on APR results in matrix		Aid for next year is determined based on APR results in matrix	Pro-poor expenditures, fiduciary risk (use of World Bank's report, status of improvements to citizens' lifestyle	PRSC amount is determined according to performance, policies (hereafter, "JSA results") and matrix
Tranche	1 tranche/year	1 tranche/year	1 fixed + 1 variable tranche/year	1 tranche/year	1 tranche/year	2 tranches in 2004/05 and 1 tranche thereafter	1 tranche/year	1 tranche/year
Special notes			5m Euro over three years for PFM	World Bank's PRSC and Co-finance	Regional budget support and Federal Regional Support		MoU on bilateral (UK and Ethiopia) SDPRP aid	Co-financing with Germany

Source: Results of interviews with Joint Budget Support Mission, Aide Memoire, 2004

2) Aid in capacity building field

The Public Sector Capacity Building Program (PSCAP)[11] is a five-year program with

[11] Please refer to the World Bank's "Project Appraisal Document on a Proposed Credit in the Amount of SDR66.9

approximately US$400 million in estimated costs. The Ethiopian government supplies 33% of these costs, and IDA has committed itself to providing US$100 million of the remaining amount. IDA funds will be disbursed from January 2005, and currently IDA is negotiating with donors concerning the shortfall. SIDA committed to providing US$3.8 million for judicial reform, and Ireland's DCI and DFID have announced that it will provide US$150 million in aid over the next three years. The PSCAP priority areas are:

(a) Improvements in public service,
(b) Decentralization at the district level,
(c) Strengthening management capacity in urban areas,
(d) Tax reform,
(e) Judicial reform, and
(f) ICT.

According to the Ministry of Capacity Development, which coordinates PSCAP, Ethiopia would like donors that not only provide budget support, but are effective in technical cooperation, and would like to receive aid at the donors' convenience. Japan is expected to provide technical aid to strengthen the PSCAP implementing structure, such as capacities for monitoring and evaluation at the federal, regional and district (Woreda) levels, procurement abilities, accounting reports, abilities to establish plans and abilities in devising training designs.

Aid in the capacity building area other than PSCAP includes USAID's aid for an accounting management project and local decentralization aid project currently being implemented. USAID has already provided aid for 7-8 years and in 2006 training will be provided in all regions. Many of the training components are related to public financial management such as procurement, accounting systems using the Internet and budget systems using the federal government's computers.

3) Aid in monitoring and evaluation field

In June 2004, the UNDP, Development Aid Group (DAG) and the Ministry of Finance and Economic Development signed an MoU and worked to improve monitoring. This MoU stipulated the establishment of a pool fund (US$8.5 million) to strengthen the Welfare Monitoring Unit (WMU) and Central Statistics Authority (CSA). This reflects "Strengthening Data Collection, Analysis, and Dissemination on Poverty Monitoring and the MDGs" that WMU and CSA submitted to DAG. The fund is managed by UNDP.

The CSA carries out censuses and surveys such as the survey on household income, spending and expenditures and the welfare monitoring survey, while the WMU compiles and

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Million to the Federal Democratic Republic of Ethiopia for a Public Sector Capacity Building Program Support Project, March 25, 2004" for information regarding the PSCAP.

analyzes data from CSA for SDPRP monitoring. CSA has offices in 25 places nationwide but there are no statistics-related divisions in the region and district administrative organizations.

Of US$8.5 million (over five years) in pool funds, US$6.7 million will be used for CSA, and as of December 2004 US$2.1 million of this was used to carry out surveys and studies. It was also used to hire consultants for IT use. Future plans include the hiring of other consultants in March 2005 and preparations to carry out simple welfare monitoring surveys targeting all districts in September 2005.

4) Aid in public financial management field: Request for technical assistance from Ministry of Finance and Economic Development

In December 2004, the Ministry of Finance and Economic Development requested donor groups to provide six experts in the five fields outlined below. Currently, donors are considering their response (the Ministry's request only included the position title and explanations in Japanese are those of ICNet).

(a) Improving and examining economic models using econometrics (Macro-modeling-econometrician), one

(b) Economic analysis and economic model improvements by macro-economist (Macro-economist), one

(c) Poverty indicator analysis and monitoring by poverty specialists (Poverty specialist), two

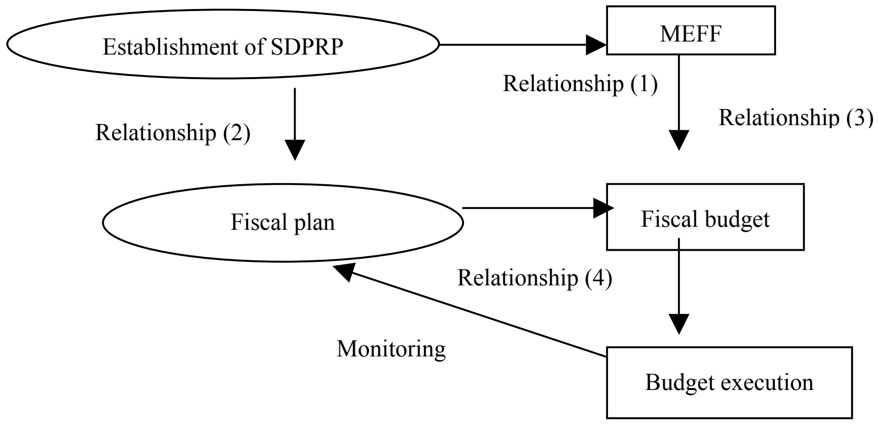
(d) Compilation and analysis of household survey data by information management experts; IT support for IFMIS expansion and establishment (Information specialist), one

(e) Integration of poverty analysis and budget process by public financial management specialists; support for IFMIS expansion and establishment (Public finance and expenditure specialist), one

2-2. SDPRP process and public financial management

We can examine the links between the SDPRP process and the budget cycle in terms of (1) the relationship between SDPRP and MEFF, (2) the relationship between SDPRP and fiscal plans, (3) the relationship between MEFF and fiscal plans and (4) the relationship between monitoring and the plans and budget for the following fiscal year (refer to Table 2-9).

Table 2-11 SDPRP process and budget cycle



Relationship (1)<SDPRP and Macroeconomic and Fiscal Framework (MEFF)>

In general, PRSP is a three-year medium-term plan. Without financial backing, the plan cannot be carried out. Typically, the three-year medium-term expenditure framework (MTEF) is prepared based on the PRSP and the MTEF serves as the financial backing for PRSP. However, the MTEF must reflect the PRSP if it is to back it up. For example, if the PRSP states that priority is to be given to implementing measures in the health sector at the district level, the budget for this sector at the district level must be secured in the MTEF.

In Ethiopia, the macroeconomic and fiscal framework (MEFF) is established as a medium-term fiscal framework. MEFF is prepared by the Ministry of Finance and Economic Development (MOFED) and estimates revenue and expenditures (operating expenses, development budget, block grants to regions[12]) at the federal level for a three-year period. The MEFF ensures that the regions know the estimated amount of their block grants in advance. Based on this block grant, MEFF are prepared even at the regional level. The MEFF reflects the evaluation results of the IMF's Poverty Reduction Growth Facility (PRGF) mission, held in September of every year, and is then revised in November.

SDPRP's priority areas are education, health, agriculture and local development, roads

[12] These are grants given by the federal government to the regional government or from the regional government to the district government without the funds being earmarked for a specific purpose.

and water. Table 2-8 shows the budget allocated to these sectors in the 2002 MEFF.

Table 2-8 Budget allocation to SDPRP priority areas (million Birr)

	2000/01	2001/02		2002/03		2003/4		2004/05	
	Pre Act	Estimate	YoY	Budget	YoY	Forecast	YoY	Forecast	YoY
Agriculture	1,051.1	1,627.4	35%	1,830.5	11%	2,191.3	16%	2,531.8	13%
Water	556.9	722.5	23%	1,114.4	35%	1,299.5	14%	1,481.7	12%
Roads	1,603.7	2,069.7	23%	2,608.2	21%	3,420.4	24%	4,107.6	17%
Education	2,180.7	2,971.6	27%	3,463.3	14%	3,885.3	11%	4,424.4	12%
Health	970.0	1,147.1	15%	1,505.8	24%	1,631.4	8%	1,853.3	12%
Total	6,362.4	8,538.3	25%	10,522.1	19%	12,427.9	15%	14,398.8	14%

Source: Prepared by study group using SDPRP (2002)

The budget for the priority areas is secured, and since before the SDPRP was established (before 2002) budget allocations for these areas has been increasing. Even after the SDPRP was established, budget growth for the priority areas exceeded overall budget growth.

Some have asserted that Ethiopia's macro-economic fiscal framework (MEFF) is unworthy of the medium-term expenditure framework (MTEF). Also, others have pointed out that donors other than the World Bank are not very interested in introducing MTEF.

Relationship (2)<Macro-economic fiscal framework (MEFF) and fiscal budget>

Implementation plans for each year are established based on the SDPRP medium-term plan, and the plan can be carried out through allocations in the fiscal budget within the MEFF framework. When establishing the fiscal implementation plan, milestones measuring the pace at which the targets outlined in the SDPRP are achieved over a three-year period must be established. The SDPRP policy matrix sets goals that should be achieved every year, demonstrating the consistency between the SDPRP and fiscal implementation plan.

Some observers were skeptical as to whether the fiscal budget is being established within the MEFF. There are expenditures falling outside of the budget, and problems as well with the budget execution rate. For example, even if the MEFF ensures that a three-year budget is set aside, there is little chance that the goals laid out in the SDPRP will be achieved if the fiscal budget's execution rate is low. Table 2-9 shows the budget execution rate in the education and health sectors for the ordinary budget and the development budget.

Table 2-9 Budget execution rate in education and health sector (2002/03)

	Ordinary budget	Development budget
Education	93.4%	73.3%
Health	79.9%	40.5%

Source: World Bank, Public Expenditure Review, 2004

This table shows that the development budget's execution rate is low in both sectors, and the execution rate is particularly low in the health sector. Interviews indicated that the budget execution rate is low for the following reasons:

(a) Compared to the execution rate of the Ethiopian government's revenue, the execution rate for donors' project and program funds is low. This is because the process from request to disbursement and takes considerable time, and the format of the expenditure formats differs depending on the donor, creating more work for government employees.

(b) There is only so much that can be done with the implementation plans in the initial stage.

(c) Statistical flaws.

(d) The low execution rate in the health sector has much to do with the budget categories. For example, expenditures to university hospitals are included in the education sector.

(e) In the health sector, funds are also passed on to NGOs and it is difficult to determine whether the budget has been executed.

(f) The health sector has considerable aid from off-budget donors and NGOs, and there have not been fund shortfalls in the health sector.

In the health sector, donors providing general budget support are requesting a follow-up study on the budget execution rate.

Relationship (3)<Monitoring, fiscal plan, fiscal budget>

The status of annual plan implementation and the status of budget execution should be monitored and the results reflected in the following year's plan and budget. If there is a low achievement rate for indicators in the education sector—particularly in primary education—policies are changed for the next fiscal year and measures for priority allocation of budgets must be devised.

There are two ways to determine whether monitoring results are reflected in the next fiscal year's plan and budget:

(a) Confirming the content of the annual progress report (APR) and
(b) Confirming the consistency between the annual monitoring schedule and the schedule for establishing the budget.

<Annual progress report (APR)>

According to the Strategic Partnership for Africa Budget Support Working Group's survey, Ethiopia's APR includes recommendations for new activities and revisions to indicators based on the review, as shown on the 2003 APR. In this way, an APR that can be used to establish the following fiscal year's plan and budget is prepared (refer to Table 2-9).

<Consistency with schedule for annual monitoring and establishing budget>

The annual schedule must be planned so that review results are reflected in the plan and budget for the next fiscal year, thus ensuring that monitoring results and budget formulation are linked. Ideally, the schedule would be ordered as follows:

(a) Review of previous fiscal year's achievements,
(b) Establishment of policy for next fiscal year,
(c) Establishment of budget policies for next fiscal year (including ceiling),
(d) Ministries establish and request budgets based on budget policy,
(e) Discussions between Ministry of Finance and other ministries,
(f) Establishment of government bill,
(g) Cabinet decision and submission to legislature, and
(h) Debate and endorsement of budget proposal in legislature.

Table 2-10 Schedule for PRS monitoring, establishment of annual budget and general budget support

	SDPRP monitoring schedule	Budget formulation schedule	General budget support schedule
July			
August			
Sept			IMF, PRGF mission, Joint Budget Support Mission
October			Donors notify govt of estimated aid for following fiscal year
Nov	AFA release	MEFF establishment	
Dec	APR release		World Bank PRSC
January			Donors notify govt of aid for following fiscal year
Feb		Establishment of budget policies (including ceiling)	
March			IMF, PRGF mission
April			
May		Establishment of budget proposal	
June		Legislature debates budget proposal and puts budget into effect	

Source: Prepared by study group.

The IMF's PRGF mission conducts an evaluation of macro policies every year in September. The results are then reflected in the MEFF, which is revised in November. Also, donors notify the government of the estimated aid for the following fiscal year in October, and this information can be used in establishing the MEFF.

Originally, the establishment of MEFF and the budget for the following fiscal year was supposed to be based on the results of the APRI, but in reality the MEFF is established first. However, as described above, some donors are skeptical about the effectiveness of MEFF, and some feel that there would be no problems with completing the APR before the budget formulation process starts. In particular, the APR is not released until January 2005, which is not helpful for budget compilation.

Donors' general budget support is also important when considering the links between monitoring and the fiscal year plan and budget compilation. As described above, the timing of the disbursement of the general budget support, which makes up 12% of the national budget, has a strong impact on budget execution. DFID determined its aid amount in the fourth quarter of 2004 on the basis of JBAR results and disbursed it in the same quarter. Since giving aid in the middle of the fiscal year in which the budget is executed skews budget execution for the fiscal year (Ethiopia's fiscal budget runs from July through June), in the future DFID intends to inform the government of the aid amount in March (after receiving the results of the APR and JBAR for the previous year) in time for budget compilation and disburse the aid money in July, at the beginning of the fiscal year.

On the other hand, the EC takes a different approach. In fiscal 2004/05, EC's general budget support consisted of a 15 million euro fixed tranche and a 15 million euro variable tranche. The fixed tranche was paid almost automatically at the beginning of Ethiopia's fiscal year (July), but the variable tranche will be paid out after March 2005, when the budget for the following fiscal year is almost fixed and the federal government and EC can discuss policy (this variable tranche is aid for the current fiscal year (2004/05) and not for the following fiscal year's budget, which starts in July 2005). As a result, the variable tranche is risky because it throws some uncertainty on the Ethiopian government's fiscal revenue, but some feel that it is a necessary provision as it preserves a measure of tension between the government and donor.

2-3. Status of public financial management reforms

(1) Federal and local governments' budget cycle

In this section, we will discuss and analyze the federal and local governments' budget cycle, which consists of revenue, the medium-term expenditure framework, fiscal budget and budget execution. Further, we will also examine the extent to which information systems are incorporated into this budget cycle.

1) Revenue

In October 2001 a new Ministry of Revenue (MOR) was established. The MOR is responsible for collecting revenue such as income tax and customs tax, with money from donors falling outside of their jurisdiction. A Revenue Office has been set up in each region. The actual revenue achievement rate is 95-105% (a rate above 100% indicates revenue exceeding the revenue budget).

The federal government has carried out revenue reforms since 1999, establishing laws related to revenue, streamlining the tax collection system, and computerizing the system as well as bringing it on line. Its specific achievements include revisions to basic income tax laws with reference to international standards (June 2004), cuts in corporate and commercial taxes, abolishment of sales tax and introduction of a value-added tax (VAT) (January 2003; reduced tax rate was partially introduced). As a result, the tax collection rate rose from about 30% to about 70% (one of the SDPRP targets is to improve the tax collection rate to 70%). The ratio of income tax revenue to GDP has risen from 13.7% in 2000/01 to 17.1% in 2003/04. Other programs currently underway include the introduction of a taxpayer identification number system (to be introduced by July 2005). These reforms have begun to be introduced by regional and other local governments as well as the federal government.

These revenue reforms are being carried out as five-year action programs, and are considered to fall within the framework of the government's Public Sector Capacity Building Program (PSCAP). The DFID, the Netherlands, EC and SIDA all help with the reforms through the framework. In addition, the IMF reviews the progress made every six months, and donors determine disbursements of program funding based on the results of the review.

2) Medium-term expenditure framework and fiscal budget

Countries eligible for the HIPC program typically establish a medium-term budget plan incorporating the concept of medium-term budget plans. Ethiopia's federal government has introduced the following three medium-term expenditure plans.

(a) Macro-Economic and Fiscal Framework (MEFF): This framework includes estimates of revenue over a three-year period, expenditure estimates by sector and grants to regions (block grants)[13].

(b) Public Expenditure Program (PEP): The program provides estimates of grants from the federal government to regions to prevent delays in the regions' budget formulation.

(c) Public Investment Program (PIP)

Ethiopia uses these three kinds of medium-term expenditure frameworks, and simultaneously establishes budgets at the federal, regional and district levels. In the future, it would be best if the frameworks were integrated as with other countries' MTEF, but donors debate whether medium-term expenditure frameworks are really necessary and whether MEFF are of sufficient quality).

The MEFF and PEP provide regional governments with estimates of the block grants they will receive from the federal government, and they can formulate their own budgets in tandem with the federal government's budget formulation. MEFF including three-year estimates of revenue and expenditures are established at the regional level as well. Four regions[14] that had moved forward particularly quickly with decentralization began providing districts with block grants, and estimates of block grants to districts are included in the regional governments' MEFF so as to prevent delays in establishing district-level budgets.

3) Budget execution

The execution rate for domestic revenue managed via the Ministry of Finance and Economic Development's Treasury and general budget support from donors is almost 100%, but the execution rate for program and project funds passing through Channel 2 (refer to the next section) provided by donors is quite low. The reasons are as outlined in Chapter 2.

It is extremely difficult to gain a complete picture of the government development funds that flow into Ethiopia. For example, in the health sector, donor funds are transferred to NGOs, and it is difficult for the government to ascertain expenditures in the overall health sector, including these. In 2001, the UNDP calculated that total aid funds, including humanitarian assistance such as emergency food aid, totaled US$1,152 million, but the total of channel 1 funds and channel 2 funds (refer to status of donor input in section 2) as ascertained by the MFED was US$788 million. This US$364 million discrepancy is channel 3 funds that cannot be identified in the government's budget process, equivalent to almost 15% of the government

[13] Block grants are funds that the federal government gives to regional governments or regional governments to district governments without earmarking the funds for a specific purpose.
[14] The four regions of Tigray, Amhara, Oromiya and Southern Nations, Nationalities and People's.

budget.

4) Audits

The Office of the Auditor General of the Federal Government of Ethiopia audits the federal and local governments. The Office of the Auditor General is only required to report to the federal legislature, and is guaranteed independence from administrative organizations. Similarly, regional auditing agencies are responsible for audits at the regional, zone and district levels and are only required to report to the region's legislature, guaranteeing their independence.

The Country Financial Accountability Assessment (CFAA) conducted in 2003 gave a relatively high assessment of the federal government's control over public financial management and its accountability[15], and the study group's impressions backed this up. However, the same report also pointed out considerable discrepancies between the Southern Nations, Nationalities and People's State, which has strong discipline and accountability, and Somali, which has significant problems in this regard. The decentralization of authority to districts that began to take off two years ago could create new fiduciary risks. Previously it was enough for donors to be concerned solely with the federal government's control over public financial management, but now it will have to focus on the flow of funds in districts as well. One could almost say that previously donors had to illuminate one large black box, but now they must shed light on hundreds of small black boxes.

(2) Budget formulation and execution by regional and district governments

Regions first began receiving block grants from the federal government in 1992 as the first repercussions of decentralization were felt. The MFED's Local Planning Agency devises the original plan for methods of calculating the allocation of block grants to regions, and the federal government makes the final decision. Once the allocation calculation method is determined, the amount of block grants allocated to each reason are decided almost automatically. The Agency's responsibilities are:

a) Establishment of policies related to all regions,
b) Skills development by training regional employees with the cooperation of Addis Ababa University[16]
c) Serving as secretariat for central government and regional government forums, and

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[15] World Bank (2003), "Ethiopia Country Financial Accountability Assessment Volume I: Main Report."
[16] Currently receiving aid from GTZ. There have been proposals that JICA take over the program once GTZ's aid is completed.

d) Conducting surveys on and redressing regional discrepancies.

The Ethiopia government uses an off-set system by which it deducts the amount of aid a donor gives to a specific region from the block grant to be given to the region's government. This system corrects any imbalance in fund allocation that might occur if a donor's aid is focused on particularly regions. The exception is food security aid, as this aid is being given to the region due to a food shortage and there is no need to consider balance in fund allocation.

The 1994 Constitution determined the division of responsibilities between the central government and local governments. The central government is responsible for the military and maintaining major thoroughfares and hospitals, while regional governments are responsible for basic education, health, local hospitals and agricultural dissemination. The central government collects revenue from export and income taxes, and the regional governments collect revenue from land use, taxes on agricultural products and business taxes. While the federal government collects 70-80% of all tax revenue, 60% of this is allocated to regions so that the federal government in a sense redistributes tax revenue. The federal government also provides regions with subsidies in the form of block grants, the use of which is determined by regions and districts.

Until 2001 districts established budgets and executed it after approval from the region in which they were located, but as described above the four regions of Tigray, Amhara, Oromiya and Southern Nations, Nationalities and People's began giving districts block grants. The districts then base their budgets on the block grant amount and revenue estimates, and the district council approves the budget. However, the district governments' ability to execute budgets is insufficient, and although there are few problems when operating expenses make up the majority of the budget, if the development budget increases without improvements to its assimilation capacity, the budget execution rate would decline.

<Situation in Oromiya region>

According to interviews conducted in Oromiya, the proportion of block grants (refer to Table 2-11) was 56% and 66% in fiscal 2002/03 and fiscal 2004/05, respectively, registering an increase. While regional revenue is also increasing and the region's revenue system is becoming more efficient, the influx of aid funds through channel 2 funds (refer to the next section) appears to be decreasing. Also, block grants to districts made up 46% and 51% of the regional government's budget in fiscal 2002/03 and fiscal 2004/05, respectively, also showing an increase.

Table 2-11 Breakdown of Oromiya region's government revenue and expenditures

	Fiscal 2002/03		Fiscal 2004/05	
	US$ million	%	US$ million	%
I. Total revenue budget for region	**262.5**	**100.0%**	**313.9**	**100.0%**
1. Regional government's revenue	197.9	75.4%	269.1	85.7%
1.1 Federal block grant	147.6	56.2%	206.5	65.8%
1.2 Intra-region revenue	43.4	16.5%	58.7	18.7%
1.3 Internal reserves	6.9	2.6%	4.0	1.3%
2. Aid funds	43.9	16.7%	24.1	7.7%
2.1 Grant aid	18.6	7.1%	14.7	4.7%
2.2 Loans	25.3	9.7%	9.5	3.0%
3. Other revenue	20.6	7.9%	20.6	6.6%
II. Total expenditure budget for region	**262.5**	**100.0%**	**313.9**	**100.0%**
1. Regional government's budget	141.4	53.9%	149.1	47.5%
1.1 Operating expenses	69.9	26.6%	76.1	24.3%
1.2 Business expenses	71.5	27.2%	73.0	23.2%
2. Block grants to districts	121.1	46.1%	160.4	51.1%
3. Discretionary reserves	-	0.0%	4.4	1.4%

Source: Oromiya region's Finance and Economic Development Agency

The method used to calculate block grants from the region to districts is almost entirely in accordance with the method used to determine the block grant allocations from the federal government to the regions. The block grants are allocated with weights of 60%, 30% and 10% given, respectively, to the three variables of population, extent of development and level of independent revenue. Within one week after the regional legislature endorses the region's budget (July), the region informs the district of the approved budget. Oromiya has 218 districts, and independent resources make up an average of about 23.2% of the budget, but there are major discrepancies between the districts. In the event that the district government is unable to secure the revenue indicated in the revenue budget, the region covers the shortfall.

As described above, districts are unofficially informed of the block grants they are to receive at an early stage, in accordance with the region's MEFF. In March of every year, the region informs the district of the ceiling on the provisional block grant and the final ceiling is determined in June. The district makes final adjustments to the budget with the district execution committee according to this ceiling, and after adjustments it is approved by the district legislature.

The administrative sector department and the zone's administrative bureau are informed of the approved district budget. In a process started in fiscal 2004, the zone summarizes the district's budget and submits this information to the regional government. The district budget as summarized by the region and the regional budget approved by the regional legislature is submitted to the federal government's Ministry of Finance and Economic Development. The district budgets compiled by the region indicate the totals for overarching categories so budget details are not known. The zone monitors the district's budget execution during the fiscal year.

There is a vertical reporting system from the federal government to the districts between the federal ministries' and local governments' sector-specific offices. For example, expenditure reviews at the regional level take place every quarter, and the results are reported to the federal government. The reported results are used in the reviews that the federal government conducts in May and November. In terms of regional sector reviews, for example, the health sector reviews progress every quarter and reports the results to the Ministry of Health.

The procedures for projects administering funds with channel 2 funds (funds administered by federal government ministries or local governments; refer to 2-3. (4)) such as ADB, IDA and other loan grants are complex and time-consuming. For that reason, district governments have not handled channel two funds due to the low ability of their accounting departments. Even if the projects are at the district level, funds are administered at the zone level. The complexity of these procedures and inadequacy of the district government's skills lowers zone execution rates for channel two funds.

Oromiya region has introduced the Budget Information System (BIS). This system was introduced at the zone level last fiscal year, and staff are being trained in the use of this system through the Decentralization Support Activity (DSA; the first activity of the PSCAP introduced in Chapter 1-4) supported by USAID. Accordingly, the accounting data at the zone level is organized in a computerized system. Also, single pool and single account reforms were implemented from November 2004, leading to a reduction in the number of bank accounts held by regional and district governments.

(3) Integrated Financial Management Information System (IFMIS)

Public financial management began to be computerized as part of the Civil Service Reform Program (one of the PSCAP programs) five to six years ago. The federal government has already introduced a budget system, Treasury payment system and accounting system, and a remittance module is currently being introduced. The Ministry of Revenue has completed introducing a tax collection system and customs system, which have played a major role in the recent increase in tax revenue.[17]

In Oromiya, where interviews were conducted, budget and accounting systems have been computerized in both regional agencies and zone offices. Currently, the Ministry of Finance and Economic Development has received aid from the EC and is conducting a system review to examine the possibility of integrating systems at the federal level and strengthening the link to local governments' systems.

(4) Inflow of funds from donors

The Ministry of Finance and Economic Development categorizes donor funds into the following three categories depending on the channel and financial management.

Channel 1 funds: These funds are administered through the federal government's budget process in the Ministry of Finance and Economic Development's Treasury account. Non-grant and grant general budget support falls within this category.

Channel 2 funds: These are funds encompassed within the federal government's budget process, but are managed through the implementing ministry's or local government's account. Common basket funds and program and project funds either loaned or granted by many bilateral aid organizations and the World Bank are included within this type. Expenditures from this account must follow stipulated procedures and are audited by a third party.

Channel 3 funds: These funds are not included within the federal government's or local governments' budget process. They include funds injected into accounts set up for a project and in-kind aid. Most aid provided for JICA projects consists of channel 3 funds.

These are the three main types of channels through which funds are injected. This section will examine the status of general budget support, a type of channel 1 fund.

[17] Tax revenue as a proportion of GDP rose from 13.7% in fiscal 2000/01 to 17.1% (estimated) in fiscal 2003/04.

<General budget support>

General budget support just started in fiscal 2003, but the total amount exceeded approximately US$350 million in 2004/05, making up 12% of the government budget.[18] Table 2-12 shows the budget support planned for the current fiscal year and the next years, based on information provided by donors during the Joint Budget Support Mission in September-October 2004. The amounts are provisional, and differ somewhat from the official figures determined by the Ministry of Finance and Economic Development at that time.

As shown in this table, there are particularly large fluctuations in the estimated budget support from bilateral aid organizations. Accordingly, the Ethiopian government and donor groups providing general budget support are currently concerned about equalizing aid amounts. As described in Chapter 2, general budget support must be paid into the Treasury in the planned amount at the planned time to facilitate the federal government's cash flow. This is a particular area of concern for the Ethiopian government receiving the general budget support, but it is essential that the tension in the relationship between the government and its donors be maintained through the process whereby the donors use indicators to measure the effect of budget execution and reflect these results in the budget support they provide. Currently, the federal government and donor groups have signed an MoU, and the MoU draft is being prepared by the Ministry of Finance and Economic Development's Agency for Multilateral Organizations to enhance the predictability of general budget support under standardized monitoring.

[18] DFID information differs from the figures in the table because both are estimates.

Table 2-12 Estimated general budget support amounts according to information from donors

(US$ million)

Donor	Fiscal year 2003/04	Fiscal year 2004/05	Fiscal year 2005/06	Total
Grand total	**232.34**	**366.34**	**254.32**	**853.00**
Total grants from international organizations	**159.86**	**186.86**	**186.86**	**533.58**
World Bank/IDA (PRSC1)	123.00	150.00	150.00	423.00
European Community	36.86	36.86	36.86	110.58
Total bilateral grants	**46.48**	**99.48**	**67.46**	**213.42**
Sweden	-	12.74	15.29	28.03
UK	35.09	52.63	17.54	105.26
Ireland	6.74	11.98	12.50	31.22
Canada	-	17.48	17.48	34.96
Finland	-	-	-	-
Netherlands	-	-	-	-
Germany	4.65	4.65	4.65	13.95
Total loans	**26.00**	**80.00**	**-**	**106.00**
African Development Fund	26.00	80.00	-	106.00

Source: World Bank (2004), "Ethiopia Joint Budget Support Mission September 21-October 4, 2004 Aide Moire.

DFID, whose study team conducted the interviews, is pushing ahead with general budget support as part of aid policy. Project-type research and analysis carried out in the late 1990s has shown that the aid modalities of general budget support and aid conditional management are superior when introducing general budget support. Based on the agreement between DFID and the UK's Audit Commission concerning management policies for fiduciary risk, the Audit Commission is regularly auditing general budget support. Confirmation of the effect of fund input using indicators, assessments of fiduciary risk through country fiscal accountability assessments (CFAA) and efforts to reduce risk are essential in ensuring that DFID fulfills its own responsibilities regarding accountability. The EC is also very interested in assessing and reducing fiduciary risk, and is assisting with the implementation of CFAA along with DFID. As described above, in 2004 fiduciary risk assessments began to be carried out with support from DFID and EC as donor groups providing general budget, replacing the World Bank-directed CFAA.[19]

[19] UK and French auditors were hired as consultants and carry out the evaluation jointly with the Audit Commission.

(5) Issues facing the PFM reform area

In light of the above overview of PFM reforms and the Ministry of Finance and Economic Development's requests for experts, donors' aid is required in the following areas:

<Federal and local governments' budget cycle>

(a) There should be a closer link between SDPRP's priority areas on the one hand and the medium-term expenditure framework and the fiscal budget process on the other. This requires improvements to the budget formulation process.

(b) It is important the correlation between the federal and local governments' budget execution amount and changes in SDPRP indicators is clarified. This requires the analysis of surveys and the collected data, the formulation of economic models, and verification of the correlation between investments (budget) and economic spillover effects. The knowledge and experience thus acquired can be used in establishing the second SDPRP and other policies.

(c) The government's abilities must be reinforced through research into SDPRP indicators, training in participatory poverty evaluation methods, and training in the analysis of information that would improve the quality of reports submitted for monitoring and evaluation.

<Establishment and execution of budgets by regional and district governments>

(a) There is a need for training and on-the-job training aimed at improving the districts' PFM skills and budget formulation and execution skills.

(b) Auditing abilities at the region and district levels must be enhanced.

<Integrated Financial Management Information System (IFMIS)>

Although IFMIS has been introduced to some regions, it must be expanded to other regions. Further, given the appropriate conditions, IFMIS could be introduced at the district level.

3. Ghana

3-1. PRS Process: Current State and Issues

(1) Political and economic conditions before PRSP adoption, formulation process and endorsement

1) Overview of Ghana's PRSP process

Ghana's government began the PRSP process in early 2000 and completed the 2003-2005 version of the Ghana Poverty Reduction Strategy (GPRS) three years later in March 2003. GPRS 2003-2005 was approved by the IMF and the World Bank's board of executive directors in April and June 2003, respectively. During this period, Ghana requested to be made eligible for the HIPC program (March 2001) and the IMF and World Bank's board of executive directors announced in July and August 2004, respectively, that Ghana had reached the completion point (refer to Table 2-13). Table 2-13 below outlines the background and development of the GPRS process.

Table 2-13 Chronological table of GPRS process (2000－2004)

Date	Main events
March 2000 June	・ PRSP begins to be established (under Rawlings administration) ・ I-PRSP established
Jan 2001 March July	・ Kufuor administration established ・ GPRS zero draft completed and discussed ・ Decision made on HIPC application ・ GPRS first draft completed ・ Approved as eligible for HIPC
Feb 2002	・ GPRS (2002－2004 version) completed ・ HIPC Decision Point (start of some debt relief) ・ Domestic approval process for GRPS (including budget) ・ GPRS approved as aid guidelines for development partners (DPs)
March 2003 April June Sept	・ New GPRS (2003－2005 version) completed ・ GPRS submitted to World Bank and IMF (approved as F-PRSP) ・ IMF board of executive directors approve PRGF (Second PRGF: aid for 2003-2005) ・ World Bank board of directors approves PRSC/F (PRSC: aid for 2003-05) ・ GPRS monitoring and evaluation (of GPRS implementation trends in 2002) ・ General budget support for aid to implement GPRS starts (MDBS) ・ IMF PRGF review and World Bank PRSC/MDBS joint review

March 2004 April July August	・ GPRS 2003 Annual Progress Report (APR) released ・ World Bank PRSC and MDBS joint review (coordinated with IMF PRGF review) ・ IMF executive board of directors announces that Ghana has reached Completion Point ・ World Bank board of executive directors approves IMF's announcement on HIPC completion point ・ Joint evaluation of achievement of MDBS trigger (MDBS donor conference held)

Source: Table (pp. 19-20) in Hashimoto (2004) used as basis, with recent developments added.

2) PRSP background 1: Macro-economic policy in 1980 to mid 1990s and success of structural reforms

(a) PRSP background 1: Macro-economic policies and success of structural reforms 1980 to mid 1990s

Ghana's economic structural reforms from 1980 to the mid 1990s have been assessed as the most successful among the Sub-Saharan African countries, along with Uganda.[20] The military regime brought into power with Rawling's coup d'etat in 1981 initially worked to create a socialist economy. However, this led to a clear standstill, and in 1983-1986 the government carried out a series of economic policy reforms based on a market economy in accordance with the Economic Recovery Program (ERP) established by the IMF and World Bank. Subsequently, ERPII was implemented in 1986-1991, aiming at more far-reaching economic structural reforms with structural adjustment loans from the IMF and World Bank. Loan negotiations with the World Bank and IMF became bogged down between 1992 and 1996 when the fiscal deficit increased as the result of high increases in public employee salaries before the election. However, the macro-economic policies and structural reforms carried out between 1983 and the mid 1990s had heavily reduced the fiscal deficit and kept down inflation to some extent. In this respect, Ghana was far more successful than other countries in the region.

(b) PRSP background 2: Deteriorating economy from mid 1990s

Real economic growth was maintained at levels in the 4-5% range (annualized) in the late 1990s, but the country was subjected to external shocks with the decline in the prices of their major export goods such as cocoa and gold in international markets and the ballooning price of petroleum products (particularly in 1999-2000). As a result, Ghana's foreign reserves fell, the value of its domestic currency (cedi) declined, the inflation rate worsened and the price of food skyrocketed. Also, the excessive increase in government spending before the

[20] For example, Devarajan, S., D.R. Dollar, and T Holmgren eds. (2001) *Aid and Reform in Africa* (Washington DC: World Bank), p.14.

presidential election at the end of 1999 increased the money supply, likely causing the runaway inflation.[21]

3) Establishment of I-PRSP

Given these difficult economic conditions, under the Rawlings administration Ghana's government began to establish the Ghana Poverty Reduction Strategy (GPRS) from early 2000. The strategies in the PRSP were intended to be more focused on poverty reduction, given that the Ghana Vision 2020, established in the late 1990s, and 5he First Medium Term Development Plan (MTDP) 1997-2000 achieved only limited results in sustainable poverty reduction.[22] The Ministry of Finance established the I-PRSP in June 2000 with aid from the IMF and World Bank. The I-PRSP outlined five pillars representing the most important aspects in reducing poverty and promoting growth:

(a) Macro-economy,
(b) Production and employment,
(c) Human development and basic services,
(d) Policies to help the impoverished,
(e) Governance.

When the PRSP was being formulated, a broad range of people were consulted on the draft, including other donors and domestic stakeholders.[23] However, a diverse group of stakeholders participated in establishing strategies when the F-PRSP was established, as described below.

4) Start of GPRS (i.e., F-PRSP) formulation

Ghana's government (Rawlings administration) started the process of formulating the GPRS in July 2000, with the poverty reduction unit of the National Development Planning Committee (NDPC) leading the effort. By August, core teams in charge of the five priority areas had been organized and begun the work of formulating the GPRS. These five core teams were made up of ministries related to these areas, civilian groups, NGOs, the private sector, representatives from development partners and private citizens. The representative from the ministries served as the chairperson of the teams, and consultants hired with aid from donors and other stakeholders supported the core teams' analysis work. The core teams remained intact

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[21] Hashimoto (2004), *Comprehensive Report,* p.4.
[22] Government of Ghana (2003) *Ghana Poverty Reduction Strategy 2003-2005*, p.3.
[23] JICA (2004), *Comparative Research of Examples of PRSP Process in Asia and Africa: Draft*, p.36.

and continued their work even during the change of administration, completing the zero draft in March 2001.[24]

5) New administration under Kufuor and application for HIPC eligibility

A new administration was inaugurated in January 2001 under President Kufuor. Kufuor had made a campaign promise to promote economic growth by encouraging the private sector, with an emphasis on building up infrastructure. Accordingly, the GPRS also put more emphasis on growth that would reduce poverty. Shortly after the administration took power in March 2003, the government applied for HIPC eligibility. This eligibility meant that ministries' budgets would be directly influenced, since the establishment of F-PRSP was one of the conditions for debt relief under the HIPC Initiative. This had the effect of enhancing the ministries' interest in the formulation of GPRS.[25]

6) Completion and approval of GPRS

A wide range of stakeholders were consulted on the GPRS draft from 2001 through 2002. Subsequently, the government completed the GPRS (2002-2004 version) in February 2002 and completed the new GPRS (2003-2005 version) in March 2003. The 2003 version had considerable overlap with the 2002 version and there were no major changes, but this was the official document approved by the IMF and World Bank board of executive directors. Based on this document, the IMF and World Bank board of executive directors reviewed and approved the IMF's Poverty Reduction and Growth Facility (PRGF) and Poverty Reduction Support Credit (PRSC) in April and June 2003, respectively. Further, general budget support from other international organizations and aid-giving countries for the purpose of supporting the PRSP started in mid 2003.

7) Establishment of Annual Progress Report (APR)

With the establishment of the GPRS in 2002 and 2003, the Annual Progress Report (APR) was also prepared in 2003 and 2004. The GPRS 2003 APR was issued in March 2004, reviewing that portion of the GPRS 2003-2005 (the official document endorsed by the IMF and World Bank) implemented in 2003. In response, the World bank and IMF board of executive directors reviewed the GPRS 2003 APR and announced that Ghana had reached the HIPC completion point in July and August 2004, respectively.

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[24] Government of Ghana (2003), ibid., pp.5-6.
[25] JICA (2004), ibid., p.37.

8) Future plans for PRSP process

The National Development Planning Committee recently began revising the GPRS (2006-2008). The revised GPRS must be incorporated into the government's budgets for fiscal 2006 onward. To ensure that this happens, a draft of the revised GPRS will be completed by mid 2005 so that it is in time for the draft formulation process that starts in May 2005. When revising the GPRS, five Planning Committee employees are each appointed to one of the five priority areas. Also, foreign and local consultants were hired with aid from DFID and UNDP to facilitate the work.

(2) Institutional framework, organization and process for PRS implementation

1) Role of National Development Planning Committee

PRS monitoring by Ghana's government is led by the National Development Planning Commission's Monitoring and Evaluation Division (NDPC M&E Division) (refer to Figure 2-12). Specifically, the M&E Division establishes the PRS and organizes the APR, coordinates between relevant ministries and local governments, encourages the participation of civilian organizations and the private sector and carries out educational activities to spread public knowledge about the GPRS and monitoring results. When organizing the APR, its monitoring and evaluation are carried out with close coordination with the National Inter-agency Poverty Monitoring Group (NIPMG; described below) and the Regional Poverty Monitoring Groups to be established in the future.

2) National Inter-agency Poverty Monitoring Group

The National Inter-agency Poverty Monitoring Group (NIPMG) was established in accordance with the five priority areas of the GPRS to monitor implementation of the GPRS. Each monitoring group cuts across sectors and is made up of representatives from the government and non-government organizations with expertise in these areas (refer to Table 2-14 for the structure of these groups). The main functions of the monitoring group are:

(a) To emphasize the importance of GPRS monitoring and evaluation within relevant ministries,

(b) To provide updates and data on monitoring indicators and policy implementation, and

(c) To review and validate data and policy proposals.[26]

A series of conferences have been held since the monitoring groups were formed in mid 2003. These meetings have encouraged the participation of relevant ministries in GPRS

[26] National Development and Planning Committee (2004) *Ghana Poverty Reduction Strategy 2003 Annual Progress Report* (Accra: Government of Ghana), p.22.

monitoring and provided a forum for effective debate to validate the data and analysis in the APR.

Figure 2-12 Institutional framework for monitoring of GPRS implementation

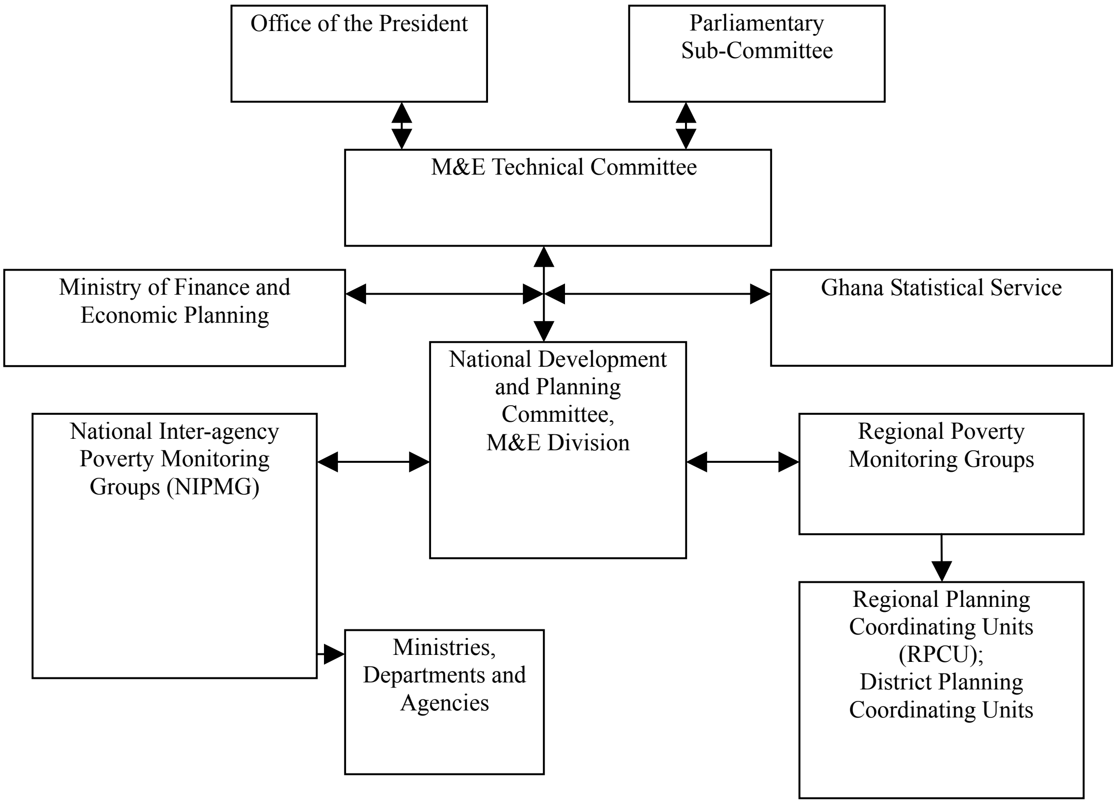

Table 2-14 Structure of NIMPGs

Group	Structure
Macro-economic stability	Chairperson: Ministry of Finance and Economic Planning Secretariat: Ghana Statistical Service Members: Ministry of Finance and Economic Planning, Bank of Ghana, Ministry of Trade and Industry, Bureau of Internal Revenue board of directors, Ghana Statistical Service, CIDA
Production and employment	Chairperson: Ministry of Food and Agriculture Secretariat: Ministry of Tourism Members: Ministry of Food and Agriculture, Ministry of Trade and Industry, Ministry of Energy, Ministry of Lands, Forestry and Mines, Ministry of Private Sector Development, Ministry of Road Transport, Ministry of Ports, Ministry of Environmental Technology, Ministry of Communication and Technology, Ministry of Tourism, CIDA
Human development and basic education	Chairperson: Ministry of Health Secretariat: Ministry of Education Members: Ministry of Education, Ministry of Health, Ministry of Works & Housing, Ministry of Women & Children's Affairs, Governance Committee, Ghana Statistical Service, Ministry of Community, Water and Sanitation, World Bank
Governance and the impoverished	Chairperson: Auditing Commission Secretariat: NCWD Members: Ministry of Justice, Auditing Commission, Ministry of Parliamentary Affairs, Election Committee, CHRAJ, PURC, WAJU, Ministry of Interior, Public Service Committee, Office Parliament, Ministry of Local Government and Rural Development, Ministry of Women & Children's Affairs, National Children's Committee, Ghana Prison Services, Ministry of Social Welfare, Ministry of Manpower, Youth & Employment, DFID, DANIDA

Source: NDPC (2004) ibid, Table 1.1, p.22.

3) Structure of Regional Poverty Monitoring Groups

Ghana's governments intends to further enhance and develop the GPRS monitoring and evaluation process, and plans to expand the institutional framework for monitoring and evaluation over the next few years from the central government to the local level. The government is considering the possibility of expanding the existing Regional Planning Coordinating Units (RPCUs) and giving them the functions of Regional Poverty Monitoring Groups (RPMG) to facilitate this expansion at the local level. District Planning Monitoring Units (DPMU) are set up in each district under the RPCU. The government also plans to expand RPCUs so that RPMG members include the regional representative of the Ghana Statistical Services, the directors of relevant ministries' regional branch offices, directors of NGOs and civilian groups, regional representatives of the NDPG and representatives of the Regional House of Chiefs.

4) Role of Regional Poverty Monitoring Groups

Monitoring groups are expected to play the following roles:

(a) Organize and evaluate data from monitoring and evaluation at the district level and submission to the central government,

(b) Evaluate, propose and assist to reinforce monitoring and evaluation skills of district legislature,

(c) Review data to improve accuracy and consistency,

(d) Promote dissemination and feedback to districts and stakeholders,

(e) Confirm that gender analyses are being conducted in all districts,

(f) Hold workshop two times a year for all district legislatures and review GPRS and policy proposals, and

(g) Release Regional Poverty Status Reports twice a year and make proposals for policy review.

5) Participation of civil society organizations in monitoring and evaluation

In the 2003 APR, Ghana's government acknowledged that civil society organizations (CSOs) are important stakeholders in GPR monitoring, and stated that they should be strengthened in the future. At the same time, there are many CSOs and all have different concerns, so the APR pointed out the need for a series of forums in 2004 to establish a mechanism allowing the CSOs to effectively participate in the monitoring and evaluation process.[27]

6) Strategies to disseminate and energize GPRS

In the second half of 2003, Ghana's government established the Comprehensive Communication Strategy (CCS). This strategy was established after evaluating communication needs at the central, regional and district levels. These strategies have the following objectives:

(a) To spread and promote the final objectives, targets, benefits and monitoring and evaluation process among the public,

(b) To increase stakeholder aid and raise sense of ownership,

(c) To regular inform stakeholders of GPRS progress, and

(d) To ensure that stakeholders provide feedback.

The CCS began to be implemented in 2004, and until then an abridged translation (translation into the local language) of GPRS was prepared to promote the spread of GPRS.

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[27] NDPC (2004), ibid., p.23.

7) APR process

Ghana has conducted two APR (the 2002 APR and 2003 APR) as of this point, and in this section we will discuss the implementation process for the 2003 APR, which was completed in March 2004. In March 2003, the GPRS 2003-2005 was completed and the GPRS Monitoring & Evaluation Plan began to be carried out. Next, two surveys—the Core Welfare Indicator Questionnaire (CWIQ) and Ghana Demographic Health Survey (GDHS) were conducted from February 2003 through the end of the year. The results of these surveys provided the information needed for the 2003 APR, and helped to improve the accuracy of monitoring. Also, the National Development and Planning Committee began regularly carrying out the Poverty and Social Impact Analysis (PSIA) five times since 2003 with aid from development partners.[28] Further, the NIPMG was established in mid 2003, and functioned as a forum to debate and validate analysis of the 2003 APR through a series of meetings.

(3) Status of PRS implementation

1) Core indicators for GPRS monitoring and evaluation

The 2002 APR selected core indicators from among many indicators and compiled a report on them. The 2002 APR used 52 core indicators, but the 2003 APR had a total of 61 core indicators, having added seven indicators in the agriculture sector and two in the environmental sector. Information of the following aspects are provided for each indicator in one table.

(a) Target,
(b) Indicator levels in 2002
(c) Status in 2003, and
(d) Progress toward achieving targets.

2) Evaluation of GPRS progress

In June 2004, the IMF and World Bank issued a joint staff assessment (JSA) of the GPRS and the 2003 APR. The JSA stated that "Ghana's progress in implementing the GPRS is satisfactory, and policy measures and reforms up until now are credible," actively praising GPRS progress.29 The JSA goes on to assert that "Ghana's overall policies provide a credible institutional framework for reducing poverty and serve as a firm foundation for the completion

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[28] Surveys related to the five PSIA carried out by the National Development and Planning Committee are as follows (1) Reform in Ghana's Energy Sector: Electricity Charges, (2) Tackling Vulnerability and Exclusion in Ghana, (3) Study on Impact of Ghana's Oil Pricing Policies on Income Distribution, (4) Economic Turnarounds in Agricultural Sector and (5) Strengthening Abilities for Decentralization.

[29] IMF and World Bank (2004) *Ghana: Joint Staff Assessment of the Poverty Reduction Strategy Paper Annual Progress Report* (Washington, DC), p.9.

point under the Expanded HIPC Initiative and continued aid from the World Bank and IMF. Nevertheless, in regards to GPRS progress it points out that “While important results have been achieved in many areas, there are other areas in which progress is delayed or not apparent” (refer to Table 2-15).

Table 2-15 Summary of Evaluation of Progress by IMF and World Bank

Area	Description
Areas in which particular progress can be observed	
Macro-economy	➢ 2003 GDP growth is expected to be higher than estimates (5.2% growth expected, 4.7% estimated) ➢ 2003 inflation rate was in the single digits ➢ Vulnerability to external shocks has been reduced to increase in foreign currency reserves
Fiscal discipline and PFM	➢ Heavy fall in debt and GDP rate (no net domestic fund-raising in fiscal 2003 budget)
Structural reforms	➢ Progress with structural reforms in energy and education areas (education reforms contributed a great deal to the goal of eliminating the gender gap in primary education)
Areas with little progress	
Oil and public utilities (particularly electricity)	➢ Quasi-fiscal activities related to the lack of well-timed adjustments to retail oil prices and public utility prices
Public services	➢ Deterioration in health sector indicators (slowdown in improvements to infant mortality rate, mortality rate for children under 5 and maternal mortality rate)

(4) Future issues facing monitoring of PRS implementation

1) Issues for monitoring PRS implementation as indicated in 2003 APR

Establishing a mechanism for providing stakeholders with effective feedback on monitoring and evaluation results was one of the important issues brought up in the 2003 APR. The stakeholders referred to here are the decision-makers at the central and local levels. The Cabinet Office, relevant ministries and legislature at the central level and the Regional Poverty Monitoring Group at the regional and district levels play an important role in establishing such a feedback mechanism.

2) Issues for APR monitoring and evaluation through IMF and World Bank’s JSA

The IMF and World Bank’s JSA maintains that the issue most requiring improvement in the GPRS 2003 APR was that “although a comprehensive and suggestive analysis was included, the APR does not present specific policies and proposals in many areas based on this analysis."[30] It goes on to point out the need for due diligence looking both backwards and forward to make future GPRS APR even more effective policy documents. Using the energy sector as an example, specific policy options should be presented by further analyzing the following points:

(a) Analysis of problems with several structural policies (particularly the reasons behind price adjustment delays for petroleum prices in the energy sector),
(b) Presentation of alternative choices to support energy consumers, and
(c) Analysis of effects on Ghana of skyrocketing global oil prices and slowdown in global economic growth.

3) Future issues for GPRS from perspective of government's PRSP supervisors

During the first local study carried out in October 2004, a meeting was held with Professor George Gyan-Baffour, the committee chairman of the National Development and Planning Committee that leads the GPRS and an interview conducted to ascertain the current status and future issues. The chairman asserted that the government must resolve the following issues when implementing the GPRS process:

(a) Strengthen abilities: Due to the shortage in the number of planning committee employees (about 40) and inadequate abilities, internal and external consultants must be relied on to implement the APR.
(b) Salary discrepancies: A manual on preparing the APR could be created to improve employee abilities. However, there are discrepancies between the salaries of employees and consultants, and if abilities are improved the staff will leave for new jobs. GPRS is facing the issue of how to raise the motivation of its employees.
(c) GPRS dissemination workshops in outlying areas: A budget for holding workshops in outlying areas is needed to spread awareness of GPRS and raise the sense of ownership over it.
(d) District APR: Local governments must be even more involved in GPRS monitoring and GPRS revisions. In the future, districts intend to carry out a District APR monitoring the GPRS.

[30] IMF and World Bank (2004), ibid., p.2.

(5) Status of aid from Japan and major development partners

1) Fluctuations in Japan's aid for Ghana

Japan began its economic cooperation with Ghana in 1973, and was the country's largest bilateral aid country from 1988 to 2000. Also, Japan gave Ghana the second-highest amount of ODA out of all Sub-Saharan African countries (1995-2000 average), and is one the key countries for Japan along with Kenya and Tanzania (refer to Table 2-16). However, in March 2001 the Kufuor administration applied for the Expanded HIPC Initiative and new yen-denominated loans were discontinued. A total of 104 billion yen in yen-denominated loans (including interest payments) was written off as part of the debt relief under the Expanded HIPC Initiative.

Table 2-16 Japan's aid for Ghana (unit: 100mn yen)

Fiscal year	Technical cooperation	Grant aid cooperation	Loan cooperation
Fiscal years 1973 － 2000 (Aggregate)	316.68 (fourth highest amount in Africa)	606.64 (fifth highest amount in Africa)	1,259.91 (second highest amount in Africa)
Fiscal 2001	20.57	13.83	0
Fiscal 2002	16.96	13.16	0
Fiscal 2003	7.05	4.65	0

Source: JICA (2004), "Overview of JICA Projects in Ghana," "Comparative Research of Cases of PRSP Process in Asia and Africa," p.38.

2) General budget support for GPRS implementation

General budget support to implement GPRS started when the GPRS (2003-2005) was completed in early 2003. Currently, the IMF's poverty reduction growth facility (PRGF), the World Bank's poverty reduction support credit (PRSC) and MDBS (Bank of Africa, EC, Canada, Denmark, Germany, Netherlands, Switzerland, UK) provide general budget support. The 2003 expenditure forecasts and 2004 expenditure estimates of international organizations and aid-giving countries that participated in general budget support are shown in the table below (Table 2-17).

Table 2-17 Expenditures by general budget support donors (as of Sept 2003)

(Unit: US$ million, million euro)

Donor	2003 expenditure forecasts	Amount of expenditures as of September	2004 expenditure estimates
Germany	-	-	€6.0
Canada	$6.5	$3.5	$15.0
Netherlands	€7.153	€7.153	-
Switzerland	$5.0	$2.77	$5.0
UK	$52.0	$37	$50.0
Denmark	$1.5	-	$1.5
EU	€41.0	€33.0	€30.0
Bank of Africa	$32.0	-	$14.0
World Bank (PRSC)	$128.0	$128.0	$128.0

Source: Hashimoto (2004), p. 72. Germany participates by providing joint funding for the World Bank's PRSC.

3-2. GPRS process and PFM

(1) Relationship between GPRS process and PFM

1) Links between GPRS process and government budget cycle

Ghana's poverty reduction strategy (GPRS) process is set up so that the analysis of progress and policy recommendations in the APR are reflected in the budget formulation. This is clear if we compare the GPRS monitoring (2002 APR and 2003 APR) process, carried out twice by Ghana's government, to the government's budget cycle (see Table 2-18). Ghana's budget year lasts from January through December, and ministries begin to review policies in May. The APR carried out in 2003 and 2004 were both released before the policy review in May. APR are implemented at these times with the expectation that the analysis results and recommendations would be reflected in the policy reviews undergone for budget formulation. It should be noted that the fiscal year analyzed in the APR and the budget year are separated by two years. For example, the 2003 APR reviews GPRS implementation in fiscal 2003 (the review is implemented in 2004), but the analysis serves as input in formulating the fiscal 2005 budget.

Table 2-18 GPRS monitoring process and government budget cycle

Year	Month	GPRS monitoring process	Budget cycle
2003	1		
	2	・ The Core Welfare Indicator Questionnaire is conducted (CWIQ) (February – April)	
	3	・ GPRS 2003－2005 completed ・ GPRS M&E Plan completed and begins to be implemented	
	4		
	5	・ GPRS 2002 APR released	・ Ministries begin their policy reviews for the formulation of fiscal 2004 budget
	6	・	
	7	・ 2003 Ghana Demographic and Health Survey (GDHS) conducted (July – October)	・ Ministry of Finance announces budget formulation guidelines and budget ceiling
	8	・ Series of NIPMG conferences held (through second half of 2003)	・ Ministries establish medium-term budget (three-year) based on MTEF in accordance with budget formulation guidelines
	9		・ Ministries submit budget requests to Ministry of Finance ・ Ministry of Finance carries out budget hearing and confirms details of ministries' budget requests
	10		・ Ministry of Finance completes budget hearings, and submits budget proposal to government by November 1
	11		・ Government confirms and revises budget proposal and returns it to Ministry of Finance ・ Ministry of Finance compiles final draft of budget proposal and submits it to legislature (by November 30)
	12		・ Legislature debates final draft of budget proposal and approves provisional budget in mid December
2004	1		・ Government executes provisional budget from January through March, and during this period legislature approves final fiscal 2004 budget by the end of March (usually in February)
	2		
	3	・ GPRS 2003 APR released	
	4		
	5		・ Ministries began policy reviews for fiscal 2005 budget formulation

Source: Information from NDPC (2004) was used for PRSP monitoring process and Hashimoto (2004) was used for government's budget cycle.

2) Links between GPRS process and general budget support

The IMF's poverty reduction growth facility (PRGF), the World Bank's poverty reduction support credit (PRSC) and MDBS (Bank of Africa, EC, Canada, Denmark, Germany, Netherlands, Switzerland, UK) provide general budget support assisting with the implementation of GPRS. Table 2-19, showing annual activities of GPRS and general budget support (MDBS), highlights the characteristics of the links between the two.

(a) MDBS's mission and the timing of its disbursements fit the GPRS cycle,

(b) Consolidating the policy matrices (particularly the World Bank's PRSC) helps to reduce the government's transaction expenses, and

(c) The IMF and World Bank's joint missions enhances the transparency of activities between donors and encourages collaboration and affiliation; further, major donors (Japan, US, Germany) other than MDBS members cooperating under GPRS also share MDBS information.

Table 2-19 Chronological table of activities related to GPRS process and general budget support

Year	Month	GRPS	General budget support	Main objectives and activities
2002	Feb	GPRS 2002 – 2004 completed HIPC decision point reached		
	June		First MDBS mission (participating DPs: Bank of Africa, EU, DFID, Denmark, Netherlands, USAID, World Bank) Japan attended interim final report session	Basic design for MDBS (1) Agreement on priority actions for disbursements (2) Preparation of policy matrix in line with five priority areas (3) Agreement on preparing MOU determining responsibilities of government and DPs (4) Arrangements for review, monitoring, and disbursements in conjunction with government budget formulation (5) Achieve understanding of legislature's importance and civil society's participation (6) Promote technical cooperation funds that have been pooled together (Multi-donor TA, MDTA)
	Oct		Second MDBS mission Japan participates fully	Adjustments, negotiation and agreement on MDBS design (1) 2003 disbursement plan (2) Analysis of progress in reform areas (3) MOU changed to framework memorandum (4) Consideration of MDTA
2003	3	GPRS 2003 – 2005 completed		
	4			MDBS joint review: (1) Assessment of progress in implementation based on policy matrix

				(2) 2004 MDBS policy discussion (including joint policy discussion with PRSC)
	6		Third MDBS mission	(1) Assessment of achievements of policy goals with second MDBS expenditures (2003: Q3) (1) Confirmation of GPRS progress (2) Discussion of 2004 MDBS policy matrix (including integration with World Bank's PRSC policy matrix)
	9		Fourth MDBS mission (joint review with IMF/MDBS/PRSC)	
2004	3	GPRS 2003 APR completed		
	4		Fifth MDBS mission (joint review with IMF/MDBS/PRSC)	(1) MDBS and sector adjustments
	7	HIPC completion point reached		
	9		Sixth MDBS mission	

3) Relationship of GPRS process and financial management

We have just reviewed the close relationship between the GPRS process, budget cycle and general budget support. However, general budget support is injected into the government budget as direct aid funds, so it can cause fiduciary risks. The DFID defines fiduciary risk as "the risks arising from the public financial management and accountability systems and their operation."[31] In other words, there is a risk that flaws in the PFM system and its operation would impede the fulfillment of the responsibility to remain accountable (in this case, detailed explanations and reports on how aid money was spent and explanations of how it was used for the intended purpose) to legislatures (in this case, in both the beneficiary country and the aid-giving country). This is why general budget support donors place such an emphasis on the beneficiary government's public management.

4) Preconditions for providing general budget support: (1) Example of DFID

DFID does not feel that the majority of the beneficiary countries meet international standards for public financial management, but it provides general budget support if the following conditions are met:

(a) A thorough evaluation of public financial management and accountability systems, and associated risks, has been carried out;

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[31] DFID (2002) *Managing Fiduciary Risk When Providing Direct Budget Support* (London: Department for International Development), p.2.

(b) The government has a credible programme to improve standards of these systems;
(c) The potential developmental benefits justify the risk, taking account of any safeguards that can be put in place to buttress and develop these systems; and
(d) These assessments are explicitly recorded as part of the decision-making process to provide assistance.[32]

5) Aid for public financial management reforms

In Ghana's case, international organizations (World Bank, IMF, EC) and major aid-giving countries (the UK's DFID) providing general budget support also simultaneously offer aid for public financial management reforms (refer to Table 2-20). DFID is the largest donor of general budget support, contributing US$50 million to MDBS, and supports PFM reform programs and the Integrated Personnel and Payroll Database (IPPD) in the PFM field. Up until now, Japan and the US have provided technical support in the PFM field, although the two countries have not offered general budget support.

Table 2-20 Donors of general budget support and donors of aid for PFM reform

Development partner	General budget support	PFM reform	Aid for related areas (*requires confirmation)
IMF	PRGF	Advisers sent to Ministry of Finance	-
World Bank	PRSC	PUFMARP aid	-
EC	MDBS	PUFMARP aid Support for Ghana Statistical Services	-
Bank of Africa	MDBS		-
DFID	MDBS	PUFMARP aid (MTEF)	Integrated Personnel and Payroll Database (IPPD) Decentralization
Denmark	MDBS	-	Good governance
Netherlands	MDBS	-	-
Switzerland	MDBS	-	-
Germany	MDBS	-	-
Canada	MDBS	Aid for PFM reform program Dispatch of advisors for fiscal decentralization (tentative)	-
Japan	-	Aid for JBIC Special Assistance for Project Sustainability (aid and debt management field)	-
US	-	Dispatch of advisers to Ministry of Finance (domestic debt management area)	-

[32] DFID (2002), ibid., p.2.

(2) Current status of PFM reforms

1) Recent developments in PFM reforms

Ghana's government implemented the Public Financial Management Reform Program (PUFMARP) from 1997. PUFMARP was carried out with aid from the Public Financial Management Technical Assistance Project (PFMTA), co-financed by the World Bank, DFID, CIDA and the EC. PUFMARP was essentially finished when the project was completed in August 2003. Subsequently, in February 2002 Ghana's government devised an action plan for the Comprehensive Financial Management Reform Program (hereafter, "Comprehensive Program") as the next stage in PUFMARP, which left many problems unresolved (to be described in the next section). Currently, the Comprehensive Program has become an aid framework through aid cooperation in the PFM field. The Japan Bank for International Cooperation's (JBIC) Special Assistance for Project Sustainability (SAPS), described below, was carried out within this framework from January through October 2003. Also, the Integrated Personnel and Payroll Database (IPPD), another pillar in reform of the public sector that is carried out as part of the Comprehensive Program, was implemented with aid from DFID.

2) Overview of CFMRP

The Comprehensive Program brings together the action plans that should be adopted in the short term, medium term and long term addressing nine major issues facing Ghana's PFM system.[33] These nine major issues are:

(a) Improvements to abilities to compile and carry out budget,
(b) Improvements in abilities to monitor and evaluate fiscal resource management,
(c) Improvements in data preparation and dissemination,
(d) Improvements to flow of information between the Bank of Ghana, Ministry of Finance and Controller and Accountant General's Department (CAGD),
(e) Improvements to implementation of audits and standards,
(f) Improvements to inadequate regulatory structure to amend financial fraud,
(g) Improvements to obsolete PFM-related laws and regulations,
(h) Consolidation of excessive government accounts, and
(i) Improvements to government employees' awareness of financial accountability.

To address these issues, the following six reform areas were specified, and short-term, medium-term and long-term actions were outlined for each.

(a) Financial management reports (budget and accounting),

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[33] Government of Ghana (2002?) *Comprehensive Financial Management Reform Programs 2002-2007*, Volume 1. (Accra: Government of Ghana., p.3..

(b) Fund management and cash management,
(c) Good governance (transparency of financial management),
(d) Reinforced ability to generate revenue,
(e) Decentralization of finances, and
(f) Reforms to finance-related laws and regulations.

3) Donors' collaborative framework for PFM reform

In June 2004, the First Public Financial Management Donor Roundtable was held (chaired by DFID). The main members of this roundtable were MDBS donors and representatives from international organizations and aid-giving countries providing support in the PFM field (CIDA, DANIDA, DFID, EU, IMF, KfW, US, World Bank, GTZ and Japan). The roundtable is currently an informal gathering, and does not function as a forum for formal dialogue and negotiations between the government and donors. Nevertheless, some would like to make the roundtable a place where the donors can exchange views with the government on the future outlook for the Budget Preparation and Expenditure Management System (BPEMS). Accordingly, we can surmise that in the medium to long term the roundtable will become a formal forum for dialogue and negotiation with the government.

(3) Issues facing PFM reform

1) Severe assessment of PUFMARP

According to advisors that the IMF sent to the Ministry of Finance and Economic Planning, PFM reform has achieved several results in the past two to three years.[34] In particular, Ghana has made improvements in seven out of the 16 public expenditure management (PEM) benchmarks required to reach the HIPC completion point, and in that sense is performing better than other countries.[35] However, the World Bank, which led the aid, and other organizations have been critical of the results achieved with PUFMARP. According to the World Bank's Implementation Completion Report (ICR) for its Public Financial Management Technical Assistance Project (PFMTAP), the outcome of this project was "unsatisfactory." Also, interviews with EU representatives and IMF advisors show that many of those involved are also critical of the project's outcome.

[34] Based on interviews carried out as part of a local survey in October 2004.
[35] In Ghana, the World Bank and IMF's HIPC Expenditure Tracking Assessment and Action Plan (AAP) survey was carried out in February 2004, and the progress made in achieving the PEM benchmarks were reviewed. The results are reported in the IMF and World Bank (2004) *Public Expenditure Management Country Assessment and Action Plan – Ghana* (Washington DC: IMF and World Bank).

2) Issues for financial information management system

A Budget Preparation Expenditure Management System (BPEMS) began to be introduced in 1997 under PUFMARP. BPEMS is a large-scale financial information management system that comprehensively manages accounting, budget execution, monitoring and other functions in the public sector. Oracle Corporation was set up to provide employee training. However, there were major delays in its implementation and currently, seven years after implementation began, there are no ministries in which BPEMS functions as originally intended. As implementation of BPEMS forms the core of PFM reform, these delays caused delays in other areas for reform. The problems can be summarized as follows:

(a) Too much emphasis was placed on the introduction of IC technology hardware and too little attention was given to reinforcing the system, organization and staff that would operate the system;

(b) The financial management system through BPEMS is complex and too expensive an investment for Ghana (about US$20 million);[36] and

(c) Little sense of ownership over government's management system.

The Second Public Financial Management Donor Roundtable was held in October 2004, and a major topic for discussion involved the steps that should be taken in the future to support the management system, in consultation with the government.

3) Assessment of MTEF and future issues

Ghana's medium-term expenditure framework (MTEF) began to be introduced in 1997 under the World Bank's PFM technical cooperation project, and its implementation started from fiscal 1999. However, the MTEF faced major problems from the initial stages of its adoption. During the 1999-2000 economic crisis, financial authorities were forced to make heavy spending cuts when revenue far undercut estimates. At this point, authorities made spur-of-the-moment decisions on spending cuts and accumulated arrears, damaging the reliability of the MTEF's medium-term estimates. Also, changes in budget categories delayed changes in the MTEF's Chart of Accounts, and financial reports could not be submitted regularly. In its recent assessment, the IMF acknowledge the usefulness of Ghana's MTEF, but stated that "In practice, however, the MTEF falls short of its potential, as it tends toward being a form-filling exercise and is not yet getting established as a tool for rational allocation of

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[36] These figures are quoted from World Bank (2004) *Implementation Completion Report on A Credit to the Republic of Ghana for A Public Financial Management Technical Assistance Project* (Washington DC: World Bank),の Annex 2 Project Costing and Financing, p.24.

resources, review of priorities, and decision-making."[37]

4) Issues indicated in public expenditure review

The World Bank recently implemented a Public Expenditure Review (PER), and distributed the draft in June 2004 to stakeholders.[38] The World Bank has carried out Country Financial Accountability Assessment (CFAA) and Country Procurement Assessment Review (CPAR) in the past few years, in addition to expenditure reviews. The core message of the results of PER is that "A sound budget system enabling the government to out development issues is indispensable to translating the benefits of debt relief through HIPC and economic reform into poverty reduction and broad-based growth."[39]

5) Issues facing aid and debt management

A number of issues must also be addressed in the aid and debt management field, for which JBIC has provided aid. Although the performance of the Ministry of Finance's Aid and Debt Management Unit (ADMU) is improving, those participating in interviews were practically unanimous in stating that aid provided on a continuous basis is essential.[40] There is a particularly strong need for improvement in the quality of financial and auditing information from the sector ministries to ADMU (input for JBIC's Special Assistance for Project Sustainability) and more effectiveness use of ADMU's data and analysis (output in the Special Assistance for Project Sustainability).

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[37] IMF(2004) *Ghana: Report on the Observance of Standards and Codes —Fiscal Transparency Module* (Washington DC: International Monetary Fund), Box 1, p.14, July.
[38] World Bank (2004) Ghana: Public Expenditure Review 2004 (Washington DC: World Bank), DRAFT.
[39] World Bank (2004), ibid, p.4.
[40] Based on local survey carried out in October 2004.

4. Kenya

4-1. PRSP process: Current status and issues

(1) Political and economic conditions before adoption, formulation process and endorsement

The economic growth that Kenya had enjoyed since its independence in 1963 began to slow in the late 1970s and remained in this slump until the 1990s. The per capita Gross National Income (GNI) in 1980 was US$440, but by 1995 it had fallen to US$260 and was flat at US$350 in 2000.[41] While the GDP grew an average of 4.3% in the ten years from 1983 to 1993, growth was stagnant at 1.9% in the ten years from 1993 to 2003. In 2002, the 24 years of rule by President Daniel Arap Moi ended and the administration of President Mwai Kibaki took office. This new administration began a variety of economic and other reforms, but the GDP growth rate from 2003 through 2007 is estimated to be 3.1%, suggesting that the economic recovery will take some time.[42]

The relationship between the previous Moi administration and donors such as the World Bank and IMF was unstable. In 1997, the Kenyan government refused to carry out the governance reforms it had promised the IMF it would implement, and in response the IMF discontinued its structural adjustment loans for the next three years, and the World bank froze US$45 million in structural adjustment loans.[43] As a result, the Moi administration established the Anti-Corruption Authority in 1997, and in 1999 announced that it would begin addressing problems in governance and public sector management. The government set up a reform management team and reduced the number of ministries from 27 to 15.[44] The World Bank and IMF resumed their aid to Kenya in 2000 as a result of this series of reforms and the establishment of its I-PRSP (July 2000). However, in 2001 the IMF discontinued its Poverty Reduction Growth Facility (PRGF) due to the unsatisfactory progress of the government's anti-corruption measures, and did not resume it until 2003.[45]

1) Process of establishing I-PRSP and PRSP (IP-PRSP)[46]

Table 2-21 outlines the steps taken to establish the PRSP from the late 1990s. As

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[41] World Bank (2004), "World Bank Africa Database 2004."
[42] World Bank (?), "Kenya At A Glance."
[43] World Bank (2003), "Economy of Kenya," p.3.
[44] Ibid.
[45] Ibid.
[46] This section primarily refers to World Bank (2004), "The Republic of Kenya Poverty Reduction Strategy Paper 'Investment Program for the Economic Recovery Strategy for Wealth and Employment Creation' and Joint IDA-IMF Staff Assessment.", World Bank (2004), "Memorandum of the President of the International Development Association and the International Finance Corporation to the Executives Directors on a Country Assistant Strategy for the Republic of Kenya."

described above, in July 2000 the Kenyan government established the Interim Poverty Reduction Strategy Paper 2000-2003（I-PRSP） in the midst of the aforementioned volatility in the relationship between the government and donors. The I-PRSP was viewed as a step in the process of implementing the fifteen-year plan, National Poverty Eradication Plan (NPEP), established in 1999. The I-PRSP was established by six sector working groups set up within the government after consultation with stakeholders such as NGOs and the private sector. However, consultation during the process of establishing the I-PRSP was held almost entirely at the central government level, and there was little consultation at the province and regional levels.[47] The World Bank provided US$150 million in aid in August 2000 when the I-PRSP was established.

Table 2-21 Chronological table of activities in Kenya's PRS process (1997-2004)

Date	Main activities
Fall 1997	• Reforms allowing a multi-party legislative system were conducted. Oppressive laws in force since the period of colonial rule were revised and freedom of expression and freedom of assembly were acknowledged.
1997	• IMF discontinued the second payment (US$215 million) in its Enhanced Structural Adjustment Facility.
December 1997	• President Moi, in office since 1978, was re-elected in national elections.
1998	• World Bank discontinued payments on its second loan installment (US$45 million) in structural adjustment loans. The World Bank's aid to Kenya did not resume until August 2000, with the exception of emergency aid to rebuild infrastructure after a flood in 1998.
July 1999	• President Moi announced a Change Initiative and began a series of government reforms.
Sept 1999	• Kenya's ministries were reduced from 27 to 15.
1999	• Announcement that AIDS is a national disaster.
March 2000	• Consultation for I-PRSP takes place between government and stakeholders.
July 2000	• I-PRSP completed.
July 2000	• World Bank and IMF board of executive directors confirm I-PRSP.
August 2000	• Due to I-PRSP, IMF approves a US$150 million Poverty Reduction Growth Facility (PRGF) and the World Bank approves a US$150 million Economic and Public Sector Reform loan.
2000	• First MTEF formed for fiscal years 2000/01-2003/04.
2001	• Ethnic tensions heighten and a series of insurgencies break out.
2001	• IMF discontinues aid again.
December 2002	• Kibaki, representing the National Rainbow Coalition (NARC), elected as president in third presidential elections, thus ending the forty-year administration of the Kenya African National Union (KANU), in power since Kenya gained independence in 1963.)
Nov 2003	• PRGF approved by IMF.
Nov 2003	• Donors announce US$4 billion in aid over three years at a Consultative Group meeting.

[47] Government of Kenya (2000), "Interim Poverty Reduction Strategy Paper 2000-2003," p. 3

Nov 2003	• World Bank gives second loan installment in Economic and Public Sector Reform Credit (EPSRC).
Jan 2004 March 2004 May 2004 Dec 2004	• Paris Club reschedules debt repayment deadlines for US$350 million in delinquent loans and loans to have been repaid from January 2004 to December 2006. • Kenya version of PRSP, "Investment Program for Economic Recovery Strategy for Wealth and Employment Creation 2003-2007 (IP-ERS)," completed. • PRSP submitted to World Bank and IMF's board of executive directors and confirmed. • IMF board of executive directors praise Kenya's PRGF achievements and provide an additional US$76.9 million in loans.
April 2005	• Consultative Group (CG) Meeting held in Nairobi.
June 2005	• 2005/06 budget proposal submitted to legislature; president gives budget speech.

Sources:

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World Bank (2003), "Kenya: A Policy Agenda to Restore Growth."
World Bank (2004), "Kenya Country Brief."

The previous administration (under President Moi) began establishing the Full-PRSP. A committee was set up with representatives from many stakeholders (the legislature, civil society, NGOs, private sector, donors, etc.) and led the process of establishing the PRSP. In 2002, participatory consultations were held in 70 districts to determine policy priorities. Following this process, the PRSP draft was completed the same year, but endorsement by the IMF/World Bank was delayed due to the presidential elections in December 2002 and the resulting change in administration.

The new Kibaki administration took office in December 2002, and added its campaign pledges to the PRSP draft established during the previous administration while also holding a workshop including all ministries, donors, the private sector, NGOs and civil society in February 2003. The administration referred to feedback from stakeholders even after the workshop, and in June 2003 it announced its Economic Recovery Strategy (ERS). The government established an Interim Investment Program in November 2003 to implement the ERS, and the national investment council (with over 2,000 participants from all sectors) began discussing it.

Subsequently, the content was reviewed, and in March 2004 the Interim Investment Program became the Investment Program for Economic Recovery Strategy for Wealth and Employment Creation (IP-ERS) and was completed as Kenya's version of the PRSP. The IP-ERS was endorsed by the World Bank and IMF board of executive directors in May 2004 as

Kenya's PRSP.[48] The IP-ERS aims to achieve the millennium development goals (MDGs), and is based on the following three pillars:

(a) Economic growth,
(b) Equitability and poverty reduction and
(c) Governance.

The IP-ERS evaluation conducted by the IMF and World Bank in April 2004 pointed to the issues listed below, and stated that these issues must be addressed by the time the first Annual Progress Report (APR) is established in 2005.

(a) The quality and accuracy of poverty analysis must be improved by maintaining statistical information and enhancing analytical.
(b) Theoretical policy-making abilities must be improved by prioritizing policies that will be most effective in encouraging economic growth and reducing poverty.
(c) Health sector strategies and education strategies that have already been established should be implemented with an eye to achieving the MDGs.
(d) Policy prioritizations should be reflected in resource allocation with the logical establishment of the MTEF.
(e) Clear action plan for capacity development of public employees should be outlined with a view to receiving donor aid.
(f) The poverty monitoring system must be strengthened.
(g) A system must be built up so that IP-ERS monitoring results are reflected in the establishment of development goals, decisions on policy priorities and the decision-making process for budget allocation.

2) Kenya and HIPC Initiative

Kenya applied for debt relief through the HIPC Initiative, but did not qualify as an HIPC due to the IMF and World Bank'as assessment that the typical rescheduling by the Paris Club would enable Kenya to continue repaying its debts. Kenya was the only country not eligible for HIPC out of the countries surveyed in this study, and when the study began the study was aware of the need to confirm whether this had any impact on the country (whether the Kenyan government took a firm stand with donors or was unenthusiastic about PRS implementation and PFM reforms as a result of its failure to Kenya qualify for debt relief). However, interviews with local government employees and donors did not indicate any differences in the attitude of the Kenyan government and other countries covered in this study. In interviews, donors commented that regardless of its HIPC eligibility, the Kenyan government

[48] World Bank (2004), "Kenya Strives to Promote Growth and Reduce Poverty."

did not have sufficient development funds and depended on aid from donors.

(2) Institutional framework, organization and process for implementing and monitoring IP-ERS

1) Monitoring organizations

In tandem with IP-ERS implementation, the Kenyan government established the National Monitoring and Evaluation Committee as its comprehensive monitoring and evaluation system. The Committee meets every quarter, and its members are representatives from UNDP, UNICEF, WB, EU, DFID, Ministry of Finance, Office of the President, Ministry of National Planning and Development, the private sector (Kenya Private Sector Federation) and civil society. The committee's head office is the Monitoring and Evaluation Department of the Ministry of National Planning and Development, altered in 2005. The Department plays a central role in monitoring and evaluating IP-ERS.

The IP-ERS monitoring results are summarized in the form of the APR, and the first APR was established in July 2005. IP-ERS monitoring is carried out to coincide with the fiscal budget cycle (July – June), and the APR is to be released every year in November. However, the first APR was not issued until July 2005 due to the Ministry of National Planning and Development and other ministries' unfamiliarity with the APR and the newness of the Monitoring and Evaluation Department, in charge of the monitoring

When the APR is prepared, the Ministry of National Planning and Development staff sent to ministries are the focal point and compile the information needed. Local governments do not participate in the national monitoring framework due to their inadequate capacity, and eight districts (Bondo, Bungoma, Garissa, Kilifi, Meru South, Murang'a, Suba and Turkana) are attempting monitoring.[49] The Monitoring and Evaluation Department's budget was decreased from 30 million KS to 10 million KS in 2004, so it is difficult for it to cover all regions.

Some observers are skeptical as to whether this comprehensive monitoring and evaluation framework is really functioning.[50] The World Bank and IMF Joint Staff Assessment, released in September 2005, praises the quality of the APR, but points out that a monitoring and evaluation system must be designed and the capacity of departments and the Central Bureau of Statistics improved if the comprehensive monitoring and evaluation framework is to be finished with the Ministry of National Planning and Evaluation's Monitoring and Evaluation Department playing the central role. The Central Bureau of Statistics belongs to the Ministry of Finance, and

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[49] The results are summarized in "Implementing the National Monitoring and Evaluation System –The Developed Structure." The Ministry of National Planning and Development also sends employees to the district level.

[50] GTZ (2005), "Monitoring of National Strategies to Reduce Poverty - Introduction to a study commissioned by BMZ, Germany."

an economic study carried out every year in May was used to determine the extent to which indicators laid out in IP-ERS had been achieved. However, its capacity has not kept up with the demand for data. The Kenyan government implemented the Statistical Capacity Building Project with the aim of improving the capacity of the Central Bureau of Statistics and the statistics-related departments in government-related organizations, and donors provided various forms of aid for this project. However, interviews indicated that in addition to inadequate capacity, there are many job-leavers.

As a result of changes in the budget compilation schedule from 2005, the Ministry of Finance requested that the Ministry of National Planning and Development revise the annual monitoring schedule so that it is aligned with the budget compilation schedule. The APR for the first year (released in July 2005) covers the period from July through December 2004, in addition to fiscal 2003/04.

2) Monitoring and evaluation system

In August 2005 the Monitoring and Evaluation Department prepared guidelines on monitoring and evaluation.[51] These are technical guidelines to be used for a national monitoring and evaluation system, and were prepared for staff in charge of monitoring and evaluation at ministries and local governments.

3) Status of monitoring achievements and issues

The APR released in July 2005 describes the results of input monitoring and outcome monitoring, as well as the status of achievements in input monitoring in 2003-04 and the goals through 2008. Also, a chart contrasting the budget and actual amount (for each ministry) based on poverty reduction programs was also included. It is particularly impressive that future objectives and the necessary budget are included as well as achievements over the past year.

However, the IP-ERS indicators and the indicators laid out in the APR are different. In the APR, not all of the IP-ERS indicators are checked, and it only describes the progress made for selected indicators. Further, some of the APR indicators do not have enough corroborating data.[52] Initially, progress toward poverty reduction could be assessed by using the indicators adopted in the PRSP (IR-ERS) for three years continuously. However, in reality it was subsequently discovered that the initial indicators were not appropriate, the monitoring was an excessive burden and the data was not coordinated, requiring that the PRSP indicators be revised. The effectiveness of Kenya's indicators must also be reconfirmed.

The 2005 Joint Staff Assessment by the World Bank and IMF stated that the APR's

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[51] "Implementation of the National Monitoring & Evaluation System, Methodological and Operational Guidelines"
[52] This data is covered in the Central Bureau of Statistics' 2005 survey.

description of the extent to which annual objectives had been achieved was substantial, the monitoring and evaluation framework had improved and analysis in the governance area was sound. On the other hand, it pointed out that priority areas were not reflected in the plan and there is no awareness of the extent to which the sectors' own activities lead to achievement of the outcome indicators. Other issues pointed out in interviews are as follows:

a) There are guidelines on monitoring implementation, but the authority of the Monitoring and Evaluation Department is not established in laws.
b) The three-year monitoring and evaluation plan and the context behind the plan have not been drawn up.
c) IP-ERS has not infiltrated outlying regions (the town clerk of a council in a suburb outside Nairobi did not know that it existed).
d) There is a monitoring and evaluation framework, but it is not clear that x have the capacity to continue implementing it.
e) It is not clear whether there is a cooperative relationship between the Ministry of National Planning and Development, which carries out the monitoring and evaluation, and the Ministry of Finance, which formulates the budget.
f) It is not clear whether monitoring data is shared between ministries and with local governments.

In May 2004 the Central Bureau of Statistics launched the database "Keninfo" with aid from UNICEF, and is currently developing a system that can provide comprehensive and up-to-date socio-economic indicators (with aid from UNDP).

(3) Status of donor aid

1) General budget support

There are no donors in Kenya providing general budget support. It appears that donors want to wait for an anti-corruption law to pass the legislature and assess trends in the national vote in November 2005.

2) Aid for monitoring and evaluation

When the APR was prepared, the World Bank paid for the monitoring costs with an IDA grant. DFID held technology workshops and provided aid for the establishment of guidelines on evaluation, UNDP sent advisors to the National Monitoring and Evaluation Committee, and eight councils carried out monitoring and evaluation on a pilot basis. Also, UNV provided technical aid for eight Keninfo satellite stations in outlying regions. This aid incorporating UNV suggests the possibility that JICA could provide aid using JOCV.

3) Kenya External Aid Policy (KEAP)

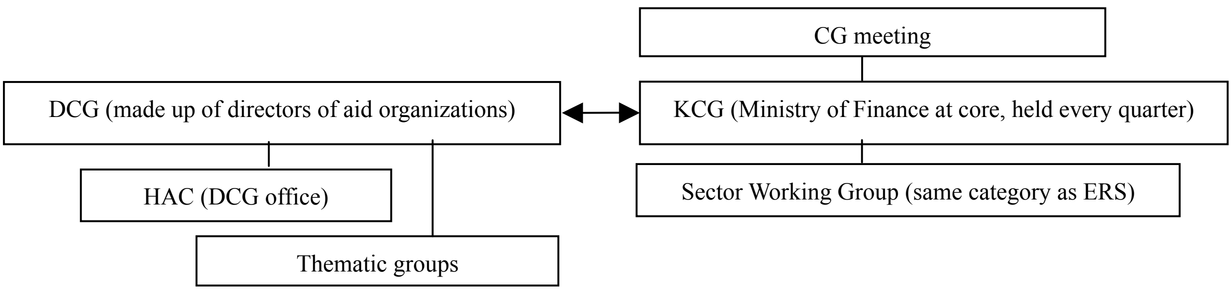
In August 2005 the Ministry of Finance released the first part of KEAP. KEAP focuses on general budget support and states that technical aid is the type of aid with the lowest priority, and also asks that donors provide information on aid (quantity and timing). Tanzania and Zambia have established similar policies, and the JICA Kenya office should consider its response while referring to developments in Kenya and Japan's response.

In the education sector, in September 2005 a draft of "Partnership Principles for Support to the Education Sector in Kenya" was released, laying out the responsibilities of the Ministry of Education and donors in realizing the sector strategy (Kenya Education Sector Support Programme, or KESSP).

(4) Cooperation framework for government and donors

Figure 2-13 shows the framework within which the government and donors hold various discussions. Discussions between the government and donors are focused on KCG.

Figure 2-13 Discussion framework between government and donors

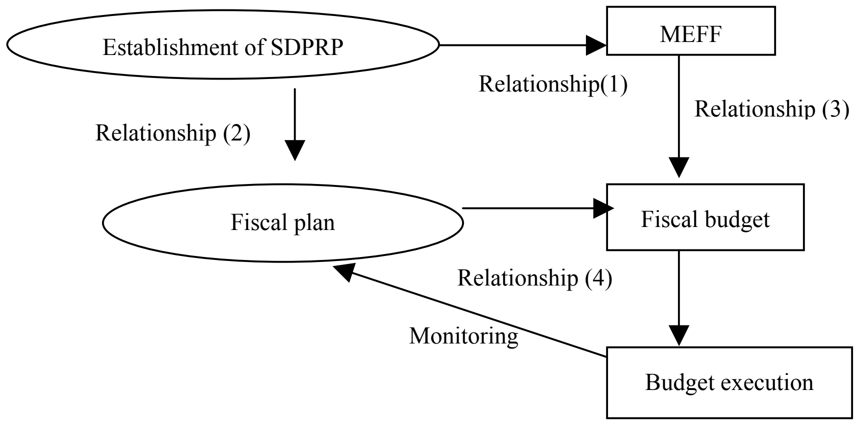


Source: Prepared by study group based on interview results

4-2. PRS process and public financial management

We can examine the links between the PRS process and public financial management (the budget cycle) in terms of (1) the relationship between PRS and MEFF, (2) the relationship between PRS and fiscal plans, (3) the relationship between MEFF and fiscal plans and (4) the relationship between monitoring and the plans and budget for the following fiscal year (refer to Figure 2-14).

Figure 2-14 PRS process and budget cycle



Relationship (1)<PRS and MTEF>

In general, the PRSP is a three-year medium-term plan. Without financial backing, the plan cannot be carried out. Typically, the three-year medium-term expenditure framework (MTEF) is prepared based on the PRSP and the MTEF serves as the financial backing for PRSP. However, the MTEF must reflect the PRSP if it is to back it up. For example, if the PRSP states that priority is to be given to implementing measures in the health sector at the district level, the budget for this sector at the district level must be secured in the MTEF.

Kenya adopted the MTEF in 2000, and the IP-ERS and APR listed the necessary costs for each sector through 2007 (refer to Table 2-22). Education and health are included in human resource development.

Table 2-22 Estimates of costs incurred in implementing IP-ESR (million shilling)

Sector	Amount needed (2003-07)	% share
Macro-economy	8,599.50	2.19
Administration	7,914.50	2.02
Public order	43,890.00	11.19
Agriculture and local development	88,488.50	22.57
Tourism, trade and industry	16,254.80	4.15
Human resource development	143,400.00	36.58
Infrastructure	81,018.00	20.66
IT	2,500.00	0.64
Total	392,065.30	100.00

Source: Annual Progress Report 2003/2004

The problem is that, even though the necessary costs through 2007 have been estimated, there is a large gap with potential spending. This gap cannot be filled with donor aid, and according to the APR the government plans to cover this gap with an increase in external debt, changes to spending and investment from the private sector.

Relationship (2)<PRSP and fiscal implementation plan>

Relationship (3)<Macro-economic fiscal framework (MEFF) and fiscal budget>

Implementation plans for each year are established based on the PRSP medium-term plan, and the plan can be carried out through allocations in the fiscal budget within the MTEF framework. When establishing the fiscal implementation plan, milestones measuring the pace at which the targets outlined in the PRSP are achieved over a three-year period must be established.

The IP-ERS lays out the indicators that should be achieved every year, and the APR includes the activities, budget plans and executed amount for each sector ministry. The sector ministries are to establish their own strategic plans based on the IP-ERS, but the APR points to the weak links between the IP-ERS and sector strategies. The APR estimates the annual spending amounts in the MTEF.

The education sector introduced the Kenya Education Sector Support Program (KESSP). This program is located within the IP-ERS framework, and is carried out within the government's system of MTEF, fiscal budget, and the ministries' public expenditure review.

Relationship (4)<Monitoring, fiscal plan, fiscal budget>

The status of annual plan implementation and the status of budget execution should be monitored and the results reflected in the following year's plan and budget. If there is a low achievement rate for indicators in the education sector—particularly in primary education—policies are changed for the next fiscal year and measures for priority allocation of budgets must be devised.

There are two ways to determine whether monitoring results are reflected in the next fiscal year's plan and budget:

a) Confirming the content of the annual progress report (APR) and
b) Confirming the consistency between the annual monitoring schedule and the schedule for establishing the budget.

<Annual progress report (APR)>

In addition to achievements over the past year, the APR also includes lessons and policies for the following year for each sector. Accordingly, it includes "backward" information as well as "forward" information.

<Consistency with schedule for annual monitoring and establishing budget>

The annual schedule must be planned so that review results are reflected in the plan and budget for the next fiscal year, thus ensuring that monitoring results and budget formulation are linked. Ideally, the schedule would be ordered as follows:

a) Review of previous fiscal year's achievements,
b) Establishment of policy for next fiscal year,
c) Establishment of budget policies for next fiscal year (including ceiling),
d) Ministries establish and request budgets based on budget policy,
e) Discussions between Ministry of Finance and other ministries,
f) Establishment of government bill,
g) Cabinet decision and submission to legislature, and
h) Debate and endorsement of budget proposal in legislature.

The Kenyan government recognizes that there should be a link between monitoring and the budget, and the APR describes monitoring as a step in budget preparation.

The Ministry of Finance revised the annual schedule for establishing the budget in 2005 (refer to Table 2-23). In the process of establishing the budget, each ministry carries out a Public Expenditure Review (PER), and based on these results the MTEF is prepared and the Ministry of Finance decides the ceiling. While the ministries determine the budget in accordance with these ceilings, the Ministry of Finance sets the method for calculating the macro-economic estimates and informs the ministries accordingly. Subsequently, the ceiling is fixed with the completion of the budget strategy in March, and in June the budget is submitted to the legislature after being endorsed by the cabinet.

Kenya's process is distinctive in that the legislature gives its final approval in October, when the fiscal year has already started. In July, when the budget speech is given, 50% of the budget has been approved (ordinary and development budgets), and has begun to be executed without waiting for the full budget to be approved.

The sector working groups play an important role in establishing the budget. Sector working groups are made up of related ministries, NGOs, the private sector and donors, and it considers the outline for budget allocation. The results of its deliberation are reflected in the MTEF. The macro-economic sector group is in charge of macro-economic estimates, and the results are reflected in the October Budget Outlook Paper. The Ministry of Finance notifies the Ministry of National Planning and Development of the new budget schedule, described above, and requests that the monitoring schedule be aligned accordingly.

The monitoring schedule is consistent with the original budget year, with achievements from July through June of the following year monitored and reported around November. However, since work on the first APR was delayed and it was released in July of the following year, the APR covers the period from July through December 2004 in addition to the 2003/04 budget year. Timing problems could be resolved if the APR is finalized in November so that it can be reflected in the December MTEF guidelines.

Table 2-23 Schedule for PRS monitoring and establishment of annual budget

	PRS monitoring schedule	Budget formulation schedule	Donor developments
July	APR (2005) Start of monitoring (planned)		
August		• Revisions to ministry strategic plans • Plans for PER implementation	JICA survey on requests
Sept		• Sector working group initiated	
October		• Budget Outlook Paper prepared and discussed	
November	APR released (planned)	• Final Budget Outlook Paper prepared	CG meeting (planned)
December		• Final version of ministries' PER completed • MTEF guidelines released	
January		• Sector ministries decide on priority items and submit	
February		• Sector ministry interviews	
March		• Preparation of budget strategy proposal (sector working group), donors approached	
April		• Budget strategy paper submitted to and approved by cabinet (distributed to ministers after approval) • Ministry budget proposal submitted	CG meeting (2005)
May		• Budget proposals prepared and submitted to cabinet	
June		• Budget proposal debated in legislature	

Source: Ministry of Finance materials

Kenya has introduced results-based management as part of its public sector reforms, and uses APR results to assess the outcome.

4-3. Thoughts on PRS monitoring

Kenya's PRS monitoring framework is being completed. The important issue now is whether the established framework and plans continue to be utilized. This requires that local governments and ministries other than the Ministry of Finance and Ministry of National

Planning and Development establish strategies reflecting the IP-ERS in all sectors and that they participate in the PRS monitoring framework. Donors must also be aware of the position of projects they are forming at the sector and local levels within the IP-ERS.

As described above, a new monitoring schedule aligned to the new annual schedule for budget formulation will be announced soon. If Japan's technical cooperation projects are viewed as contributing to the realization of IP-ERS, the PCM cycle should be aligned to the monitoring schedule. The new monitoring cycle will start in July of every year and end in June of the following year, so Japan's project cycle should reflect this.

Pilot projects were carried out in eight Councils to improve PRS monitoring abilities in the local government, and as described above UNDP used UNV to provide aid when implementing the pilot project. Improving abilities to monitor PRS requires not only that a monitoring framework be set up, but also improvements in daily activities such as data compilation and analysis. Japan could also provide sector ministries and local governments with on-the-job training using JOCV.

The strength of JICA's Kenya office lies in its use of local staff. In the education sector, there are local staff that have participated for about six years with Japanese staff in donor meetings, and the Ministry of Finance has staff that have managed aid from Japan and other donors. These staff can be used as resource persons, essentially serving as the "institutional memory" of JICA's Kenya office since JICA's Japanese staff return in two to three years. Also, if the local staff were given greater authority and responsibilities such as the right to make proposals, they would be able to get involved in the decision-making process and effectively use the knowledge they have built up in their roles.

Aid cooperation in Kenya is moving forward rapidly under the IP-ERS system. Aid cooperation has already progressed through a series of developments in neighboring countries (Tanzania, Uganda) so the Kenya office could learn lessons from those countries.

AICAD carries out R&D intended to reduce poverty and research results are being put into a database under the guidance of Japanese experts. If the Kenyan government and other donors could use these research results, Japan would be able to make an intellectual contribution. Accordingly, the AIDAD research results should be widely publicized and research carried out that meets the needs of the Kenyan government and other donors. AICAD is operated by Kenya, Tanzania and Uganda with aid from Japan, so this could become a regional intellectual contribution not limited to Kenya.

4-4. Reforms in public financial management

After the Kibaki administration was brought to power, donors began to expand their aid to Kenya, and from 2003 to 2004 donor support took off again. IP-ERS analyzed that governance problems at a high level such as fraud, corruption and improper management of public property would impede Kenya's socio-economic development. The government is working to enable its citizens to participate in equitable development by eradicating corruption and establishing a law-abiding nation.

Kenya's development budget comprises about 21% of the total budget (2002/03 budget), and of this about half is aid from donors. The MTEF was revised to facilitate IP-ERS implementation, and a new fiscal budget formulation mechanism began to operate on a full scale from the 2005/06 budget year. Follow-up to confirm that this mechanism is functioning properly will be essential. Donors do not give general budget support due to Kenya's governance problems and high fiduciary risk, but the EU is considering providing budget support in the education sector.

Public financial management (PFM) reforms are implemented as part of public sector reforms. The section below will provide an overview of reforms in the public sector and discuss the status of PFM reforms.

(1) Public sector reforms

Kenya's public sector reforms began with the Civil Service Reform Program in 1993, and in 1995 the Comprehensive Public Service Reform program was introduced. This program targeted the central ministries, local governments, government-related organizations and universities with the objective of clarifying the role of these organizations and enhancing their functions as well as revising compensation and benefits, carrying out human resource management and capacity building to improve the performance of public employees and improving the planning and budget system. Local government reform programs, Ministry of Health reform programs and reform programs targeting university and government-related organizations were all carried out under this program.

Currently, the Office of the President is promoting strategies to improve the performance of public service under IP-ERS. It primarily consists of improvements to public service, human resource development and competence, introduction of training, adoption of IT and improvements of skills and better procurement, and results-based management was introduced using case studies from Canada and Sweden as benchmarks. Frther, performance contracts—the core of personnel system reforms—were introduced with reference to similar cases in China, South Korea, Morocco, South Africa, the US and the UK.[53] Currently, administrative vice-ministers and other employees are evaluated every year under their performance contracts. An output-based budget was also introduced, but it will be some time

[53] Legislative decision in September 2004

before this kind of advanced method takes hold in Kenya. The Kenya Institute of Administration (KIA) was in charge of training when the output-based budget was introduced.

The Ministry of Finance takes the central role in these reforms, and sector working groups composed of government and donors were established to monitor and evaluate the Ministry of Finance's measures. The sector-wide approach has been adopted in this area and 17 donors provide aid (an MoU has been signed). Also, eight donors including the World Bank, DFID, UNDP and DANIDA contribute money to a basket fund for public sector reform, and the UNDP is in charge of the fund's management.

(2) PFM reforms

<Implementation of PFM reforms>

The government established an expanded public expenditure management plan in June 2003 under the Country Financial Accountability Assessment (CFAA) implemented in 2001 and the 2003 Public Expenditure Management Assessment and Action Plan (PEMAAP). The plan consists primarily of the following:

a) To carry out the IP-ERS, the government must give priority to areas related to economic growth and poverty reduction when allocating its financial resources, based on realistic income estimates. The government will ensure that the MTEF and budget formulation process are aligned.
b) The quality of budget formulation will be improved to prevent arrears, spending commitments will be controlled, fiscal discipline strengthened and expenditure checks and reports will be carried out appropriately.
c) An information system will be built up to ensure that high-quality financial information needed to make decisions on financial management is provided in a timely manner.

Progress was made in achieving these objectives in fiscal 2003/04 as follows:

a) In December 2003, the government institutionalized the public expenditure review (PER) covering the government's public expenditures as a tool to improve budget formulation, execution and monitoring.
b) Ministerial Public Expenditure Reviews (MPERs) were carried out in affiliation with MTEF. The MTEF is aligned with the annual budget formulation process, and efforts were made to link the results of the analysis via the MPER to the budget formulation process.
c) Integrated Financial Management Information System (IFMIS) was introduced and the staff were given training. In January 2004, it was set up in the (former) Ministry of Finance and National Planning and Development, and subsequently it was extended to other ministries.
d) The Anti-Corruption and Economic Crime Act (2003) was established and an Anti-corruption Commission set up. A Public Officer Ethics Act (2003) was formulated,

and public employees were required to disclose their assets. Also, the Government Financial Management Act (2004) and Public Audit Act (2004) were established to ensure the transparency of public financial management, and the Public Procurement and Disposal of Assets Bill (2003) is currently under discussion. These laws expand the authority of the Accounting and Audit Board, and also strengthen the oversight of the Procurement Agency. In addition, an Administrative Ethics Agency was set up in the Office of the President, and a new Ministry of the Constitution and Judiciary was set up with responsibility for judicial reform, legal reform, anti-corruption strategies and public employee ethics. Further, the working conditions of police officers were improved and they were given training to improve abilities, and improvements to the quality of resident services are being made.

In response to these developments, several sector-specific working committees were set up within the government, and PFM reforms were promoted. Donors were also members of these working committees, and dialogue between the government and donors was promoted through these working committees. Currently, it has been reported that donors are considering establishing a basket fund.

<Budget formulation: Establishing MTEF>

Efforts were made to improve the MTEF from 2000, with the central role played by the Budget Management Policy Division (the former MTEF head office) in the Ministry of Finance. The MTEF began to be introduced on a full scale from 2003. The MTEF is laid out in the budget documents as the three-year forward budget within the actual budget, but one problem is that the MTEF does not accurately reflect the amount of donor funds.

Spending trends in two sectors from the 2004/05 MTEF are shown below.

Example: Comparison of ordinary budgets of Kenya's Ministry of Education, Science and Technology and the Ministry of Livestock and Fishery Development

Kshs(% increase)

2004/05 budget	2003/04	2004/05	2005/06	2006/07
Ministry of Education, Science and Technology	70.9bn	78.7bn (11%)	88.2bn (12%)	90.7bn (3%)
Ministry of Livestock and Fishery Development	2.3bn	2.1bn (9%)	2.2bn (5%)	2.3bn (5%)

There is a significant difference between the budgets of the two ministries, but the Ministry of Education's budget has grown significantly when elementary education was made free of charge in principle. On the other hand, the Ministry of Livestock and Fishery Development's budget decreased because of aggressive cuts in training, entertainment, travel costs and other costs.

<Status of budget execution: Public expenditure tracking survey>

The public expenditure tracking survey is a tool for assessing the weak points of public service and inefficiencies, and was carried out by the Kenya Institute for Public Policy Research and Analysis (KIPPRA) in the education, health and agricultural sectors. This survey identified money leaks. The results of the survey are as follows:

a) Health sector: Not enough employees have been appointed to the majority of local health centers. 85% of health centers lack adequate medical equipment and pharmaceutical products. Only 59% of pharmaceutical products reach pharmacies and only 88% reach health centers. Also, the use of some fees collected from users is not clear.
b) Education sector: There are almost no leaks of school charges, excluding salaries, likely because they are paid directly into the school accounts or they are paid in kind. However, there are still problems with the process for procuring articles for schools.
c) Agricultural sector: Almost no activity costs are paid for technical dissemination services. Only 48% of farmers receive such services.

In light of these results, the government gave a clear central role to expenditure tracking within the monitoring and evaluation system. Also, the government specified the education sector as a priority area for poverty reduction, so further tracking surveys are planned in the education sector.

<Audits by Accounting and Audit Board>

Around the mid 1990s, Kenya's Accounting and Audit Board announced that it was several years behind with its audit reports, but currently audits are being outsourced to private-sector auditors and the audit results are being released in a timely manger. The table gives examples of financial statements for fiscal 2002/03.

Kenya's fiscal 2002/03 financial statements (Kshs)

	Tax revenue		Ordinary expenditures (gross)		Development expenditures (gross)	
Budget	209.4bn	100%	182.2bn	100%	49.7bn	100%
Accounts	196.6bn	94%	171.1bn	94%	32.5bn	65%
Difference	12.8bn	- 6%	11.1bn	- 6%	17.2bn	35%

The budget execution rate for the 2002/03 operating expenses was about 94%, generally favorable. However, the execution rate for the ordinary budget fell to 90% in fiscal 2004/05, primarily because the excessively low yield on government bonds prevented them from being absorbed in the domestic financial market. On the other hand, the execution rate for development spending was 65% (2002/03), which is quite low. This can be attributed to donors' delays in releasing the amount committed, failure to record donor spending in the government's accounting system as vouchers for the expenditures were not submitted to the government, and inadequate income and inefficient execution.

<Progress in PFM reforms judging from indicators>

In 2003, the government and donors agreed on a total of 16 indicators to measure the extent to which reforms in public finance—a priority area—had been achieved, with seven indicators related to the budget formulation process, four related to budget execution, four related to budget execution reports and one additional indicator. These indicators have been used regularly to evaluate Kenya's performance in public financial management since 2003. Three indicators were satisfied in the first evaluation in 2003, and a total of four indicators had been met by the fiscal 2003/04 evaluation.

a) One of the seven indicators involving the budget formulation process was cleared. The remaining issues are that the MTEF and budget formulation process are not linked appropriately, there are major differences between the approved budget and the amount actually executed, and it is difficult to accurately identify extra-budgetary funds and program funds provided by donors.
b) One of the four indicators related to the budget execution process was cleared. The remaining issues are the major arrears in violation of financial regulations, poor cash flow management in many projects so that they are discontinued in the middle, and failure to carry out the public expenditure tracking survey, delays in reconciling bank accounts and failure to observe internal control standards.
c) Two of the four indicators related to reporting were cleared. The remaining issues are delays in expenditure reports and lack of functional budget spending categories, delays in the audit reports of 750 public companies and the accounting for 35 extra-budgetary funds, and delays in submitting audit reports that have been externally audited to the legislature.

As a result of the Country Integrated Fiduciary Assessment (CIFA) in 2005, another indicator was cleared, bringing the total to five. The CIFA was introduced as an evaluation tool integrating the Country Information Accountability Evaluation and Country Procurement Assessment Report. The government aims to clear the other indicators in fiscal 2004/05.

(3) Local governments' finances

The majority of local governments' budgets consist of the budget from ministries, and the budget is allocated to the ministries' local offices. On the other hand, 5% of the income tax is set aside as a Local Authority Transfer Fund (LATF), which is then allocated as a grant to 175 local governments. The amount allocated to local governments is decided using a fixed calculation method. Also, 210 constituencies receive subsidies, funded by an amount equivalent to 2.5% of the income tax. Fuel taxes are managed by road committees, and are allocated to road corporations, local governments and national parks for use in maintaining roads.

<Role of municipalities>

Municipalities are responsible for providing services to residents (water and sewage, local development, granting commercial licenses, maintaining roads, maintaining bus terminals, managing markets, tending graves, collecting and disposing of garbage, managing fire departments, running slaughterhouses, managing sports and recreation facilities, managing parks, vocational schools, bridges, wells and dams, giving education subsidies to poor families, regulating public transportation). There are two types of policy: those that go through sector ministries and the region's own policies. The issue now is whether decentralization will move forward without a transfer of financial resources.

<Municipalities' finances>

Municipalities' personnel costs must account for less than 60% of their total expenditures. 10% is allocated for debt repayment and at least 20% must be used for poverty-related spending. One source of revenue is the aforementioned LATF. The Local Authority Service Development Action Plan (LASDAP) surveys local residents' needs and projects are carried out via LATF.

For example, Machakos receives 20 million shillings (about 30 million yen) in annual revenue from LATF, and income from taxes and fees totals 54 million shillings a year (about 81 million yen). The revenue from fees includes market taxes, slaughterhouse usage fees and bus terminals usage fees. Also, it is allocated 10 million shillings (about 15 million yen) annually in road fuel taxes from the Road Committee, which is used for road maintenance. Thika has about 250 million shillings (about 375 million yen) in tax revenue, and receives 50 million shillings (about 75 million yen) as LATF from the central government.

<Reform programs>

A local sector reform program began to be implemented by local government ministries from 1998 (with aid from the World Bank). Program activities have included a pilot project to introduce IT and training to improve employees' abilities.

<Budget formulation calendar>

March Circular prepared, budget formulation process starts, sector proposal submitted

May-June	Budget debated in individual Council committees (urban planning, education, public sanitation, environment, finances), and subsequently submitted to full committee
June	Budgets of individual Council committees are debated by regional budget committees and budget proposals are formulated and submitted to regional government ministries

4-5. Donor aid for implementing PFM

Donors provide aid for the following programs:

Public Sector Management Technical Assistance Program (PSMTAP)

This program aims to improve the government's public services, develop administrative capacity, improve internal audit abilities, support the establishment of MTEF, introduce and establish IFMIS, improve procurement and streamline the judicial process. It was started in 2001 and is slated to finish in 2005. After this program is completed, the Public Sector Reform Technical Assistance Project (PSRTAP) will be carried out with aid from the World Bank. The PRSTAP aims to reorganize the ministries, improve public services, reinforce revenue-generating public corporations, facilitate PFM, further introduce MTEF, expand IFMIS throughout the government and set up laws and develop abilities to facilitate reforms at government-managed public corporations.

Improving analytical skills for PER

The World Bank is taking a central role in providing aid to enable the government to compile and analyze the basic information needed to establish the MTEF through government and donor joint PER. There are also plans to provide technical support so that the Ministries of Health, Education and Agriculture in particular are able to prepare sector-specific spending plans as part of the work to prepare the PER.

Programmatic Structural Adjustment Credit (PSAC)

The Kenyan government and World Bank held negotiations over implementation of PSAC aid in fiscal 2005/06. Conditions were set for this aid, namely the government's enhanced accountability and transparency and budget allocation with an emphasis on poverty reduction. Improvements in these areas could lead to the World Bank's Poverty Reduction Support Credit (PRSC) planned for fiscal 2007 and general budget support from other donors.

<IMF's Poverty Reduction Growth Facility>

The IMF decided to provide its Poverty Reduction Growth Facility (PRGF) in

November 2003, and after a CG meeting in December it was determined that 4.1 billion would be disbursed over a three-year period. However, there were delays in the execution, and as of this point only a review has been carried out in January 2004 (originally reviews were supposed to be done every six months). The original plan called for seven disbursements over three years, but so far only two disbursements have been made. This delay is due to delays in establishing laws (on procurement and privatization) and political instability as demonstrated by the national referendum over constitutional revisions, but the IMF does not expect Kenya to go off-track.

4-6. Thoughts on PFM

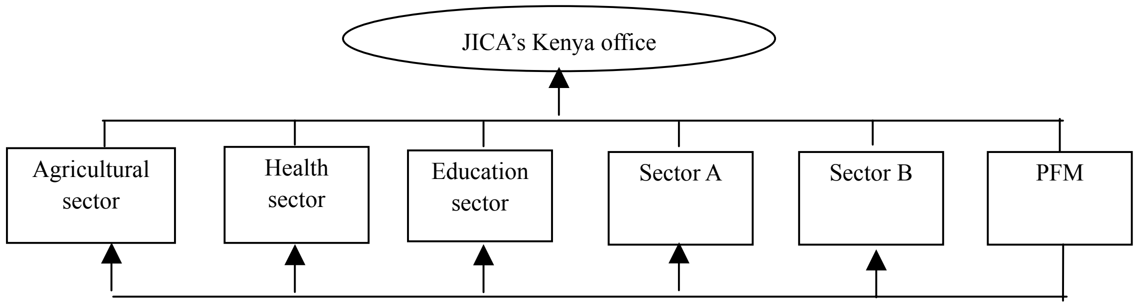
Under the Kibaki administration, which took office in December 2002, reforms in the public sector moved forward rapidly. Although there were still problems such as rampant corruption, the administration remained committed to carrying out its reforms. Aid cooperation also progressed in these conditions, and preparations were made to establish a basket fund in the education sector. Also, discussion of an aid cooperation framework with a view to providing general budget support began in response to the Kenya External Aid Policy.

Given the situation affecting aid cooperation and the high level of fraud and corruption—a major issue for public finances—Japan could potentially take the following responses.

a) The Kenyan government must degrease the fiduciary risk related to its PFM by carrying out further PFM reforms, donors would also augment their aid for PFM. Japan must formulate its aid in this area through dialogues via the aid cooperation framework. Newly appointed planning task force members should participate in donor meetings regarding PFM and ascertain the Kenyan government's policies and aid cooperation trends.

b) The MTEF's effectiveness must be ascertained. The MTEF began functioning with its full-fledged introduction in fiscal 2004/05, and it should be determined whether fiscal budgets are being established based on the MTEF. Planning task force members should also note whether IP-ERS monitoring results are leading rationally to the establishment of the MTEF and fiscal budget.

c) It is important that information compiled in the PFM area is not merely held by those in charge of PFM but that it serves as feedback for the offices' sector managers. PRSP, PFM and governance are treated as a single sector, but information regarding PRSP and PFM is a single kind of public good. It is essential that these managers not simply hold on to the information, but continue to share it with other staff.



Note: The arrows indicate the flow of information

The Kenya office has Japanese staff who originally worked in Japan's Ministry of Finance as well as local staff with experience working in Kenya's Ministry of Finance. These internal resources should be optimized and the productivity of employees working with PFM and the planning task force members improved.

5. Madagascar

5-1. Background of PRSP introduction

(1) Political and economic conditions before PRSP adoption, formulation process and endorsement

Madagascar's government began the process of establishing the PRSP in early 2000, and in November established the I-PRSP. As a result, US$50 million a year in debt relief was approved through the HIPC Initiative. Subsequently, work on establishing the PRSP was discontinued due to political confusion in 2002, but it was resumed in September 2002 and in July 2003 the PRSP was completed. In response, the World Bank announced that Madagascar had reached the completion point under the Expanded HIPC Initiative. Table 2-24 provides an outline of the PRS process.

Table 2-24 Chronological table of activities in PRSP process (2000-2004)

Date	Main activities
2000	Start of process to establish PRSP
Nov	・ Establishment of I-PRSP
Dec	・ HIPC eligibility recognized (reached decision point)
Dec 2001	・ Presidential elections, political crisis surrounding election results, unprecedented situation of two people occupying the presidency at the same time continues
May 2002	・ President Marc Ravalomanana takes office (the incumbent Didier Ratisiraka leaves for France) ・ Work on establishing PRSP is resumed
July 2003	・ PRSP is completed and submitted to World Bank and IMF
November	・ World Bank board of executive directors approves PRSP and Madagascar reaches completion point. US$30 million IDA loan is approved. ・ Restoration of African Union is approved at AU leaders summit
March 2004	・ Damage from cyclone
July	・ World Bank board of executive directors approves US$125 million Poverty Reduction Support Credit (PRSC) and US$50 million in aid for cyclone damage
October	・ IDA board of executive directors declares that Madagascar has reached completion point under Expanded HIPC Initiative ・ World Bank and IMF announce about US$1.9 billion (one-half of total debt) in debt relief.

Source: BBC Timeline: Madagascar, Jubilee Research, Real Progress Report on HIPC: Madagascar, The World Bank

1) Political and economic conditions before PRSP was introduced

Madagascar introduced its first poverty reduction program in the late 1980s. The program introduced a safety net and social fund with the aim of reducing the negative impact of structural adjustment. However, this was not a comprehensive poverty reduction strategy, and its results were limited. Madagascar established and carried out national poverty reduction strategies in the 1990s, but this was not due to political decisions but rather aimed to restructure the economy. In 2000 the "Strategy to Fight Poverty" was introduced with aid from the UNDP.

In 1994, the government introduced a floating rate system and a value-added tax (VAT), but the World Bank and IMF stopped its loans as Madagascar prohibited the import of consumer goods and took out large loans from foreigh private-sector financial institutions in tandem with loans from the World Bank and IMF (parallel loans), which is contrary to structural adjustment. Subsequently, the government strengthened its economic liberalization policies, and in September 1996 the government and World Bank/IMF formally signed a general outline of economic policies. In November, the IMF board of executive directors decided to give loans on the completion of an agreement with the World Bank in March 2003 concerning structural adjustment. In the same month, the Paris Club agreed to reschedule Madagascar's debts. This stabilized the macro-economy considerably, and in 1997 the economic growth rate exceeded the population growth rate for the first time since 1990. The international balance of payments also returned to a surplus for the first time in 20 years.

The standoff between the incumbent presidential candidate Didier Ratisiraka and presidential candidate Marc Ravalomanana continued after the December 2001 presidential election, and both continued to occupy the presidential office. This political chaos had a severe effect on the economy, and the GDP in 2002 showed a loss of 12.7% while the poverty rate dropped from 69.6% in 2001 to 80.6% in 2002 (World Bank, "IMF and World Bank Support US $836 Million in Debt Service Relief for Madagascar"). This issue was ultimately resolved when Ratisiraka left of his own accord in July 2002 for France and Ravalomanana was appointed as president.

2) Establishment of I-PRSP

As described above, the government began work to prepare the PRSP early in 2000, and formed a Technology Committee made up of government officials, experts, regional council members and the private sector, as well as the Secretariat Technique de l'Ajustement (STA), the head office for the PRSP. In September 2000 a workshop was held to encourage a participatory process of preparing the draft with the participation of cabinet members, representatives from the private sector, aid organizations and civil society. A proposal and a draft incorporating proposals from previous meetings were prepared at this workshop, and presented at the second workshop in November. The I-PRSP was established the same month based on the results of the workshop's review.

3) Establishment of PRSP

Efforts were made to encourage participation in the process of establishing the PRSP, and many of those affected, including women, participated in the process. In February and August 2001 theme-specific workshops were opened throughout the country with the aim of encouraging discussion of strategies for the main issues related to poverty reduction. Discussions centered on such issues as "rural development and poverty," "gender equality," "poverty and AIDS," "Impact of slash-and-burn agriculture on poverty," "governance and poverty," "poverty in urban areas," "medicine and health" and "education." After the PRSP draft was established, regional workshops (about 120 regions participated) were held in six provinces, and comments on the draft from the poor were referred to in the workshop discussions. Further, in November 2001 workshops were held at the national level (with about 500 participants), and the draft was reviewed in light of proposals made at the regional workshops. Subsequently, the work was discontinued due a political crisis, and after two workshops on governance and the environment were held in November 2002, the PRSP was established in March 2003 and in July it was submitted to the World Bank and IMF.

The PRSP objective is to cut poverty in half within ten years, reducing the proportion from 70% in 2003 to 35% in 2013. The three priority strategic areas introduced to achieve this objective are:

a) Restoration of rule of law and social control,
b) Encouragement of economic growth affecting broad social infrastructure, and
c) Creation of system ensuring physical security and material security and expansion of social protections.

a） is related to governance, and includes anti-corruption, democratization, the rule of law and decentralization. The government has already set up an anti-corruption committee, consolidated public organizations, and introduced measures to combat corruption and improve public services. In the medium term, the government plans to improve public financial management (including fiscal reforms), strengthen budget management in line with the HIPC Initiative and reform planning, budget execution and monitoring. In addition, judicial reforms and decentralization will also be covered. b) aims to stabilize the macro-economy and achieve pro-poor growth, while c) concerns improvements to social welfare. The PRSP was debated and approved in the legislature.

Thirty-one core indicators were introduced to achieve the objectives in the three priority areas. The indicators were set with an eye to ensuring consistency with the Millennium Development Goals. The PRSP specifies the source, tracking method and name of the responsible organization for the 31 core indicators. It also lays out the prerequisites, and estimated cost of the activities necessary for monitoring and evaluation. Each ministry introduced five interim indicators to supplement the core indicators. These interim indicators measure the progress made in achieving the core indicators.

The World Bank and IMF's joint staff assessment (JSA) praised donors for introducing indicators at the outcome level in the education and health sectors (for example, usage rate for outpatients). However, it also stated the need for revisions of some indicators and to clarify the extent to which the PRS policies and sector program are responsible for the achievement of the indicators.

After the PRSP was established, Madagascar achieved relatively steady economic growth. The APR submitted in 2004 stated that the economic growth after the crisis in 2002 was astounding, with growth of about 10% recorded in 2003. In the education sector, the elementary school attendance rate rose from 70% in 2001 to over 80% in 2004. In the infrastructure area, the roads program was a success, and over 1,800 kilometers of roads were built from 2001. However, a second cyclone hit in early 2004, causing loss of homes and agricultural land and destroying schools and health centers. The heavy damage done to the export of vanilla and shrimp and production of rice caused the World Bank to give US$50 million in recovery aid.

(4) PRSP and "Madagascar Naturellement" and "The State's General Policy for 2005"

"Madagascar Naturellement" is a long-term vision (approved November 24, 2004) for Madagascar in 2015, while "The State's General Policy for 2005" is an annual plan to achieve this vision. The comprehensive plan lays out the activities and indicators that should be achieved by 2005 for each ministry. According to the Office of the President, the ministers have pledged to the president that they will achieve the indicators specified in the comprehensive plan, and if they fail to achieve this they will be recalled—a radical example of a merit-based system.

The activities and indicators for each ministry were set by the Office of the President, as 2004 was the first fiscal year and there was inadequate time. The ministers will prepare proposals for approval by the Office of the President beginning with the fiscal 2006 plan. If it earns approval, a budget will be allocated.

In response to a question as to why a vision separate from the PRSP is required, the Office of the President had the following response:

- The poverty reduction discussed in the PRSP is an objective more than a vision, and the country needs a vision separate from the PRSP.
- The PRSP was prepared in response to donors (creditor nations) and is not well coordinated.
- Ideally, the country would establish its own vision and donors would cooperate to achieve this vision.

The Office of the President also stated that the content of the PRSP is reflected in the

Naturellement and comprehensive plan so there is no contradiction between them. Carrying out the 2005 comprehensive plan would lead to the achievement of the PRSP, a medium-term plan, and Naturellement, the 2015 vision; the PRSP is a step toward achieving the vision.

Donors' response is as follows:

- Naturellement itself reflects the content of the revised PRSP.
- The PRSP must be implemented on a sustained basis, and it is not clear whether Naturellement was established in this period. It is important to follow up on PRSP and Naturellement.
- Madagascar reached the HIPC completion point in 2004 and received debt relief, which possibly decreased motivation to carry out the PRSP.

Figure 2-15 shows the relationship between the vision and the comprehensive plan. Originally the STA, which belongs to the Ministry of Economy Finance and Budget, took the central role in PRS monitoring. On the other hand, the Office of the President and the Office of the Prime Minister took the central role in Naturellement and the comprehensive plan, and the Ministry of Economy, Finance and Budget's sole responsibility was to monitor cash flow. The Office of the President was not able to deny the tense relations between the Office of the President and the Office of the Prime Minister, on the one hand, and the Ministry of Economy Finance and Budget on the other.

Figure 2-15 "Madagascar Naturellement" and "2005 National Comprehensive Plan"

	Madagascar Naturellement	2005 National Comprehensive Plan	PRSP
Characteristics	2015 vision outcome	Activities needed to achieve vision	Medium-term plan (including activities)
Organization responsible for execution	Office of the President	Office of the Prime Minister, ministries Monitoring by Office of the Prime Minister	STA (Ministry of Economy, Finance and Budget)

The PRSP was established in June 2003, so the first annual PRSP covered the year from July 2003 to June of the following year (2004), and the second cycle began in July. The budget year begins in January, the PRS cycle and fiscal budget cycle are not aligned. The PRSP was revised at the end of 2004, so the PRS cycle and the fiscal budget cycle will be aligned with the start of the third cycle in January 2005.

The PRSP is usually a three-year medium-term plan, and the second PRSP is established three years later. As described above, the PRSP was revised without waiting for this three-year period to end. “Madagascar Naturellement” was introduced in the revised PRSP.

(2) Institutional framework, organization and process of PRSP implementation and monitoring PRSP

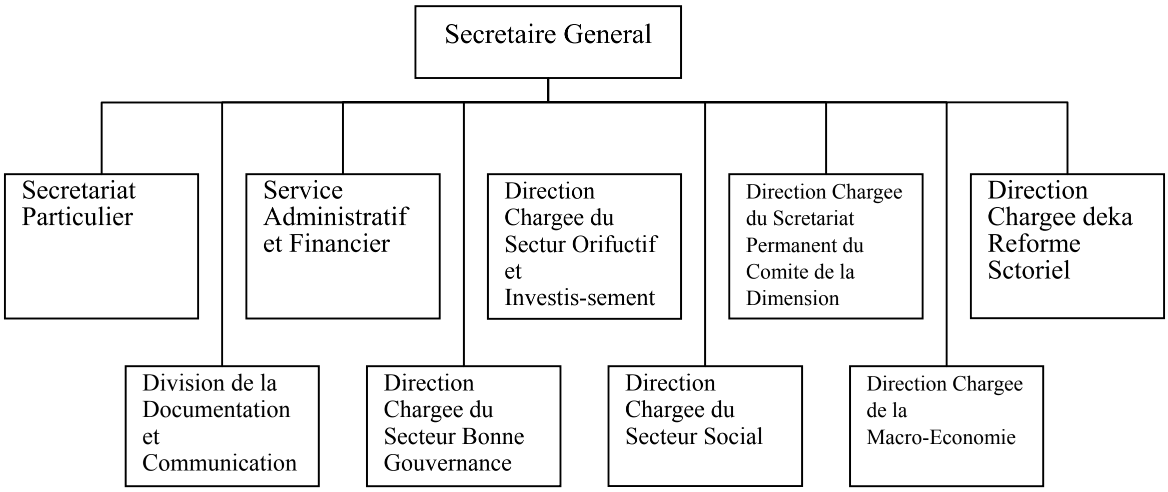
1) Monitoring organizations

<Secrétariat Technique de l'Ajustement (STA)>

The PRS process since 2000 has been managed by the Secretariat Technique de l’Ajustement (STA), the head office for the Technical Cell and Technical Committee. The committee is headed by the Vice Prime Minister in charge of Economic Programs and the Minister of Transport, Public Works and Territorial Development, while the vice-minister of the Ministry of Economy, Finance and Budget and the Office of the President’s head office is involved in managing the Technical Committee. However, the Committee meets only infrequently and in reality it is the STA that is in charge of operations. STA belongs to the Ministry of Economy, Finance and Budget, and the budget is provided in full by the government (allocated from the general budget and funds freed by debt relief through HIPC; originally the Bank of African Development and the World Bank provided some aid).

STA is made up six Directorates, and three are in charge of three PRSP strategies (good governance, improving productivity and investment, those related to society), while the other three are in charge of the macro-economy, sector reform and coordination in the African region (refer to Figure 2-16). STA coordinates information from sector ministries and the National Institute of Statistics, and plays a central role in PRS monitoring such as preparing the PRSP progress report. Meetings such as regional workshops are held when monitoring is done.

Figure 2-16 STA organizational chart



Source: STA materials

STA itself has pointed out that one problem lies in its lack of a communication strategy.

<Institut National de la Statistique de Madagascar (INSTAT)>

The population census conducted in 1993 has not updated due to a lack of funds. Since this census is the basis for other statistics, failure to update has had a negative impact on other statistics. The Household Survey is carried out every year, and in years when it is not carried out the "View of People on PRSP" is conducted and the results used in poverty monitoring. "Achievement towards MDGs," statistics indicating the progress made in achieving the MDGs, was issued in 2005.

One problem pointed out in interviews is that ten staff members have left their jobs recently, and cannot be replaced.

2) Monitoring schedule

Progress made in the PRSP is confirmed with monitoring on a quarterly basis and annual monitoring. The quarterly monitoring is as follows:

- First quarter (January-March) monitoring results are announced in late May. Workshops are held on the three PRSP strategies and the participants include related ministries, the private sector, civil society and those involved in large-scale projects. Donors are also invited.
- Second quarter (April-May) monitoring results are announced in early August.

- Third quarter (July-September) monitoring results are announced in November.
- Fourth quarter (September-December) results are announced in February of the following year.

Quarterly monitoring reviews progress made in achieving indicators, implementation of activities and the cost of expenses, and the results are reflected in subsequent activities.

The results of the annual (January-December) PRS monitoring are announced at a two-day workshop held in June at the residence of the president. The president or prime minister, ministries, local governments, representatives from private companies and donors participate. With an STA staff as facilitator, they are divided into groups to confirm the objectives and indicators and to prepare a draft of the APR.

In addition to the quarterly monitoring, workshops on the monitoring results are held every six months in outlying regions. Results of monitoring analysis in the first half of the year are used when establishing the budget for the following year.

Workshops on monitoring are held in all regions, demonstrating Madagascar's commitment to a participatory approach. The World Bank's report also praises the participatory nature of the monitoring.

Representatives from the private sector and civil society made up a certain proportion of the participants in the June 2005 workshop (annual workshop) (refer to Table 2-25). Also, the participants evaluated the workshop highly overall in a questionnaire consisting of six questions on satisfaction after the workshop (STA materials).

Table 2-25 Participation in workshop (June 2, 2005)

	No. of people	%
Administrative institution	168	55.08
Private sector	36	11.80
Civil society	38	12.46
Donors	10	3.28
Politicians	22	7.21
Other	31	10.16
Total	305	100.00

Source: STA

In addition to these qualitative assessments, interviews of donors on the effectiveness of the participatory approach indicated that the government understood the value of drafting policies in a participatory manner and the quality of the dialogue was improving, while some NGOs stated that there was room for improvement and appeared dissatisfied that their own opinions were not being reflected.

3) Monitoring and aid cooperation at the sector level

In addition to the typical monitoring, ministry and donor meetings are held once a month in the health sector for discussion of various topics. Also, a “round table” has been set up so that the Ministry of Health and donors can meet twice a year to discuss the PRSP and other issues. The issues discussed at the October round table are incorporated in next year’s action plan. In this way, meetings between the Ministry of Health and donors are held at the sector level as well as at the subordinate program level.

In the Ministry of Agriculture, the Data Process Division is in charge of technical monitoring, and the Finance Division is in charge of monitoring financial aspects. The results of each are compiled in one report.

Almost all of the monitoring in the Ministry of Education is carried out by the Division of Planning, but the General Affairs and Finance Division carries out budget-related monitoring.

4) Issues

In addition to the issues pointed out in the World Bank’s report (see below), there were the following comments in this local study:

- The ministries do not provide the data needed for monitoring on time.
- Since PRS monitoring is carried out using existing organizations, the organizations’ capacity does not catch up.
- Analytical abilities are limited.
- It is difficult to measure indicators in the governance area.
- It is not clear that the indicators are consistent, including the 2005 national comprehensive plan’s indicators. It is also doubtful that the government has the capacity to confirm the extent to which these indicators have been achieved.

The World Bank’s “Country Assistance Strategy 2003” states that Madagascar’s PRSP has the following strengths:

a) Sense of ownership is strong. The government feels responsible for the entire process. After the political chaos had been brought under control, the strong sense of ownership became apparent even in the draft revisions that the government had done itself.

b) Various groups in society are consulted, and women also participate.

c) The PRSP includes comprehensive methods of combating poverty.

d) Strategies are clear and are reviewed adequately.

e) Several macro-economic growth scenarios are established and poverty reduction strategies are laid out for each case.

f) It is consistent with the MDGs.

However, the weaknesses are:

a) There are no estimates of the costs needed to achieve the objectives.

b) The strategies for the transportation and education sectors explain why reforms are necessary and also analyze past mistakes. However, there is no similar analysis for the other sectors, and only have a general assessment.

c) The indicators are too ambitious and are likely not consistent with the government's capacity.

d) There are 31 core indicators, but there are no adjustments between indicators allowing the indicators to be achieved at the same time. The 31 indicators and sector-level policies do not match.

e) Potential risks are not mentioned.

f) Poverty reduction objectives: Annual GDP growth of 8% is required to reduce poverty in half within 10 years, which is unlikely.

The government's governance is important in achieving poverty reduction strategies, but many point to the inadequate capacity of Madagascar's government, such as the rampant corruption.

Interviews and World Bank surveys indicated skepticism as to the quality of the indicators, and a comparison of the MDG indicators and the indicators in Madagascar's PRSP shows clear differences in the indicators. The PRSP should be a medium-term plan to achieve the MDGs, but in Madagascar's case there is no consistency between the two in terms of the indicators. Also, PRSP indicators include input indicators such as education and health budget amounts, which are not appropriate as indicators for poverty reduction.

(3) Status of donor aid

General budget support is provided by the World Bank, Africa Development Bank, the EC and France, and they have signed a Memorandum of Understanding (MoU) on aid cooperation. In this MoU, donors commit to provide information on aid for the following fiscal year so that the timing is consistent with the government's budget formulation, cooperate with the Medium-term Expenditure Framework (MTEF), use a standardized method for determining disbursements and to avoid individual missions at all costs. Typically, France is against budget support and aid cooperation, but it does provide aid to Madagascar (7 million euro/year).

The EC's general budget support (90 million euro/year from 2004-07) is decided based on the IMF's macro-economic policy evaluation, and it gives priority to public financial management (PFM), including education, health and debt management. Its annual aid consists of a fixed tranche and a variable tranche based on progress made in the PRSP. The amount of the variable tranche is determined based on progress made in the PRSP. There are 14 indicators that measure the progress made in the PRSP, but these are not separate indicators and rather the PRSP indicators are used. In 2004, 72% of the planned (full) amount was executed in the variable tranche.

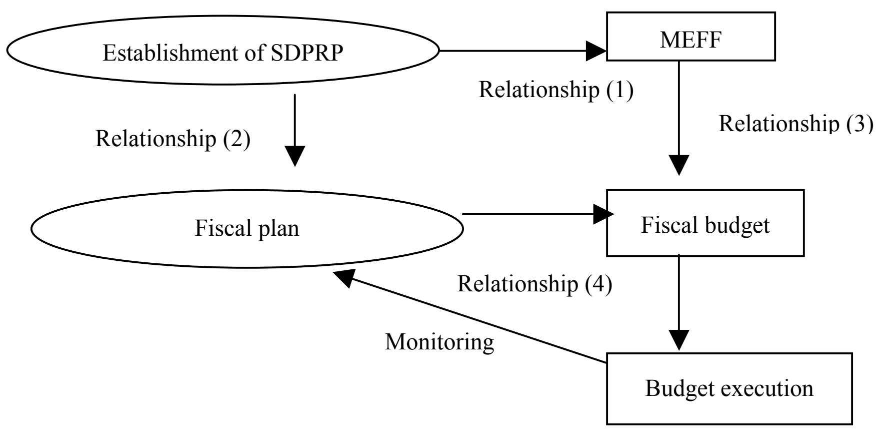
Joint missions are conducted, primarily by donors providing general budget support. The joint missions are held in September, and the members include Madagascar's government, the World Bank, France, the Africa Development Bank and EC, and the IMF participates as an observer. The mission carries out the following activities:

- Field visits
- PRSP review
- Survey of status of execution of fiscal 2005 budget
- Survey of status of preparing fiscal 20065 budget
- Survey of status of reforms in public sector
- Sector dialogues

5-2. PRS process and public financial management

We can examine the links between the PRS process and public financial management (the budget cycle) in terms of (1) the relationship between PRS and MEFF, (2) the relationship between PRS and fiscal plans, (3) the relationship between MEFF and fiscal plans and (4) the relationship between monitoring and the plans and budget for the following fiscal year (refer to Figure 2-17).

Figure 2-17 PRS process and budget cycle



Relationship (1)<PRS and MTEF>

In general, the PRSP is a three-year medium-term plan. Without financial backing, the plan cannot be carried out. Typically, the three-year medium-term expenditure framework (MTEF) is prepared based on the PRSP and the MTEF serves as the financial backing for PRSP. However, the MTEF must reflect the PRSP if it is to back it up. For example, if the PRSP states that priority is to be given to implementing measures in the health sector at the district level, the budget for this sector at the district level must be secured in the MTEF.

The MTEF was introduced in 2005 (see below for details). It is too early to assess the effect, but the links between monitoring and the MTEF are expected to strengthen. The structure for achiving Madagascar Naturallement, the country's vision, and the PRSP consists of the vision—PRSP—sector-level policies—business plan and program budget (MTEF)—activities.

The World Bank's survey indicates that the budget for health, education and infrastructure—priority areas in the PRSP—were increased significantly in the fiscal 2004 budget (year-on-year increases of 38%, 10% and 20%, respectively). The World Bank also feels that there is alignment between the PRSP and the budget (World Bank PRSC, 2004). Also, the budget for water and sanitation accounted for 2% of the entire budget (2001), but increased to the 4% level in 2005 (based on interviews). These interviews also confirmed that a budget for items in the 2005 national comprehensive plan is also provided.

However, even if the budget is secured, it is meaningless unless execution goes according to plan. The budget execution rate will be discussed in the next section.

Relationship (2)<PRSP and fiscal implementation plan>

Relationship (3)<Macro-economic fiscal framework (MEFF) and fiscal budget>

Implementation plans for each year are established based on the PRSP medium-term plan, and the plan can be carried out through allocations in the fiscal budget within the MTEF framework. When establishing the fiscal implementation plan, milestones measuring the pace at which the targets outlined in the PRSP are achieved over a three-year period must be established.

Madagascar's PRSP includes indicators that should be achieved over a three-year period, as well as the indicators that should be achieved the first and second years. Although the MTEF has been adopted, one problem that remains is the low execution rate on the fiscal budget.

Relationship (4)<Monitoring, fiscal plan, fiscal budget>

The status of annual plan implementation and the status of budget execution should be monitored and the results reflected in the following year's plan and budget. If there is a low achievement rate for indicators in the education sector—particularly in primary education—policies are changed for the next fiscal year and measures for priority allocation of budgets must be devised.

There are two ways to determine whether monitoring results are reflected in the next fiscal year's plan and budget:

a) Confirming the content of the annual progress report (APR) and
b) Confirming the consistency between the annual monitoring schedule and the schedule for establishing the budget.

<Annual progress report (APR)>

In addition to achievements over the past year, the APR also includes lessons and policies for the following year for each sector. Accordingly, it includes "backward" information as well as "forward" information.

<Consistency with schedule for annual monitoring and establishing budget>

The annual schedule must be planned so that review results are reflected in the plan and budget for the next fiscal year, thus ensuring that monitoring results and budget formulation are linked. Ideally, the schedule would be ordered as follows:

a) Review of previous fiscal year's achievements,
b) Establishment of policy for next fiscal year,
c) Establishment of budget policies for next fiscal year (including ceiling),
d) Ministries establish and request budgets based on budget policy,
e) Discussions between Ministry of Finance and other ministries,
f) Establishment of government bill,
g) Cabinet decision and submission to legislature, and
h) Debate and endorsement of budget proposal in legislature

Table2-26 outlines the annual schedule for PRS monitoring and the budget. The key point is the extent to which the complete APR (June) is used in the budget conference (June).

The budget for the next fiscal year is a key issue in the joint review by donors. Donors should determine the aid amount for the next fiscal year based on the results of the joint review, so it is essential to confirm whether aid decisions based on review results can be reflected in the budget formulation, or whether the results are too late.

Table2-26 Schedule for PRS monitoring and annual budget formulation

	PRS monitoring schedule	Budget formulation schedule	Donor developments
January			
February	Interim review		IMF mission
March	Review in outlying regions	First draft of macro-economic estimates	
April			
May			
June	APR prepared	Budget conference	IMF mission
July	National review	Start of bottom-up process for budget formulation (2005, Ministry of Education)	
August			JICA request survey
September		Establishment of program budget proposal in ministries	Donor joint mission
October		Cabinet decision on government's program budget proposal	
November		Submission of budget proposal to legislature	
December			IMF mission

5-3. Issues in Madagascar's PFM

(1) Progress in PFM reforms

Madagascar is making progress in establishing rules related to PFM, including the results of public service reform that have been implemented over a long period. On the other hand, this area requires further improvements, such as a system for internal audits. However, running such a system brings with it many issues, such as fiscal expenditures, budget execution reports and management of the accounting process, and there is considerable risk involved in whether the money injected is spent appropriately and effectively. The report on accounting and audits carried out with EU aid in 2002 asserted that this issue must be dealt with as soon as possible. The section below will address Madagascar's PFM issues following the cycle of budget formulation, execution and audits.

1) Issues for budget formulation

With the introduction of the MTEF to all ministries in this fiscal year, the link between the medium-term PRSP and budget formulation has likely improved. However, little time has passed since implementation and many issues remain. For example, the MTEF established by the Ministry of Energy, Water Resources and Mining has large fund estimates from the next fiscal year, and changes in the prioritization of medium-term policies are not specified clearly. Plans for such large investment amounts are not very realistic.

Also, since the current budget documentation puts too much focus into detailed cost computations and the overall volume is excessive, it is difficult to read through and check to ensure that the budget has been adequately allocated to the PRSP's priority areas.

<MTEF>

The MTEF has only begun to be introduced on a full scale from this year, and the Ministry of Energy, Water Resources and Mining and the Ministry of Agriculture visited during this study use a different method to prepare the MTEF. As described above, the Ministry of Energy, Water Resources and Mining's MTEF is not very realistic. For example, there is a major discrepancy between the budget amounts considering the MDGs discussed below and those not taking it into account. Accordingly, it is not realistic to expect the money for the budget from fiscal 2006 to be secured. In any case, the government prepares estimates for medium to long-term capital injections in the form of the MTEF, and the budget is debated based on this. For example, this information makes it possible for Japan's missions to form projects in accordance with the partner government's budget and scale.

Example: MTEF established by Madagascar's Ministry of Energy, Water Resources and Mining

Well digging	FY05 (current fiscal year)	FY06	FY07	FY08
MDGs target	209 wells, US$6mn	1000 wells, US$30mn	1000 wells, US$30mn	1000 wells, US$30mn
Baseline		500 wells, US$15mn	500 wells, US$15mn	700 wells, US$21mn

As part of the budget preparation stage, the Ministry of Finance circulates the guidelines to ministries in accordance with PRSP objectives. Based on this, the ministries establish the MTEF and budget proposals with output in mind. The role of the MTEF in the budget documentation is not clear in this process (the MTEF is incorporated in part of Tanzania and Kenya's budget documentation).

2) Issues in budget execution

Madagascar government's budget is approximately 95 billion yen, of which 60% consists of domestic tax revenue and the remaining 30% of budget support from donors. The World Bank's Country Financial Accountability Assessment: (CFAA) states that the execution rate of the ordinary budget is 65% and 57% for the development budget (1997). Subsequently, the execution rate improved and exceeded 80-90%in this interview, the 2003 CFAA and the PER.

The results of the accounting and audits carried out by the EU highlighted many issues, including delays in the timing of ministries' budget execution and inappropriate use of financial laws. The World Bank, EU, France and the US share the same sentiment, and donors can be divided among those who are actively working to reduce this risk (donors providing general budget support such as the World Bank, EU and France) and donors that do not provide budget support due to domestic conditions and the high risks involved in Madagascar (US and Japan). However, even donors that do not provide budget support are very interested in technical support for PFM. The World Bank has pointed out that cash flow management is particularly important.

The PER report issued in February 2005 pointed to the following problems related to PFM:

- The budget is not allocated in accordance with PRSP priorities.
- The budget is not allocated so that public services directly beneficial to citizens can be offered (i.e., local delivery mechanisms are weak).
- Income estimates are inaccurate, there are many extra-budgetary expenditures and budget accuracy is low
- The budget execution rate has been falling since the late 1990s. This trend was reversed with the 2003 ordinary budget execution rate, but the execution rate for the investment budget is still low.
- In the budget formulation process, abilities to estimate the macro framework are limited, the ministries do not actively participate in the budget formulation procedure, there are no rules for budget allocation in the negotiation process, the budget allocation decision process is not clear, and there is limited ability to debate the budget proposal in the legislature.
- The ordinary budget and the development budget are consolidated when they are brought to the legislature, but the ordinary budget and development budget are managed separately in the actual expenditure management. The expenditure procedure is not clear, and it is difficult to monitor and evaluate budget execution results; as a result, the budget execution process is inefficient.
- Many steps must be followed in executing the budget, and it must be simplified, in addition to improving internal audit functions.
- Since there is no reporting system for execution, it is extremely difficult to obtain accurate information on execution and to manage progress.

3) Issues in budget monitoring and audits

There is a significant lack of capacity for internal and external audits, and audits are not implemented with the appropriate timing. Also, the Budget Implementation Agency does not have a system to monitor the status of budget execution, and since the budget is executed without adequately ascertaining the status of budget execution, there is a tendency for shortfalls. Since expenditures not included in budget documentation are a simple system, excessive extra-budgetary spending is problematic. The results of the World Bank's expenditure tracking survey also pointed out several issues.

The weakness of the budget monitoring and audits make it extremely difficult to ensure the transparency of the budget system and accountability. Madagascar's government needs aid in this area.

4) Integrated Financial Management Information System (IFMIS) issues

As part of the PFM program, the IFMIS introduction gradually started last fiscal year (Ministry of Economy, Finance and Budget, Ministry of Agriculture and local branches in outlying regions). This information system enables the government to immediately ascertain the status of income and spending, and budget execution can be monitored. There have been many successes among countries in Africa that have introduced IFMIS (Uganda, for example), and there are also countries (such as Ghana) in which its introduction has resulted in numerous problems due to inadequate coordination among ministries. IFMIS should be introduced with caution based on these experiences.

(2) Current status of public sector reforms

Public sector reforms are the motivating factor behind the PFM reforms. Public sector reform programs are supported with aid primarily from the World Bank and EU. Entrusting ministerial functions to the private sector is a major component of this program. The Ministry of Education, Ministry of Agriculture, Ministry of Finance, Ministry of Health and Ministry of Public Infrastructure were selected to participate as part of the pilot program, and reforms are currently being implemented. The Ministry of Agriculture decentralizes dissemination systems, while the Ministry of Public Infrastructure nationalizes road management. The EU provides support for early retirement needed to reduce personnel and the expenses needed for reallocation. The program includes reforms to the public employee system, and is attempting to introduce a salary evaluation and personnel system based on performance evaluations.

(3) Donors and PFM

Donors providing general budget support sign an MoU, and aim to improve negotiating abilities by carrying out joint missions and joint policy dialogues while also cutting transaction costs. These donors discuss fiduciary risks and by no means provide general budget support unconditionally. They are well aware that financial support and technical support are necessary to reduce risk. The EU divides its budget support into a fixed contribution and a variable contribution. This is the general method used by the EU in providing budget support to HIPC.

USAID, which does not provide general budget support, offers aid with the PRSP in mind. Keeping PRSP priorities in mind, USAID provides aid to (1) democracy and governance (about US$1.5 million,) (2) health (about US$8-10 million), (3) ecological diversity and local development (about US$8 million) and (4) economic growth and industrial development. As part of its aid cooperation, USAID avoids duplication with other donors and engages in dialogue with the government, thus improving project productivity. Project management in the environmental sector is a good example of aid cooperation.

6. Malawi

6-1. PRS process: Current status and issues

(1) Political and economic conditions before PRSP adoption, formulation process and endorsement

1) Background of MPRSP

In 1994 Malawa made the transition from the one-party system that had controlled the country for 30 years to a multi-party system, and subsequently adopted several democratization policies (liberalization of the press, information disclosure, ombudsman, establishment of management organizations such as election management committees, etc.).[54] Bingu Wa Mutharika, the current president, was elected in general elections in May 2004, succeeding Bakili Muluzi, who was elected as president in general election sin 1994 and 1999.

Malawi's poverty is even more dire than other Sub-Saharan African countries. The United Nations categorizes it as a least developed country (LLDC). According to a 1997/8 household survey, 65.3% of the total population lives below the poverty line, and 29% live in extreme poverty.

The government gave poverty reduction as one of its national objectives before the PRSP was established, and devised development policies. In 1995, the Policy Framework for Poverty Alleviation Programme (PAP) was established as Malawi's medium-term national development plan, followed by Vision 2020 in 1997, established as its long-term national development plan. PAP was consolidated with the PRSP with the start of the PRS process described below.

2) Establishment of I-PRSP

President Muluzi officially stated his intention of applying for HIPC eligibility in April 2000 at a Consultative Group meting, and began the process of establishing a PRS (refer to the chronological chart of activities in Table 2-27). In August 2000 Malawi completed "Interim Poverty Reduction and Growth Strategy – A Roadmap", and in December of the same year the World Bank and IMF's board of executive directors declared that Malawi had reached the decision point.

3) F-PRSP establishment and endorsement

Work to establish the Malawi Poverty Reduction Strategy Paper (MPRS), the F-PRSP,

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54 Description of the PRSP's background owes much to Chapter 2 of the final report (January 2000 – January 2003) of JICA planning taskforce member Tetsuko Harada.

began in earnest in 2001. Although it was delayed from the initial plan, the third draft was prepared in late 2001 and in April 2002 the final MPRSP was completed. Subsequently, the World Bank and IMF's board of executive directors endorsed the MRPSP.

4) Preparation and progress of APR

The government prepared the APR for the 2002/03 fiscal year from February through April 2003, one year after completing the previous APR in April 2002, and submitted it to the World Bank and IMF's board of executive directors in September of the same year.[55] This first APR reviewed the first half of fiscal 2002/03 with the intention of being incorporated into the budget compilation for fiscal 2003/04.[56] About one year later, the government re-wrote the first APR for the entire fiscal 2002/03 year, and in July 2004 distributed drafts to donors, NGOs and other major stakeholders, requesting comments. The local survey in October 2004 indicated that there were plans to complete the APR by the end of December.

Table 2-27 Chronological table of main activities in MPRS process

Date	Major events
April 2000 August December	▪ President formally announces intention of applying for HIPC eligibility at CG meeting and starts PRS process ▪ I-PRSP established ▪ World Bank and IMF board of executive directors announce that Malawi has reached HIPC decision point and work on establishing F-PRSP starts
November 2001	▪ IMF announces that Malawi is off-track with the PRGF program and stops PRGF
April 2002 August	▪ Final version of MPRSP (F-PRSP) is completed and released by president ▪ World Bank and IMF board of executive directors endorse MPRSP
Feb-April 2003 September October	▪ First APR (FY02/03 Annual Progress Report) for first half of FY02/03 is reviewed ▪ FY02/03 APR (covering first half) is submitted to World Bank and IMF board of executive directors ▪ World Bank and IMF release Joint Staff Assessment
January 2004 May July	▪ MPRS monitoring and evaluation master plan is established and released ▪ Presidential elections held and Mutharika elected ▪ First APR (FY02/03 APR) for full year is released

[55] The Malawi government's fiscal year lasts from July 1 through June 30 of the following year.
[56] For more information on this point, please see IMF and World Bank (2003), *Malawi Poverty Reduction Strategy Paper – Progress Report Joint Staff Assessment* (Washington DC: International Monetary Fund and World Bank), October, p.1.

5) Future plans for MPRSP

The Malawi government's PRS process proceeded relatively smoothly until the completion of the MPRSP in April 2002, but there have been major delays up until this point, leading to complications. As described above, there were significant delays in completing the first APR (FY02/03), and it is to be completed by the end of 2004.

Due to these delays, the second APR (FY03/04), which has already started, and the completion of the first report took place simultaneously. The MPRSP Comprehensive Review 02/05, review the three-year period of the MPRSP, was planned for 2005, but it is expected to be put off until the first half of 2006. The government explains that this delay is due to delays in the first and second APRs and the need to reflect the results of the 2004 Integrated Household Survey and Demographic and Health Survey planned for 2005 in the Comprehensive Review.

In addition to these PRSP APR, there are plans to revise the MPRSP from 2005. However, given that the MPRSP Comprehensive Review will be carried out in 2006, there is a high chance that MPRSP revisions will be put off until 2006. According to interviews with government employees, the major subjects for the revised MPRSP are expected to be "economic growth for sustainable poverty reduction," with a greater emphasis on economic development and growth, particularly in agriculture and infrastructure (roads, electricity, etc.).[57]

(2) Institutional framework, organization and process for monitoring PRSP implementation

1) MPRS monitoring and evaluation master plan

In January 2004 the government released the Malawi Poverty Reduction Strategy Monitoring and Evaluation Master Plan (MPRS M&E Master Plan).[58] Initially, the plan had been to complete it in tandem with the first APR review (conducted in February-April 2003), but it was not completed until January 2004 due to considerable delays.[59] In this master plan, the current status of MPRS monitoring and evaluation is analyzed, and in addition the major components of a monitoring and evaluation system are specified and the action plan needed to carry this out is outlined.

The monitoring and evaluation system consists of five components: (I) monitoring of implementation of poverty reduction strategy, (II) monitoring of poverty, vulnerability and inequality, (III) impact assessment and policy analysis, (IV) poverty monitoring information

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[57] This is from interviews with the Ministry of Finance and Economic Planning as part of the local study carried out in October 2004.

[58] Government of Malawi (2004). *Malawi Poverty Reduction Strategy Monitoring and Evaluation Master Plan* (Lilongwe: Ministry of Economic Planning and Development). January.

[59] Rie Kawahara (2004) "Malawi's PRSP and Budget Support Trends," August, p. 11.

system and (V) communication and advocacy activities.

Component (I) primarily consists of monitoring the government and stakeholders' input, activities and output, while component (II) focuses on monitoring the outcome—the overall objective—and impact. Component (III) assesses the impact of MPRSP comprehensively in combination with the monitoring results of (I) and (II). Component (IV) aims to create an information management system to ensure that monitoring and evaluation activities are carried out efficiently and effectively. Component (V) is intended to communicate the monitoring and evaluation results to a broad range of stakeholders and incorporate stakeholders' opinions so that they are reflected in policies.

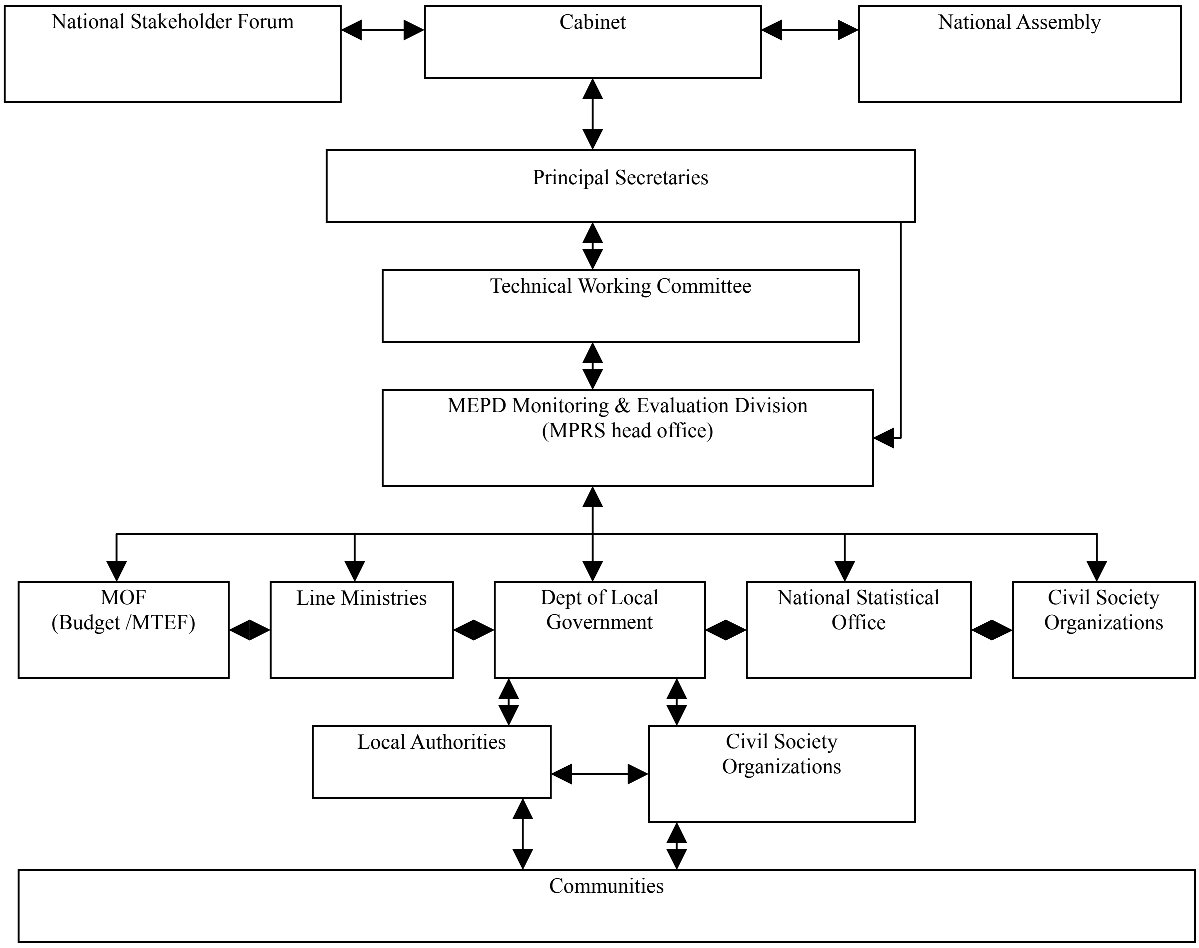
Further, the master plan lays out an action plan to create the aforementioned MPRS monitoring and evaluation system. The action plan includes a needs assessment to reinforce the government's current monitoring and evaluation system, capacity reinforcement such as personnel training and IT infrastructure at the implementation stage, and establishment of a communication strategy.

2) Focal point for monitoring and evaluation

Figure 2-18 shows the institutional framework for the monitoring and evaluation envisioned in the master plan. The Ministry of Economic Planning and Development's Monitoring and Evaluation Division has been given the role of head office for the poverty monitoring system. Its responsibilities as the head office are:

(a) Coordinating poverty monitoring and evaluation activities in all sectors;
(b) Compiling administrative data from the National Statistics Office (NSO), the Ministry of Finance and line ministries as well as data from studies carried out both within and without the poverty monitoring system, and then using this data to analyze poverty;
(c) Serving as focal point for poverty statistics and analysis; and
(d) Spreading poverty statistics and information using various methods set out in the "Communication Strategies."

Figure 2-18 Institutional framework for MPRS monitoring and evaluation



3) Role of central government line ministries

In regards to the monitoring and evaluation system's component (I), which involves the monitoring of implementation of poverty reduction strategies, the Ministry of Economic Planning and Development's Development Division, the Ministry of Finance's Budget Division and Monitoring and Evaluation Division's within line ministries prepare input and output indicators and poverty monitoring reports. Also, the Ministry of Finance's MPRS Unit encourages the government to implement the MPRS, encourages reforms related to the MTEF, and also secures the budget needed to implement the MTEF. The MPRS Unit also coordinates the annual PER, and carries out the APR in close affiliation with the MPRS head office. In addition, the National Statistics Office is primarily in charge of component (II), or the monitoring of poverty, vulnerability and equitability, and carries out surveys and national census.

4) Poverty monitoring framework at district level

The Department of Local Government (DLG) is in charge of monitoring at the district level, and must coordinate with the monitoring system at the central government level. Since district-level monitoring must encompass outcome and impact indicators as well as input and output indicators, a close affiliation between the National Statistics Office and the DLG is essential. Technical working committees, set up at the district level just as at the central level, are expected to play an active role by compiling and analyzing information and disseminating monitoring results widely.

5) Consultation framework at the high government level

The PRS monitoring head office submits the APR it compiles to the Technical Working Committee (TWC). The TWC consists of government line ministries, experts from research institutes specializing in policy and poverty monitoring and donors. The consultation results and proposals are submitted to the Principal Secretaries, who then submit the report to the Cabinet for discussion. The supervising minister is required to report the APR once a year for discussion in the legislature's budget session.

6) Civil society organizations' participation in monitoring and evaluation

The organization responsible for implementing MPRS (i.e., the government) sets up the National Stakeholders Forum to serve as a mechanism allowing it to fulfill its responsibility to remain accountable to all stakeholders. The National Stakeholders Forum reviews MPRS implementation. The Forum is made up of Civil Society Organizations (CSOs), donors, the media, academic societies, the private sector and the National Assembly, and it is expected to consult on the MPRS and the APR.

(3) Achievement of PRS implementation

1) Broad participation of stakeholders in process of preparing GPRS and APR

Donors and CSOs have praised the broad participation of stakeholders in the process of preparing the MPRSP and APR. For example, the World Bank and IMF's Joint Staff Assessment (JSA) stated that one particularly praiseworthy aspect of the MPRSP was that it was established after the government, CSOs, the private sector and donors had participated in the process.[60] Also, in interviews with the Malawi Economic Justice Network (MEJN), one of the CSOs participating in the preparation of the MPRSP, the organization stated that the government was not initially aware of the importance of participation from CSOs when it first began preparing the MPRS (in early 2001), but it gradually came to understand its importance.[61] The government has also demonstrated its commitment to the participatory process by recently incorporating the TWC's input and recommendations during the process of preparing the APR draft in the report, as well as requesting participation in the MPRSP revisions and participating in the Revision Working Committee.

2) Evaluation of progress in implementing MPRSP

Ideally, the progress made in implementing MPRSP would be determined based on the monitoring results in the APR prepared by the government. In other words, the two MPRS APR (the report assessing the first half of FY02/03 and the APR assessing the entire fiscal year) released by the Malawi government MPRSP would be used by stakeholders as the basic material in assessing progress. However, as will be described in the next section, the many problems with the APR make it impossible to ascertain the progress made in implementing the MPRSP, and at this stage it is impossible to form an evaluation.

(4) Future issues for monitoring of PRS implementation PRS

1) Issues related to MPRSP implementation monitoring pointed out by local donors

Major donors jointed together in sending harsh comments back in regards to the draft of the MPRS APR (FY02/03) on which the government requested donors' views in July 2004.[62] While these comments praised the role of the Ministry of Economic Planning and Development's Monitoring and Evaluation Division's in leading the process of forming a consensus between stakeholders, they concluded that "many improvements were required before the document could become a more strategic and policy-centered report capable of influencing decisions on budget allocation and causing policy changes" and that "the current draft does not satisfy the barest minimum requirements of accountability to the nation and donors." It also asserted that "the draft's most serious failing is that it lacks primary data and analysis needed for an evaluation, making it impossible to form overall conclusions about the quality (outcome) of MPRS implementation."

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60 IMF and IDA (2002). *Malawi Poverty Reduction Strategy Paper Joint Staff Assessment* (Washington, DC: International Monetary Fund and International Development Association), p.1.

61 Interview conducted during the first local survey carried out in October 2004.

62 DFID Malawi (2004). *Comments on the Government of Malawi's Draft 2002/2003 Annual MPRSP Review*. July. These comments were submitted by the DFID after it had compiled comments from Norway, JICA, the World Bank, UNDP, USAID and the EU.

These same comments pointed out the following individual issues:

<Recommendations when revising and completing APR>

(a) Concise and analytical executive summary: Requires an overview of financial conditions, description of progress in MPRS implementation and areas that have been held back, clear and analytical summary of restraints and policy implications. Explanations should be detailed enough to serve as basic information that can be used in policy discussions and dialogues between donors and government leaders.

(b) Prioritization of proposals: Proposals should be categorized based on prioritization, the rationale for the prioritization should be explained, the draft's overall analysis should be better reflected in proposals, timing of implementation should be clarified, and causal connection between proposals should be outlined.

(c) Analysis of expenditures: More thorough analysis of current expenditures and actual and planned (=budget) pro-poor expenditures (PPE) is essential.

(d) Analysis of trends in achieving MDG objectives: Trends in achieving MDG objectives should be analyzed to narrow focus more closely on poverty reduction.

(e) Data analysis in health sector: Possibility of further analysis using Demographic and Health Survey and existing administrative data. For example, inoculate rate, DOTS coverage for tuberculosis patients, etc.

<General reflections on APR content>

(a) Timing of progress review: Timing of review should be changed so that the APR results can be reflected in budget compilation process for next fiscal year.

(b) Data use and presentation: Targets and benchmarks for all activities should be specified, extent of government's commitment to poverty reduction should be clarified by explicitly outlining PPEs and performance should be assessed by comparing the budget to expenditures.

(c) Performance assessment and trend analysis: Targets and benchmarks for activities and output should be laid out in the APR, and the breadth and extent of the impact should be evaluated. These important indicators are missing from the current draft, and it is essential to evaluate the extent to which implementation has progressed. The many aspects in which the APR emphasizes the progress made must be substantiated by objective facts. Also, time-series analysis such as comparison with trends, evaluation of program and service performance and causal analysis are needed. Analysis of the impact on inequality and poverty indicators should be strengthened.

(d) Monitoring indicators: Analysis in light of MPRS core monitoring indicators that have already been created is insufficient and must be improved; further, the report evaluation focuses on activities and input indicators and does not use output and outcome indicators, which must also be addressed. At the very least, output and outcome indicators can be used by referring to existing surveys and administrative data in the education and health sectors.

(e) Poverty Reducing Expenditures: There should be discussion and agreement on what constitutes poverty-reducing expenditures in Malawi. Also, discussions to deepen understanding of the implications of spending allocation on inequality are needed.

(f) Coordination within government: : One reason for the weak use and analysis of data lies in problems coordinating between ministries, so this must be improved. This requires that a culture encouraging information sharing be created within ministries, incentives to share information be enhanced and that a senior staff member (champion) be found to lead the information-sharing effort within the ministries.

(g) Close alignment between donors: The government must coordinate donor aid in accordance with a harmonized framework for MPRS monitoring.

(5) Aid from Japan and major development partners

1) Japan's aid for Malawi

Japan's aid for Malawi consists of the following:

(a) Basic livelihood aid (increased food production, better agricultural productivity, improved living environment for the poor);

(b) Economic infrastructure;

(c) Fostering of small and mid-sized companies;

(d) Training personnel to work as development administrators and specialized technicians; and

(e) Technical cooperation and grant aid in the priority area of environmental conservation to ensure sustainable development (refer to Table 2-28 for recent achievements).

Also, a total of 24.1 billion yen in structural adjustment loans (co-financing with World Bank) were approved from 1986 to 1996 as JBIC aid cooperation through yen-denominated loans.[63] However, the Malawi government formally applied for eligibility under the Expanded HIPC Initiative at a CG meeting in May 2000 and reached the decision point in December 2000, so new aid cooperation has not been given since then.

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[63] World Bank (2004), "Summary of Implementation of Fiscal 2003 Survey on Promoting Aid Outcome Relating to Public Financial Management Aid in Republic of Malawi"

Table 2-28 Japan's aid for Malawi (Unit: 100 million yen)

Fiscal year	Technical cooperation	Grant aid cooperation	Aid cooperation
Fiscal 2001	15.41	20.07	0
Fiscal 2002	14.55	24.87	0
Fiscal 2003	14.46	8.05 (tentative)	0

Source: JICA (2004), "Overview of JICA Projects in Malawi"

2) Japan's aid for MPRS formulation and monitoring

JICA used costs promoting aid efficiency to help purchase materials such as copy machines and copy papers when the MPRS was being established.

Also, since the MPRS began to be implemented, technical aid has been offered to strengthen the Ministry of Health's ability to monitor budget formulation. This aid is intended to improve abilities in the health sector, where decentralization is moving ahead, to establish and monitor District Implementation Plans (DIPs) in district governments, which will contribute to stronger abilities to formulate and monitor the MPRSP. Up until this point, the "District Plan Guideline 2004-2005" has been prepared and software to formulate and monitor DIPs have been developed, and district government employees have received training.

Further, a PRSP Trust Fund to which the Japanese government and Netherlands contributed with the goal of support MPRS implementation and monitoring was used so that the National Statistics Office (NSO) could carry out its second national household survey.[64] As Japan does not have an embassy in Malawi, JICA participated in the monitoring committee (led by the World Bank) so that it could monitor progress in place of the embassy. Of the total amount needed for this survey (about 60 million yen), 5.4 million yen came from the fund and 6 million yen was contributed by DFID.

3) General budget support for MPRSP implementation

Malawi's general budget support is called the "Common Approach to Budgetary Support" (CABS), and started at the same time as the IMF's PRGF in December 2000 with the aim of reducing poverty. Current members of CABS are the UK, Norway, Sweden and the EU. Germany is currently a CABS observer, but plans to become an official member in 2005. CABS froze budget support contributions when the IMF declared in 2001 in its first PRGF review that financial reforms were off track. The PRGF was resumed in October 2003 when the IMF review

[64] Kawahara, (2004), ibid., pp.14-15.

stated that there had been improvements in excess expenditures, and as a result CABS donors also resumed their budget support with 3.58 billion yen in aid (580 million yen from Norway, 1 billion yen from the UK and 2 billion yen from the EU). The IMF and World Bank's joint review in March 2004 highlighted fiscal discipline problems and CABS donors once again froze budget support, but they had resumed aid by the time a local survey was conducted in October 2004.

4) Aid from other donors

The World Bank and IMF participated in the MPRSP formulation as major aid donors, and the World Bank provided technical support for the budget estimates (costing). Other donors and international organizations participated in TWCs in the various sectors and helped establish the MPRSP. The UK gave 5 million MK, Denmark gave 2.5 million MK, Norway 5 million MK and Canada 3.75 million MK in budget support to help cover the costs incurred in establishing the MPRSP. This budget support was transferred to a basket fund opened by the central bank and managed together. Other donors supported MPRSP formulated with technical aid.[65]

6-2. MPRSP process and public financial management

(1) MPRSP process and relationship to PFM

1) Links between MPRSP process and government's budget cycle

The Malawi government's fiscal year begins in July and ends in June of the following year. The fiscal budget cycle is outlined in Table 2-29. A major issue for the future is aligning the MPRSP process to the government's budget cycle. As described above, over two and a half years have passed since the MPRSP was established in April 2002, but there have been significant delays in establishing the APR, and only the draft of the FY02/03 APR (complete version) was released in July 2004. Although the results of the analysis of this APR should be reflected in the FY03/04 APR, this did not happen. However, if the FY02/03 MPRSP APR currently under review is finished by the end of 2004, there is a chance that it could be used as input in compiling the FY05/06 budget.

2) Link between MPRS process and general budget support

As of this point, there has been no progress in aligning the MPRS process with general budget support through CABS. As there were major delays in the MPRS APR and problems with fiscal discipline led to repeated interruptions in the IMF's PRGF program, budget

[65] Harada (2003), ibid., p.7.

support contributions via CABS were spent on an ad hoc basis in October 2003 and mid 2004.[66] Given that Malawi's fiscal year starts in July, there is little chance that donors' budget support contributions will be considered when compiling the budget at the initial stage of the process.

Table 2-29 Cycle of MPRS monitoring, government's budget formulation and general budget support

	MPRS monitoring	Establishment of government budget	General budget support
July	Draft of progress report circulated among stakeholders	➢ Review of investment program in public sector (EPD) ➢ Macro-economic estimates formed (SPD) ➢ Budget Circular #1 distributed to ministries and provisional budget ceiling is announced (MOF, EPD)	
August		➢ Ministries submit bids to MOF and EPD	
Sept			
October		➢ EPD evaluations ministries' projects based on national priorities	Decisions on budget support amounts through CABS and expenditures
Nov			
Dec	Completion of report (tentative)	➢ MOF and EPD (Central agencies) negotiate budgets with ministries and PBCC	
Jan		➢ PBCC's budget draft shown to ministries	
Feb		➢ Second budget negotiations	
March		➢ Cabinet decision on budget proposal and submission to president ➢ Budget Circular #2 notifies ministries of approved development budget	
April			
May		➢ PSIP and operating budget are consolidated and annual budget proposal is prepared (MOF)	
June		➢ Budget speech and budget proposal submitted to National Assembly	

Note: Aues Schek (2004), *Institutionalization of Communications Links between Planning and Budgeting Institutions* (Lilongwe: Ministry of Economic Planning and Development and GTZ), Box 2 was used as a reference regarding the government's budget cycle.

[66] An interview with an EU employee (CABS joint chairman) in the October 2004 local study yielded the information that recently some CABS general budget support had been executed.

(2) Current status of PFM reforms

1) Recent developments with PFM reforms

Malawi initiated its financial management reforms in mid 1995 with the introduction of an MTEF. The MTEF was introduced to address problems such as weak links between policy drafting and the government's budget, the separate compilation of the development budget and the ordinary budget and the failure to allocate resources in accordance with policy priorities. Also, the IFMIS began to be introduced with aid from the World Bank in 1996; the government's budget and accounting system were computerized and efforts to strengthen financial management started.

Also, in 2001 a public expenditure review (PER) was conducted, led by the World Bank, followed by a country financial accountability assessment (CFAA) for Malawi.[67] The Malawi government established the Malawi Financial Accountability Action Plan (MFAAP) in 2003 in light of these study results. It was formally endorsed in May 2004, and is currently beginning to be implemented.[68] The MFAAP selected 65 initiatives as priority actions, and some of these have already been implemented. The government has established the MFAAP head office in the Ministry of Finance's Accountant-General Office (AGO), and set up a system to manage MFAAP implementation.

A particularly important recent development in this action plan (MFAAP) has been the establishment of three new financial management laws in 2003 (a public financial management law, public audit law, public procurement law). These laws stipulate a new legal and institutional framework for the Malawi government's financial management based on studies such as the PER and CFAA.[69] Currently a Procurement Office is being established, and new public procurement methods have not yet been used.

The MTEF that received support primarily from the DFID from 1995 reached its second stage in 2003, and aid continued for MTEFII. As with MTEF, IFMIS completed the pilot phase and is currently being introduced on a full scale. Aid for IFMIS is being provided through component 2 of the World Bank's project, the Financial Management, Transparency, and Accountability Project (FIMTAP) (US$13 Million).[70]

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[67] World Bank (2003). *Malawi Country Financial Accountability Assessment* (Washington, D.C.: World Bank.

[68] Government of Malawi (2003). *Malawi Financial Accountability Action Plan* (Lilongwe: Ministry of Finance and Economic Planning), March.

[69] *Public Financial Management Act* (Law No.7 of 2003); Public Audit Act (Law No.6 of 2003); Public Procurement Act (Law No.

[70] World Bank (2003). *Project Appraisal Document on Proposed Credit in the Amount of SDR17.6 Million (US$23.7 Million equivalent) to the Republic of Malawi for Financial Management, Transparency, and Accountability Project (FIMTAP)*. (Washington, DC: World Bank).

2) Donor cooperation framework for PFM reforms

Donors are working to establish the Group on Financial and Economic Management (GFEM) to update the Donor Group on Economic Management (DGEM), established in 2002, to aid the implementation of MFAAP. As of the local study conducted in October 2004, the EU and DFID took a central role in preparing GFEM's TOR and are currently consulting with like-minded donors such as CABS donors and government line ministries. According to the draft TOR, GFEM will be made up of government ministries (Ministry of Finance, Ministry of Economic Planning and Development, Malawi's central bank), international organizations, United Nations organizations and bi- and multilateral development partners, with the Accountant-General and EU representative serving as joint chairmen.

3) Donor aid for PFM reforms

Table 2-30 shows the status of donor aid in the area of PFM reform. This table clearly demonstrates that CABS members providing general budget support (UK, Norway, Sweden and EU) are also major aid donors in the area of PFM reform. The World Bank plays a key role in creating the CFAA and IFMIS, and the EU was in charge of technical aid for the introduction of a record management system and the UK (DFID) for the introduction of MTEF. Also, Norway (NORAD), Canada (CIDA), Denmark (DANIDA) and Germany (KFW) participated in the CFAA. Also, Sweden (SIDA) and Denmark (DANIDA) provide technical id for accounting and audits and evaluations.

Table 2-30 Technical aid and general budget support for PFM

Donor	Technical aid for PFM	General budget support
World Bank	➢ CFAA aid (leading role) ➢ IFMIS aid (leading role) ➢ Audit aid (reconsideration of audit methods, preparation of audit manual, development and trial of "value for money" audit)	Structural adjustment loans
UK (DFID)	➢ Aid to introduce (first phase focusing on system design is over, and currently phase 2 focusing on strengthening employees' abilities has started) ➢ Aid to promote decentralization ➢ Aid to build IFMIS ➢ Participation in CFAA ➢ Aid to establish PRSP	CABS
EU	➢ Aid to create record management system (national archives, Accounting Audit Board, Ministry of Finance)	CABS
Sweden (SIDA)	➢ Aid for audits and evaluation	CABS
Norway (NORAD)	➢ Aid for audits and evaluation	CABS

	➢ Participation in CFAA	
Canada (CIDA)	➢ Participation in CFAA	
Denmark (DANIDA)	➢ Participation in CFAA	
Germany (KFW)	➢ Participation in CFAA	CABS (observer)
UNDP	➢ Coordinator of coordination meetings between government and donors	

Source: JBIC Malawi SAPS aid report

(3) Issues for PFM reform

1) Issues for MFAAP

The MFAAP formally endorsed by the government in May 2004 has made a step forward in that a common framework for donor cooperation in aid to strengthen PFM has been established. Also, the three new financial management laws established in 2003 represent a step forward as well. Nevertheless, there has been no progress in other initiatives as of this point, and overcoming the extreme delays in implementing the plan is an important issue for the future.

2) Issues for budget formulation[71]

The introduction of the MTEF was expected to result in various improvements such as maintaining fiscal discipline and allocating resources to priority areas, but in actuality there are still excess expenditures and money continues to be spent in non-priority areas. It must be concluded that the expected outcome has not been achieved. This can be attributed to:

(a) Inadequate ability to calculate costs;
(b) Inaccurate estimates of income; and
(c) Inadequate sense of ownership over MTEF.

In particular, the lack of ownership over MTEF is a serious problem, leading to inefficiency such as preparation of Activity Based Budget (ABB) in tandem with the original line-item budget. In addition, the problem is further aggravated by the lack of adequate coordination between the Ministry of Finance and the ministries executing the budget at the budget preparation stage.

3) Issues involving budget execution

Mechanisms ensuring that financial resources are spent appropriately are extremely weak in Malawi, and fiscal discipline and procurement regulations are not observed. Accordingly, Malawi poses grave fiduciary risks, caused by the following factors:

[71] The following issues related to the budget process rely to a great extent on the JBIC Malawi aid report.

(a) Financial reports are inappropriate and unreliable due to delays in the monthly financial reports submitted by ministries.
(b) Despite the adoption of MTEF, the links between policy drafting and budget formulation remain weak.
(c) Inaccurate income estimates and actual income that undercuts estimates leads to budget shortages and an inability to offer reliable and adequate public services.、

4) Issues for budget monitoring

There are major delays in the annual financial statements and external audits are not carried out with the appropriate timing. This is because executing ministries, the Accounting Board and Accounting Audit Board all experience delays at various stages, and these delays pile up and result in delays of several years. Also, the lack of consistency and comprehensiveness in bank reconciliation means that irreconcilable items are left as is without being adjusted and are then carried over, resulting in major problems.

5) IFMIS issues

In the pilot phase of IFMIS adoption (1996 – July 2002), the Ministry of Finance, Ministry of Agriculture and Ministry of Education introduced a computerized accounting system. At this phase, IFMIS was an accounting system encompassing budget formulation, fund donations, regulation of commitment plans, expenditures, income, ledgers and cash management. This system could be linked to a complementary system encompassing public employee salaries, pensions, employee advances and aid and debt management. However, when the local study was conducted in October 2004, it was pointed out to the study team that the system was not used on its full scale. Also, the system had become extremely complex, requiring as many as 50 servers to run at full capacity, and staff lacked the skills to maintain and operate the system. Also, in addition to the shortage of IT staff, many gave their opinion that strengthening basic skills in financial management is a priority area for aid. For example, the government is said to have about 5000 accountants, and their training is a prerequisite for adequate use of IFMIS.

7. Mozambique

7-1. PRS process: Current status and issues

(1) Political and economic conditions before PRSP adoption, formulation process and endorsement

Mozambique, which experienced a 45% drop in GDP in the first half of the 1980s, made the transition from the centralized planned economy in place since 1985 to policies prioritizing a market economy. Mozambique began an economic recovery program in 1987 to earn the World Bank and IMF's support for this policy transition, and by 1990 the macro-economy had taken a turn for the better, with a lower inflation rate and steady growth in GDP and exports. At the same time, the World Bank and IMF adopted economic and social recovery programs in the belief that social aspects should be considered as well as the economy. The economic reforms picked up speed after the 1992 armistice agreement, and the average GDP growth rate exceeded 9% (1993-98).

Strategies to reduce poverty were first developed at a CG meeting in 1990. Subsequently, in 1995 poverty reduction strategies were announced, and program plans covering 1995 through 1999 were established. The priority areas for poverty measures were:

(a) Improvement to lifestyle in outlying regions;
(b) Investments in human resources; and
(c) Development of network enabling the country to respond to emergencies.

The main policy transitions were as follows:

(a) Focus shifted from cities to outlying areas;
(b) Greater emphasis on investments in education and health rather than in safety nets; and
(c) Use of market mechanisms.

However, these provisions never developed into anything more than measures, and were not realized much as there were no action plans, division of responsibility and financial backing.

The PRSP began to be established after the poverty reduction guidelines were introduced in 1999, and in 2000 a poverty reduction action plan was established. In 2001, PARPA 2001-05 was introduced, and was recognized as Mozambique's PRSP (Full-PRSP) as a result of the World Bank and IMF's Joint Staff Assessment (JSA) in August 2001. This five-year plan was broken down into annual plans, or economic and social plan (PES), and the PES is the basis for the government's budget formulation every fiscal year.

Once PARPA was established, population policies, food security strategies, strategies to prevent STDs and HIV/AIDS, measures to improve the position of women and measures to promote employment for the young were formulated and adopted. The adoption of these related policies enhanced the effectiveness of PARPA. PARPA itself was quite comprehensive and was in line with the World Bank and IMF's guidelines, but it was weak in terms of the macro-economy and the extent to which economic growth would reduce poverty.

Table 2-31 outlines the flow of poverty measures and economic and social reforms through 2000.

Table 2-31 Major poverty measures, economic and social policies (1986 -)

	Measures related to poverty reduction	Public financial reform	Economic reform	Other reforms
1986			Introduction of economic recovery program	
1987		Discontinuation of centralized planned economy		
1988				
1989		PER by World Bank	Start of privatization	
1990		Introduction of public investment program		
1991			Economic recovery program expanded to outlying regions	
1992			Birth of central bank	End of war
1993		Birth of Ministry of Planning and Finance		
1994	Implementation of participatory poverty assessment		Economic recovery program reported to CG meeting	General elections held Law on decentralization goes into effect
1995	Establishment of poverty reduction strategies		Start of customs reforms	
1996			Privatization of commercial banks	
1997		Endorsement of budget reform strategy Establishment of budget framework		
1998		Introduction of MTEF		
1999	Establishment of poverty reduction guidelines Start of PRSP preparations		Introduction of VAT Completion of HIPC	General elections held

2000	Establishment of poverty reduction action plan	Audit report No. 1 (FY98)	Application of Expanded HIPC	
2001				
2002				
2003	Release of APR	Establishment of decentralization law		
2004	Release of APR			Presidential elections

While poverty reduction measures were implemented, the government introduced customs reforms and a value-added tax to augment its revenue.

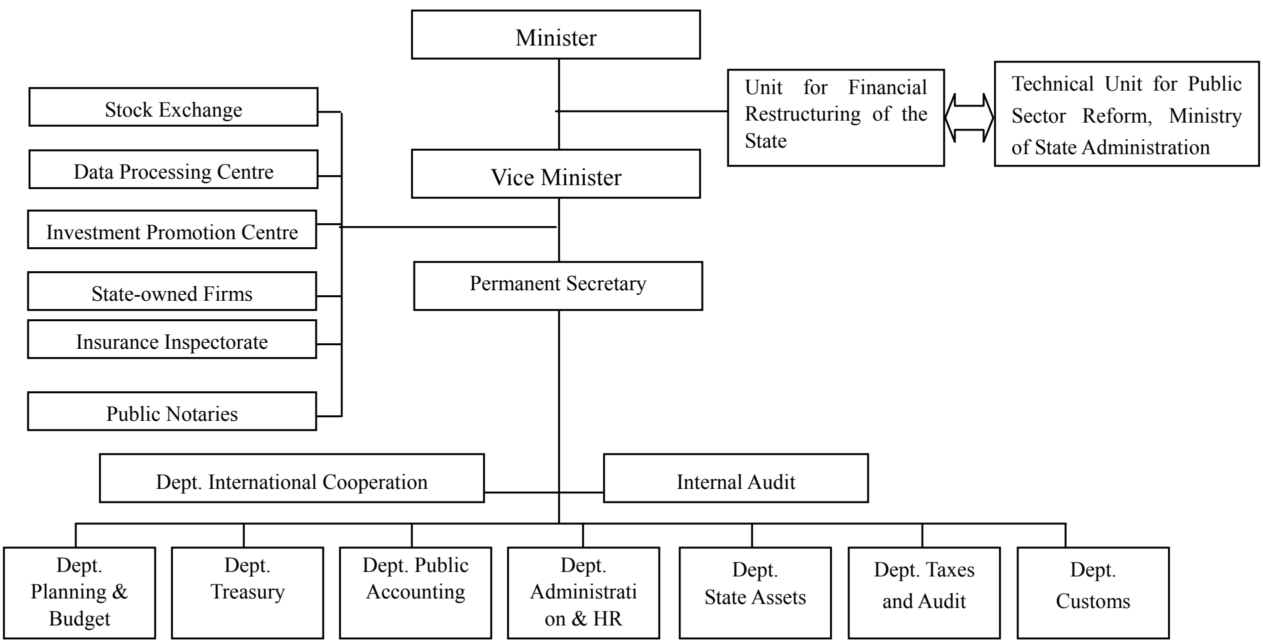
(2) Institutional framework, organizations and process for PRS implementation and monitoring PRS

1) PRSP establishment and implementation organizations

PARPA was established primarily by a team made up of representatives from the Ministry of Planning and Finance's Planning and Budget Division and six ministries. Unlike other countries, other government organizations and civil society were not consulted.

An organizational diagram of the Ministry of Planning and Finance, which takes a central role in establishing and implementing PARPA, is shown inFigure 2-19.

Figure 2-19 Organizational diagram of Ministry of Planning and Finance



Source: Local consultants' survey

There is very little alignment between planning and the budget, and in many countries there are cases in which projects are planned but not budgeted for and are thus never carried out. The same department in Mozambique's Ministry of Planning and Finance is in charge of both planning and the budget, so the organization itself does not present any obstacles to a close alignment between planning and the budget. However, the Ministry of Planning and Finance was established in 1994 with the merger of the National Planning Committee and the Ministry of Finance, and as a result the ties between planning and finance are still weak.[72] Under one directorate, there is an investment section and a section that establishes economic and social plans such as budgets, MTEF and PARPA, but the ties between these organizations are weak and have no influence on policy drafting. For example, employees in the budget establishment section are aware of the importance of poverty measures, but establish the budget without much awareness of PARPA. According a local consultants' survey, different departments are in charge of planning and the budget, and the work is isolated.

Also, the directorate has considerable authority, and even the ministry cannot ascertain the kind of policies being carried out under the directorate.

The ministries were reorganized after the presidential elections in 2005, and the Ministry of Planning and Finance was divided into the Ministry of Planning and Development and the Ministry of Finance. There is a chance of heightened anxiety over the weak link between planning and finances.

In this way, the Ministry of Planning and Finance took a central role in monitoring, but in June 2003 the Poverty Observatory was set up as a new organization. Its goal was to monitor the progress of objectives laid out in PARPA. It also served as a forum for dialogues with members of civil society such as donors, private-sector companies and NGOs, which are held 4-5 times a year. The sector ministries establish plans every year and compile data needed for monitoring. The Opinion Council is the top organization.

Addressing overarching issues such as poverty reduction requires efforts that go beyond sector framework, making the formation of links between sectors a key issue. However, under the current structure of Mozambique's monitoring organization, the Ministry of Planning and Finance only provides a sense of direction, while sectors become increasingly independent.

Civil society releases its own annual monitoring report in parallel with the government's monitoring.

[72] Local consultants' survey

2) Monitoring structure

<Blanco de PES>

Mozambique's government establishes an economic and social plan (PES) every year to realize its PRS, and puts into action. The achievements are compiled in a report called "Blanco de BES" every year. Unlike other countries, Mozambique does not have an APR of its PRSP, and instead the Blanco des PES serves as its APR. The fiscal budget (OE) is based on this PES. The Ministry of Planning and Finance is considering consolidating the PES and OE into one document. The PES is submitted to the legislature every year for approval.

<Joint donor review>

Through 2003, only program aid partners (PAPs, or G15) that provided general budget support carried out joint donor reviews, but from 2004 Mozambique's government officially participated, resulting in the adoption of a standard monitoring method shared by the government and donors. The Ministry of Planning and Finance and Mozambique's Central Bank participate from Mozambique's side, and Steering Groups made up of donor representatives and five Thematic Groups under them participate from the donor side. There are 20 Technical Teams under the Thematic Groups. Table 2-32 outlines the structure of the thematic groups and technical teams.

Table 2-32 Thematic Groups and Technical Teams

Thematic Group	Technical Team
Poverty Overarching Issues	Growth and Macroeconomic Stability
	Poverty and Equity
	Poverty Monitoring and Evaluation
Public Finance Management	Taxation and Tax Reform
	Planning, Budget and Audit
	Procurement Reform
	SISTAFE (PFM system through MPF)
Governance	Public Sector Reform
	Regal and Judicial Reform
Private Sector	Financial Sector Reform
	Regulatory Environment
	Agriculture and Rural Development
	Environment
	Telecommunication and Transport
	Road
	Energy
Service Delivery	HIV/AIDS
	Health Care
	Education
	Water and Sanitization

Source: Study conducted by local consultants

The joint donor review addressed the fiscal economic and social plans (PES) based on PARPA, the status of PAF achievements and budget execution reports. At the same time, the review confirms the direction of PARPA implementation from that fiscal year, for example specifying priority items and considering updates to PAF.

The results of the annual accounting investigation, the status of the government's budget execution, the effect of funds (value for money), revisions to income and expenditures in the fiscal budget and the MTEF, the status of budget execution in each quarter, the status of poverty reduction programs and macro-economic development and cross-sector issues are also monitored. The results of joint donor reviews are compiled in the "Aide Memoire." These proceedings are laid out in the "Common Framework Agreement."

<Poverty assessment framework>

Program aid partners providing general budget support and the Mozambique government carries out its monitoring using the Poverty Assessment Framework (PAF), which lays out indicators for general budget support.

PAF is expected to be broadly used by both Mozambique's government and donors. The Mozambique's government's burden (transaction costs) would decrease if donors use the PAF's indicators to determine and revise aid policies for the following fiscal year, rather than each donor using their own indicators. This framework can also be used by donors that do not provide general budget support.

3) Methods of obtaining data to establish indicators

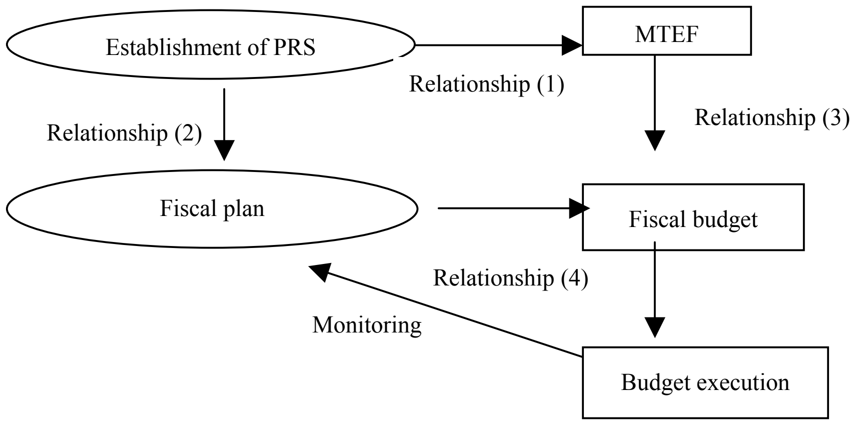
Policies and indicators were established using the national household survey (1996/97). Qualitative analysis was performed using the local results of the 1995-96participatory poverty assessment and a new participatory poverty assessment (January 2001).

(3) Status of PRS implementation and monitoring achievements

1) Status of monitoring system achievements

In general, the alignment between the PRS process and budget cycle is confirmed in terms of (1) the relationship between the PRSP and the MTEF, (2) the relationship between PRSP and fiscal plans, (3) the relationship between MTEF and fiscal plans and (4) monitoring and plans and the budget for the following fiscal year (refer to Figure 2-20).

Figure 2-20 PRS process and budget cycle



Relationship (1)<PRSP and MTEF>

In general, the PRSP is a three-year medium-term plan. The plan cannot be carried out without financial backing. Typically the three-year MTEF is established based on the PRSP, and the MTEF serves as the financial backing for the PRSP. However, the MTEF must be reflected in the PRSP for it to serve this function. For example, if the PRSP prioritizes implementation of policies in the health sector at the district level, a budget for this sector at the district level must be secured in the MTEF.

Mozambique finished adopting its MTEF in the 1990s. Its most recent MTEF was established in 2001 (2002-2006). However, some observers have pointed that the MTEF does not function. The Mozambique government contests this claim, asserting that it cannot establish an accurate MTEF without medium-term commitments from donors.

Relationship (2)<MTEF and fiscal budget>

Based on the medium-term PRSP, implementation plans for each year are established, and plans can be carried out by allocating the fiscal budget within the MTEF. When establishing the fiscal implementation plans, milestones must be set determining the pace at which the goals outlined in the PRSP should be achieved over a three-year period.

Mozambique establishes its fiscal economic and social plan, or PES, every year based on PARPA, and the annual PES evaluation report (Banco de PES) is well established as a tool in assessing the progress made with PARPA. Also, the Ministry of Planning and Finance's Planning and Budget Division establishes the National Standard Budget Procedures for the fiscal year within the MTEF, and the central and local governments prepare the budget in accordance with the Procedures.

One issue is that fiscal goals tend to be set low due to chronic budget shortfalls (according to a local consultant survey). Also, budgets at the local level (province and district) are not established within the limits of the government’s fiscal budget, and a considerable proportion is covered with aid from donors. The Ministry of Planning and Finance cannot ascertain local governments’ real budgets.

Relationship (3)<Monitoring, fiscal plans, fiscal budgets>

The extent to which plans have been achieved and the status of budget execution should be monitored every year, and the results reflected in the plans and budget for the following year. If the achievement rate for the indicators in the education sector—particularly indicators related to primary education—are low, policies for the next fiscal year should be changed and steps should be taken to allocate the budget according to priorities.

There are two ways to determine whether monitoring results are reflected in the next fiscal year’s plan and budget: (a) confirming the content of the annual progress report (APR) and (b) confirming the consistency between the annual monitoring schedule and the schedule for establishing the budget.

<Substance of APR>

According to a survey by the Strategic Partnership for Africa Budget Support Working Group,[73] (refer to “Table 2-33), in Mozambique the results of the PRS review are reflected in the budget for the following fiscal year. However, these results were based on a questionnaire given to government employees, and is not objective. Further, the annual review in Mozambique only covers the extent to which indicators have been achieved, and does not go so far as to mention revisions to indicators or policies (refer to “Table 2-33 Substance of annual review”).

Table 2-33 Substance of annual review

Countries (ordered by PRSP age)	Policy measures	Update of new actions	Review of indicators	Revision of targets	Age of completed PRSP (yrs)
Mozambique			•		2<

Source: SPA 2003

<Monitoring schedule, budget formulation schedule and donor aid schedule>

As described above, in the first quarter of each year, the progress made in the

[73] SPA Budget Support Working Group (2003) *“Survey of the Alignment of Budget Support and Balance of Payments Support with National PRS Processes“*

economic and social plan (PES) of the previous fiscal year is reviewed and a report prepared (the fiscal 2003 version was released in March 2004). The results serve as input for reviews in each sector and the joint review with donors. Also, the PES review and establishment of budget policies occur in February, so it would be possible for the review results to be reflected in the policies. Subsequently, according to the schedule the budget is established in light of the joint review with donors and discussions in the Poverty Observatory. In terms of the schedule, there is consistency between PRS monitoring and the schedule for establishing the budget.

The extent to which macro-economic indicators and indicators in the poverty assessment framework (PAF) have been achieved are reviewed in the April Joint Review. Currently, the Poverty Observatory is held after the Joint Review between the government and donors, but an NGO has proposed that this order be reversed, as the framework is decided to a large extent at the Joint Review and this potentially undermines the Poverty Observatory.

Table 2-34 Schedule for monitoring, budget formulation and donor aid

	PRS monitoring	Budget formulation cycle	World Bank/IMF	PAPs
Jan				
Feb	PES review	Establishment of budget policies		
Mar	PES report (for previous fiscal year)		IMF mission	
Apr	Joint Review between government and donors			Joint Review
May	Poverty Observatory			
June				
July	PES interim review			ESP interim review
Aug				
Sep			IMF mission	
Oct				
Nov		Cabinet decision on budget proposal		Comments on ESP released
Dec	PES approved by legislature	Budget draft approved by legislature		Comments on budget draft released

Source: Prepared by study group using local consultants' study

One issue here is that a considerable proportion of donor aid is off-budget (according to the local consultants' survey, 50% of government expenditures are covered by off-budget aid). This prevents the cycle of planning, budgeting and execution from working.

The joint review by the government and donors in 2005 asserted that the links between the PES, single-year budget and MTEF had strengthened. This seems to suggest that the fiscal cycle consisting of PRS monitoring, MTEF and the budget has begun to function.

2) Achievement of indicators

In the fiscal 2003 Performance Assessment Framework (PAF), the objectives in PARPA's priority sectors (education, health, agriculture, infrastructure) have generally been achieved. Areas in which the objectives have not been achieved include the attendance rate for elementary education, road repairs and maintenance, priority allocation of budget to priority areas, adoption of procurement laws, establishment of anti-corruption law and judicial reforms. Another issue is delays in the payment of funds from donors. There have been improvements in the quality of medium-term plans at the sector level in the last two to three years, but observers have pointed to inadequacies in the way in which objectives for the fiscal plan are set.

The joint review carried out in May 2005 indicated positive aspects such as a high GDP Growth rate as well as a lack of progress in several areas. The overview is as follows:

- The GDP growth rate increased 7.2% in 2004, particularly due to strong growth in agriculture (8.9%) and transportation (16.4%). At the same time, the inflation rate was 9.1%, falling to the one-digit levels.
- Proportion of spending on PRSP priority sectors was 63.3%, close to the target of 65%.
- Good progress made in the education, health and water sectors.
- Although the targets were achieved for HIV/AIDS, gender issues must also be considered.
- There was progress in reforms in the financial sector.
- The financial management system (SISTAFE) began to operate.
- There was inadequate progress in external audits, procurement system reforms, judicial reforms, and stamping out corruption.

(4) Status of aid from Japan and major donors

1) General budget support

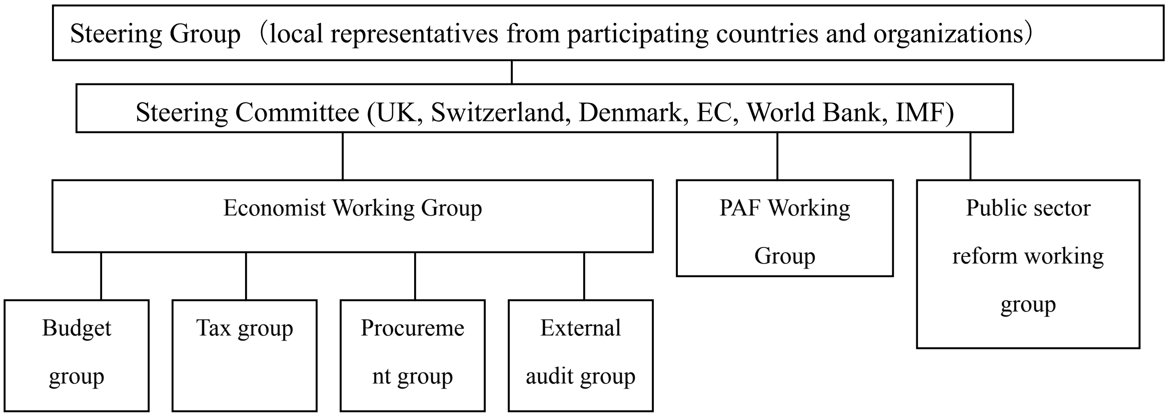
As described above, the 15 donors providing general budget support (Belgium, Denmark, EC, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Sweden, Switzerland, UK and World Bank) form a group called program aid partners (PAPs, dubbed G15), and take a leadership role in aid for Mozambique, for example monitoring in concert with the government. The three leaders of budget support are DFID, Switzerland and Denmark. Canada is just waiting to sign, and the Africa Development Bank (AfDB) plans to participate (as of February 2005). It is already known as the "G16," including Canada.

USAID, Japan and Spain are major donors that do not participate in PAPs (the United

Nations do not participate). USAID cooperates with a priority on the four areas of land reform, corruption proscription, health issues such as HIV/AIDS and legal reform, and have a policy of cooperating as a donor partner while respecting donor aid. USAID contributes money to the agricultural sector's common basket.

As shown in Table 2-36, there are six sub-groups under the PAPs. Japan participates as an observer in the economist working group, along with the US, Spain, UNDP and Africa Development Bank.

Figure 2-21 Organizational chart of PAPs



Source: Prepared by study group based on questionnaire from expert Mr. Taihei

In this way, aid cooperation is actively encouraged through PAPAs, but in July 2004 the UNDP released a common to the effect that aid cooperation not proceeding through the original DPG (see below) is being carried out via PAPs, so that aid cooperation was proceeding through two systems at the same time. In response to this comment, PAPs proposed that a task force be set up with the objective of promoting cooperation including donors that do not provide general budget support.

2) DPG (Development Partners Group)

DPGs consist of the ambassador and local representatives of aid-giving countries and aid organizations in Mozambique; meetings are held once a month. The managing role is played by the UNDP and World Bank, and it is an unofficial organization intended to share information and issues. The group makes proposals to Mozambique's government as necessary in DPG's name. Japan's ambassador and the JICA chief participates.

3) Other donor groups

(a) Thematic working groups

There are working groups that function as organizations coordinating between the government and donors covering governance, the economy and the various sectors. According to a local consultants' study, there are 25 such groups, and Japan participates in the groups on road infrastructure, education, health, water supply and sanitation, administration, the private sector and poverty monitoring. JICA participates in the working group on agriculture and the Japanese consulate participates as an observer in the working group on budget support.

(b) Heads of Mission

This is an informal group set up by the ambassadors of EU member countries, and is a forum for discussion on aid cooperation.

(c) Heads of Cooperation

Similarly, this is a forum for discussion on aid cooperation by representatives from EU member countries.

(5) Future issues for PRS implementation and monitoring

1) Organizational issues

(a) Mozambique's government

As described above, the ministries are separated into national directorates, and even the ministers cannot control them. In addition, while donors provide general budget support, they provide aid to ministries and local organizations based on their respective concerns, and it is not possible for Mozambique's government (the Ministry of Planning and Finance) to ascertain the flow of these funds. Donors and the government are working to ensure that the Ministry of Planning and Finance has the ability to coordinate total development plans and national budgets.

In some cases, government organizations generate their own revenue and fail to deposit it with the Treasury. Also, government funds are divided between more than 2,000 accounts. Donors help in consolidating Treasury revenue into one account, but some donors worry that funds will become unavailable.

The Ministry of Planning and Finance's capacity is limited and it can set budget ceilings, but they cannot check on how the budget is being used. Conversely, ministries use funds as they please within the budget's limits. The joint review pointed out the inadequacy of dialogue between the Ministry of Planning and Finance and other ministries. A key focus here is the way in which the ministry reorganization planned for 2005 will affect this.

(b) Donors

It is also not clear to what extent donors execute aid. It has been indicated that in 2001 only three-fourths of the promised amount was executed due to delays in bank transfers, the Mozambique government's inability to release funds if project expenditures are not made and donors' response to scandals in banks in Mozambique. In the EC's case, delays in head office procedures was the cause.

In addition, as described above, the Mozambique government has pointed out that aid is not aligned with Mozambique's system, aid predictability is low and there is little "on-budget" aid. On the other hand, from the donors' perspective, the tangled nature of the government's procedures make it difficult for them to provide information on how much, where and when aid will be offered.

(c) Joint review

An organization was created so that the government and donors could carry out joint monitoring, but there are several Thematic Teams and Technical Groups and the sectors are segmented, so there are concerns that cross-sector issues are not emphasized enough.

It has been indicated that joint reviews with donors could be a burden for Mozambique's government and surpass the government's capacity. This requires ascertaining whether the burden is temporary and occurs only at the initial stages of aid cooperation or whether it continues, and as necessary the government's capacity should be improved and indicators reduced. Also, the IMF is currently carrying out its own monitoring to decide whether to offer its poverty reduction growth facility (PRGF), but the IMF also participates as a PAP, and if the results of joint monitoring are used, the government's burden would be decreased.

2) Links between PRS, MTEF, budget formulation, budget execution and monitoring

PARPA does not lay out the budget needed to achieve its objectives. Further, it does not mention the allocation of the budget to priority areas.

Poverty-related expenditures have not increased since PARPA was established. Further, it has been pointed out that the MTEF's economic growth and income estimates are too optimistic and that the MTEF was established with the assistance of consultants and the Ministry of Planning and Finance does not have the capacity to establish it on its own. This latter point helps to explain why the 2002-06 MTEF was merely an updated version of the existing MTEF. There is considerable donor aid outside of the MTEF, which raises doubts about the effectiveness of MTEF.

Although the finance law dictates that the ministries and local governments submit fiscal plans and budget proposals to the Ministry of Planning and Finance at the same time, it is not clear the extent to which planning and budgets at the ministry and local government levels are linked. Budget items only cover the sector level and are not broken down beyond that. It also only touches open the investment budget, with no mention of the ordinary budget. In this condition, it is impossible to analyze the way in which the budget is allocated.

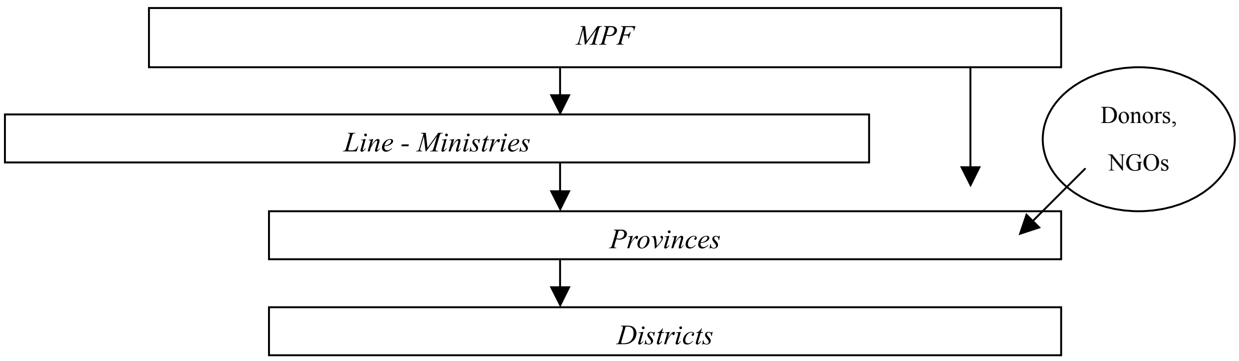
However, as described above, the 2005 joint review praised the stronger link between planning, the MTEF and fiscal budget.

7-2. Public financial management

(1) Public financial management mechanisms: Institutional framework and procedures

As described above, budgets are established even at the local government level, in accordance with the National Standard Budget Procedures established by the Ministry of Planning and Finance's Planning and Budget Department. The budget at the province level is controlled via the line ministries, and controlled by the provincial government. Typically, the ordinary budget is provided by a budget from the Ministry of Planning and Finance.

Figure 2-22 Flow of budget



Donors provide aid directly even at the province level, and much of this aid is "off-budget" and does not appear on the budgets. Districts have their own source of income through taxes, but do not receive a budget from the provincial government. However, money flows into central ministries, provincial sector organizations and regional sector organizations for each sector.

(2) Current status of public financial management reforms, reform framework, mechanisms for donor fund contributions

According to an assessment survey (September 2004) carried out by donors providing general budget support, the following areas are particularly prone to problems (lowest level on a four-stage ranking system):

(a) Acquiring budget: Proportion of off-budget revenue is high; only about 38% of donor aid is acquired. Measures to improve this are being implemented.
(b) Problems with quality of budget documents: This is currently being improved, but there are duplications and leaks, and the level of the documents is low.
(c) Cash flow management: There are more than 1,000 accounts. One of the PAF indicators involves the creation of accounts consolidated with those of the government.
(d) Internal audit: Although there have been improvements, for example in the health sector, the level of audits is low.
(e) Procurement: This is one of the PAF indicators.
(f) Accounting report to legislature: Report given 20 months late.
(g) External audit: Problems with scope and quality.

However, public financial reforms are being steadily implemented to resolve these problems. PAPs and the Ministry of Planning and Finance's Planning and Budget Department prepared TORs together and an auditor carried out an audit (KPMG was hired for this purpose in fiscal 2003). This kind of joint audit between the government and donors are worthy of note.

The government is carrying out two projects to improve accounting and other operations. One is a pilot project called "Public Expenditure Tracking Survey" (PETS), implemented with aid from the World Bank. Its goal is to improve the flow of operations from the Ministry of Health to the local end organizations. The second project regards the transition of planning and finance authority from central government to local governments with aid from the World Bank and IDA.

PFM reforms are not fulfilled solely by Mozambique's government. PFM reforms are also implemented to improve donors' aid predictability and ensure that aid is on-budget. It was pointed out in the local consultants' study that government employees are quite anxious that donors make these improvements.

Donors' aid for public financial management is outlined below. Many donors provide aid for the establishment of plans such as a tax system, SISTAFE and PARPA.

Table 2-35 Donor aid in the field of public financial management

	Donors										
	World Bank	*DFID*	*GTZ*	*KFW*	*Denmark*	*EC*	*Norway*	*Switzerland*	*Sweden*	*UNDP*	*UNFPA*
Customs		X									
Taxes		X	X		X			X			
Reporting				X							
Budget		X									
Plans (PARPA)		X			X			X		X	X
Decentralization	X										
Audits									X		X
Statistics					X		X		X		
Information systems (SISTAFE)		X			X	X	X		X		

Source: Local consultants' study

<Financial management system: SISTAFE>

As in other countries, Mozambique introduced a financial management system utilizing IT known as Sistema Integrado de Administração Financeira do Estado (SISTAFE). The aim is to use IT to effect reforms in PFM and procurement. The following measures are to be fulfilled, thus enhancing fiscal predictability.

(a) Revenue is automatically recorded in the Treasury;
(b) Consolidated accounts are opened;
(c) Registers are updated;
(d) Records of fund donations are put in database (including off-budget items); and
(e) Network is built between ministries and local governments.

In 2005 the system began to be introduced in the Ministry of Planning and Finance, the Ministry of Education and the Ministry of Agriculture and Local Development, and in 2007 it will be introduced in all ministries and local governments. In the May 2005 joint review, it was confirmed that the system was functioning in the Ministry of Finance.

8. Niger

8-1. PRS process: Current status and issues

(1) Political and economic conditions before PRSP adoption, formulation process and endorsement

Average income per citizen in 2003 was US$200 in Niger (2003, World Bank materials), making Niger one of the poorest countries in the world. It is ranked at 174 out of 175 countries in the UNDP's Human Development Index (2003). Niger is a landlocked country locate on the edge of the Sahara Desert and has a very dry climate, making only the southern border appropriate for agriculture. Its main industries of livestock and uranium mining are susceptible to dry weather and market price fluctuations.

Political conditions were unstable until the late 1990s even after Niger became a democratic nation under its 1992 constitution, suffering through coup d'etats, military rulers, one-party rule and presidential assassinations during this period. The country reverted to democracy after Mamadou Tanja was elected as president in 1999, and in 2004 Niger held its first local elections, recognized by the international community as "fair and transparent."

Niger was eligible for the Expanded HIPC Initiative, and reached the decision point in December 2000 in recognition of its management of national revenue and the structural reforms it has carried out. It reached the completion point three years later, on April 8, 2004, and was given US$520 million in debt relief, equivalent to 54% of its foreign debt. Further, in light of external factors that hurt Niger's economy, such as the slump in uranium exports, additional relief in the amount of US$142.5 million was given.

Niger's government began official preparations to write the F-PRSP in February 2001, the completion of which is a condition for eligibility for the Expanded HIPC Initiative, and completed it within approximately 10 months in accordance with the plan (January 2002). A participatory process was used when it was established, and 11 thematic groups composed of exports from various fields were created. In addition, the office of the prime minister office PRSP permanent office held information disclosure sessions with stakeholders. After passing through the National Assembly and ratification by the national workshop held in November 2001, the PRSP draft was debated by the Cabinet.

The PRSP lays out the following four primary goals:

(a) A macro-economic framework that will promote stable, sound growth and economic and fiscal stability;
(b) Development in the manufacturing sector, particularly in outlying regions;
(c) Improved access of the poor to social services; and
(d) Promotion of good governance and stronger human and organizational capacities.

Table 2-36 Niger's PRSP formulation process

Date	Main events
Sept 1999 Oct - Nov	• Promulgation of new constitution • Presidential elections held; Mamadou Tandja won the election and the National Movement for the Society in Development took a majority of seats in Parliament. • Bilateral and multilateral aid discontinued in April due to coup d'etat (resumed in 2000)
Dec 2000	• Decision point under Expanded HIPC Initiative reached, and US$521 million in debt relief promised. • I-PRSP completed
Feb 2001 November	• Preparations to establish F-PRSP start • National workshop on PRSP held
Jan 2002	• PRSP completed
July 2003 October	• First APR prepared • World Bank and IMF's joint staff assessment (JSA) of first APR is released
April 2004 July December	• Completion point is reached under Expanded HIPC Initiative, and US$521 million in debt relief and an additional US$142.5 million in relief is agreed to. • Niger holds its first local elections • Presidential elections held (World bank, "Country Brief); Tandja wins again

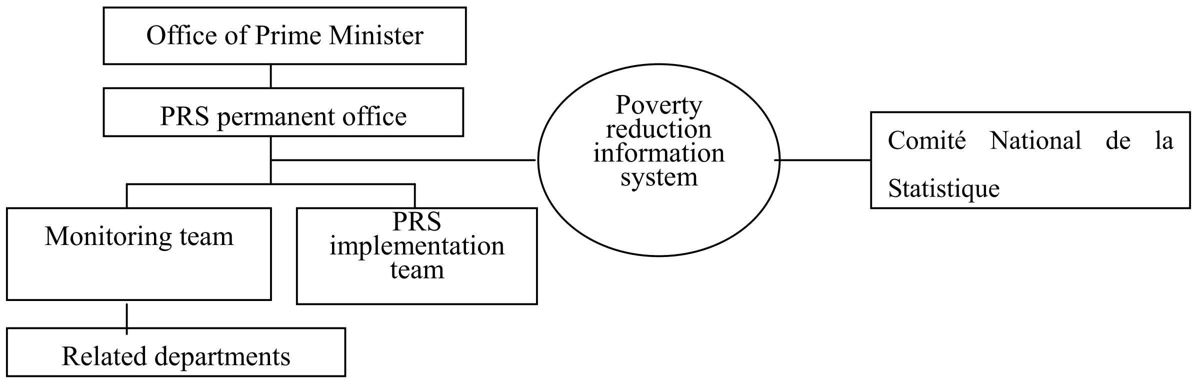
Niger's government established a medium-term reform program (2003-04) to implement the PRSP. This program focuses on better use of public resources, expanding the area in which basic social services are offered and improving their quality, and improving the environment surrounding the private sector.

(2) Institutional framework, organization and process for PRSP implementation and monitoring

1) Monitoring organizations

A permanent PRSP office was set up in the Office of the Prime Minister with a central role in the PRS process (refer to Figure 2-23).

Figure 2-23 PRS implementation system



Source : CIDA, Diagnostic study of the Poverty Reduction Strategy Monitoring and Evaluation Systems in Burkina Faso, Benin, Cote d'lvoire, Mali and Niger (2002)

There is no framework that includes sector ministries and local organizations. This is in direct contrast to Burkina Faso, another Francophone country in West Africa, which is working to create a monitoring framework including the regions and ministries in which the data needed for monitoring is collected in regions, a committee composed of sector ministries analyzes the data, and the Ministry of Economy and Development later compiles the data. Because of this lack of a framework, PRS operations are focused in the PRS office. This can be attributed to the traditionally weak coordination between organizations in Niger (CIDA, 2002).

An issue for the future is the clarification of the organizations' roles and responsibilities in monitoring. However, according to the World Bank and IMF's Joint Staff Assessment (JSA), there has not been much progress in improving the abilities of monitoring organizations.

The PRSP is distinct for the participatory monitoring conducted by many stakeholders, but Niger's government has a policy to encourage the participation of many organizations in PRS monitoring. The PRSP was established via interaction with the civil society and donors. In July 2003 a national workshop was held and the results were used for monitoring.

2) Flow of monitoring data

The Comité National de la Statistique compiles and process administrative information and statistical data and records it in the poverty reduction information system (see Figure 2-23). The problem is that the National Statistics System has a low capacity, meaning that PRS monitoring and analysis of policy effects is inadequate. Another issue is that there is no interaction between statistic users and organizations in charge of the statistics. For example, the Comité National de la Statistique does not understand the data needed for PRS monitoring.

3) Interactions between government and donors

In June 2003, the government and donors set up a joint committee (PRSP forum) with the goal of effectively implementing the PRS process. Donors agreed to support the government in the following three areas:

(a) Aligning aid to the PRS and budget cycle;
(b) Aid cooperation with sector aid; and
(c) Joint efforts to strengthen PFM.

They also agreed to improve aid predictability and reduce the Niger government's transaction costs with aid cooperation. In this way, donors committed their support to the PRS, but it has been pointed out that subsequently the committee was not run effectively (CIDA, 2002). Indeed, the committee has not met since Jun 2003.

4) Issues

Niger has achieved macro-economic growth in line with the PRSP scenario and improved its financial conditions. Also, the government is increasing its social sector-related spending in accordance with the PRSP. Despite these results, the following issues have also been pointed out.

<Issues involving PRSP itself>

(a) There are delays in carrying out the household survey that serves as the basis for establishing the PRS (due to lack of funds).
(b) Some of the indicators reflecting poverty conditions are inappropriate (particularly qualitative indicators). Gaps between cities and outlying regions and gaps between genders are not illustrated with indicators.
(c) There are delays in carrying out the public expenditure review.

<Monitoring issues>

(a) Poverty data has not been updated because of the aforementioned delays in carrying out the household survey.
(b) The impact of poverty-related policies is not analyzed. The World Bank and IMF's Joint Staff Assessment (2003) recommends that the impact of past poverty-related project programs be analyzed.
(c) There is no monitoring schedule. The frequency with which reports are prepared is not determined.
(d) The Comité National de la Statistique does not understand the data needed for

monitoring.

<Organizational issues>

(a) The PRSP does state that an organization responsible for PRS implementation should be stipulated, but there are no specifics (CIDA, 2002).

(b) Human, financial and physical resources are inadequate.

(3) Aid from Japan and major development partners

<Monitoring and evaluation area>

The World Bank provides aid in this area. The UNDP has also expressed interest in providing aid (as of 2002). The EC has stated that it will provide aid to improve the statistical data needed for monitoring (as of 2002).

<Aid cooperation>

Niger's government is working to establish an action plan for aid cooperation while accepting donor aid, but the plan has not yet been adopted. The Ministry of Economy and Finance and the Office of the Prime Minister's PRSP office is in charge of this.

Forums for donor cooperation are launched by sector (for example, health, education, regional development and water). Belgium is at the core of aid cooperation in the health sector, and sector programs and action plans were established with technical cooperation from the EC. Also, an MTEF linked to the PRSP has been established with aid from the World Bank.

In the education sector, approximately 86% of donor aid is earmarked for programs. A sector MTEF is also being developed with aid from the World bank so that it is linked to the PRSP. Canada and—recently—France have taken the lead in donor cooperation. A document outlining protocol related to aid cooperation has been signed in the education sector.

In the water sector, sector strategies were established in 2001, but the content was not substantial and it was not aligned with aid from donors. Switzerland is also promoting donor cooperation. However, the government does not participate in the donor forums, and only exchange information. The EC is the major stakeholder in the transportation sector, and there is no official meeting in which donors can get together informally. In the regional development sector, sector strategies have been established, and an action plan including the establishment of an MTEF and donor aid programs is currently being established with aid from FAO and the World Bank.

In 2003 donors sent approximately 90 missions to Niger (36 by the World Bank, 16 by Belgium and United Nations, and seven from Japan, EC and France).

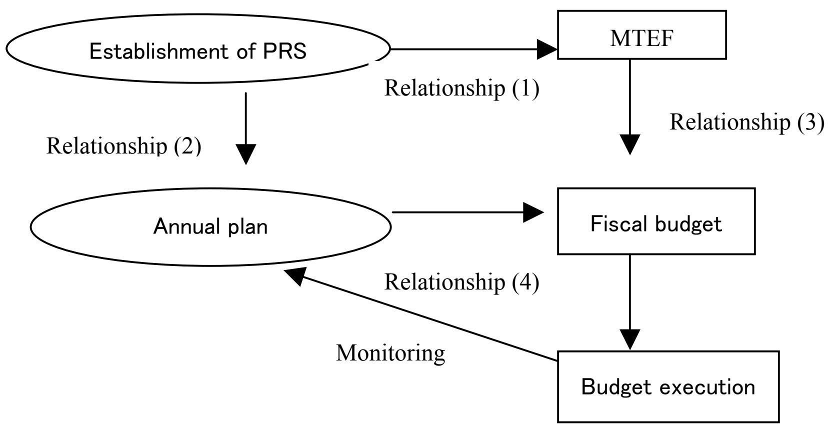
<General budget support>

Besides the World Bank and IMF, AfDB, EC, Belgium, France and the UK provide general budget support. The World Bank, IMF, EC and Belgium had made multiple-year commitments. Belgium, IMF, EC and the World Bank have aligned the timing of their commitments with the government's budget cycle.

8-2. PRS process and PFM

In general, the alignment between the PRS process and budget cycle can be confirmed in terms of (1) the relationship between PRSP and MTEF, (2) the relationship between PRSP and fiscal plans, (3) the relationship between MTEF and fiscal plans and (4) monitoring and plans and budget for the following fiscal year (refer to Figure 2-24).

Figure 2-24 PRS process and budget cycle



Relationship (1)<PRSP and MTEF>

In general, the PRSP is a three-year medium-term plan. Without financial backing, the plan cannot be carried out. Typically, the three-year medium-term expenditure framework (MTEF) is prepared based on the PRSP and the MTEF serves as the financial backing for PRSP. However, the MTEF must reflect the PRSP if it is to back it up. For example, if the PRSP states that priority is to be given to implementing measures in the health sector at the district level, the budget for this sector at the district level must be secured in the MTEF.

Niger has not yet introduced an MTEF. However, since 2001 preparations such as strengthening the organizations needed to introduce MTEF have moved forward through the World Bank's Public Expenditure Adjustment Credit (PEAC). One of the PEAC objectives is introducing MTEF.

Relationship (2)<MTEF and fiscal budget>

Based on the medium-term PRSP, implementation plans for each year are established, and plans can be carried out by allocating the fiscal budget within the MTEF. When establishing the fiscal implementation plans, milestones must be set determining the pace at which the goals outlined in the PRSP should be achieved over a three-year period.

Niger improved its budget establishment process thanks to the World Bank's PEAC, and in 2002 it adopted budget guidelines in accordance with the West Africa Economic and Monetary Union's guidelines. The World Bank's report states that the fiscal 2002 budget reflects the priority items in the PRSP (particularly the social development sector).[74] Although it does not mention the fiscal 2003 and 2004 budgets, these improvements were likely kept up.

Also, even if the budget is formulated in accordance with the PRSP, it is meaningless if the budget execution rate is low. The World Bank's report states that the execution rate improved markedly from 2002[75] (61% in 2000 and 71% in 2001).

Relationship (3)<Monitoring, fiscal plans, fiscal budgets>

The extent to which plans have been achieved and the status of budget execution should be monitored every year, and the results reflected in the plans and budget for the following year. If the achievement rate for the indicators in the education sector—particularly indicators related to primary education—are low, policies for the next fiscal year should be changed and steps should be taken to allocate the budget according to priorities.

There are two ways to determine whether monitoring results are reflected in the next fiscal year's plan and budget:

(a) confirming the content of the annual progress report (APR) and

(b) confirming the consistency between the annual monitoring schedule and the schedule for establishing the budget.

<Content of APR>

The 2003 SPA[76] survey indicated that Niger's APR includes not only a review of the past year, but also activities that should be introduced and revisions to indicators based on the review. In other words, Niger's APR includes analysis that can be reflected in devising plans for

[74] "Implementation Completion Report on a Credit in the amount of SDR 54.5 million to the Republic of Niger for Public Expenditure Adjustment Credit"

[75] "Implementation Completion Report on a Credit in the amount of SDR 54.5 million to the Republic of Niger for Public Expenditure Adjustment Credit"

[76] Survey of the Alignment of Budget Support and Balance of Payments Support with National PRS Processes

the following fiscal year.

Figure 2-25 Results of 2003 SPA survey on APR content (✓ = Yes)

Countries	*Review of policy measures*	*Update of new actions*	*Review of indicators*	*Revision of targets*
Burkina Faso	✓	×	✓	×
Ghana	✓	×	✓	×
Malawi	✓	×	×	×
Mozambique	×	×	✓	×
Niger	✓	✓	✓	✓
Rwanda	✓	×	✓	×
Senegal	×	×	×	✓
Tanzania	✓	×	✓	×
Uganda	✓	✓	✓	✓

However, the 2004 survey results showed that Niger's APR only includes a policy review. In reality, Niger had only prepared an APR in November 2003, casting doubt on how the SPA survey arrived at its results.

<Consistency with schedule for annual monitoring and establishing budget>

The annual schedule must be planned so that review results are reflected in the plan and budget for the next fiscal year, thus ensuring that monitoring results and budget formulation are linked. Ideally, the schedule would be ordered as follows:

(a) Review of previous fiscal year's achievements,
(b) Establishment of policy for next fiscal year,
(c) Establishment of budget policies for next fiscal year (including ceiling),
(d) Ministries establish and request budgets based on budget policy,
(e) Discussions between Ministry of Finance and other ministries,
(f) Establishment of government proposal,
(g) Cabinet decision and submission to legislature, and
(h) Debate and endorsement of budget proposal in legislature.

According to the 2004 SPA survey,[77] there is no alignment in Niger between the PRS review and the budget for the following fiscal year (refer to Figure 2-26). Further, the reviews of each sector do not reflect the PRS review. As described above, this can be attributed to the lack of a monitoring system that encompasses the sector ministries.

[77] Survey of the Alignment of Budget Support and Balance of Payments Support with National PRS Processes

Figure 2-26 Correlation between PRS review and budget for following fiscal year

	Completely	Partially	Not at all
Alignment between the PRS Review and the Budget Cycle	Rwanda	Benin Ghana Madagascar Mozambique Tanzania Uganda	Burkina Faso Mali Niger Senegal
Alignment between sector reviews and the PRS Review	Uganda	Benin Madagascar Mali Rwanda Tanzania	Burkina Faso Ghana Mozambique Niger Senegal

8-3. Issues not clarified by study of documents

Among the Francophone West African countries, Burkina Faso is the most actively involved in PRS (it has already established its third APR and plans to prepare its second). However, among the other countries, Niger and Mali have prepared one APR. Niger has not prepared an APR since November 2003. Further study is required to determine whether this is because of insufficient capacity within Niger itself or whether the cause lies with donors.

This study of documents was not able to clarify the following issues:

(a) Activities of organizations carrying out PRS monitoring, particularly the activities of the monitoring teams under the PRSP permanent committee;
(b) The reasons why a PER is not carried out;
(c) The annual PRS monitoring schedule;
(d) Schedule for establishing fiscal budget; and
(e) Trends in aid cooperation.

Clarification of these issues and an understanding of Niger's PRS monitoring system would be helpful in considering Japan's future aid for Niger. Further, a cross-cutting study of the Francophone countries is essential to determine whether Burkina Faso is an exception among the Francophone countries in its engagement with the PRSP or whether other countries lack the capacity to do so.

9. Senegal

9-1. PRS process: current status and issues

(1) Political and economic conditions before PRSP adoption, formulation process and endorsement

The Senegalese government initiated macro-economic reforms in 1994, and in 1997 the government incorporated poverty reduction into the framework and adopted the Poverty Reduction Program (PRP) in December of that year. This program was subsequently absorbed into the Senegalese version of PRSP, or PTSP. In May 2000 the I-PRSP was completed, followed by the F-PRSP in June 2002. In June 2000 the former HIPC decision point was reached, and in April 2004 the completion point was reached under the Expanded HIPC Initiative (refer to Table 2-37).

Table 2-37 Chronological table of activities in Senegal's PRS process (1994-2004)

Date	Major events
Sept 1994	• Devaluation f CFA franc, Senegal's currency • Large-scale economic reforms implemented
December 1997	• Senegalese government establishes comprehensive Poverty Reduction Program (PRP)
1998	• Approved as eligible for former HIPC Initiative
April 2000	• Abdoulaye Wade chosen as third president, ending 40 years of rule by the Socialist party and the four-term administration spanning nearly 20 years of the former president, Abdou Diouf
May	• I-PRSP completed (Ministry of Economy and Finance, 2000, p. 1)
June	• Decision point of Expanded HIPC Initiative reached
March 2001	• Senegalese government reaches peace accord with separatist group in southern Casamance region
June 2002	• F-PRSP completed
December	• World Bank and IMF approve F-PRSP
April 2004	• Completion point reached under HIPC Initiative and Senegal receives US$488 million in debt relief • President Wade announces peace treaty with separatist group in southern Casamance region
December	• World Bank board of executive directors approves US$30 million in PRSC loans

1) Senegal's political and economic conditions

Senegal is one of the most politically and economically stable countries in Africa, and achieved peaceful changes in administration in 1981 and 2000. The Constitution stipulated in 2001 that presidents would serve for a term of five years and could be re-elected once.

Economically, a devaluation of the CFA franc in 1994 and macro-economic reforms carried out with help from international organizations enabled Senegal to achieve a relatively high GDP growth rate (average GDP growth of 5% through 2001).

Senegal's main industry is agriculture, and just as with other African countries, it is susceptible to the climate, such as droughts. Senegal had an ambitious goal of bringing its GDP growth rate to levels over 10% by 2002, but an agricultural slump brought on by rain shortfalls limited GDP growth rate to 1.1% for that year. 60% of Senegal's population is employed in the agricultural sector, but it only accounts for 20% of GDP. Another issue is that stronger economic growth and better social services are not allocated equally throughout the population. The I-PRSP completed in May 2000 emphasizes the distribution of growth, and views it as a medium-term strategic framework essential to achieving growth and reducing poverty.

2) Senegal and HIPC

Senegal was approved for debt relief in 1998 under the former HIPC Initiative. Subsequently, the World Bank and IMF announced that it had reached the decision point in the Expanded HIPC Initiative in June 2000, and debt relief was finalized. The goals set at that point were:

(a) To strengthen abilities to establish F-PRSP and monitor poverty through a participatory process;
(b) To maintain a stable macro-economic environment;
(c) To improve social services with a particular emphasis on education, improve tax administration and carry out policy in the energy sector;
(d) To ensure that creditors participate in debt relief.

However, there were delays in developing policies leading to the achievement of these four goals, and the HIPC completion point was not reached in 2001 as planned but rather in April 2004.

3) Establishment and completion of PRSP

A wide variety of stakeholders such as NGOs participate in the process of establishing the PRSP. In June 2001, "The National Launching Seminar," with participation by NGOs and other members of civil society.

The PRSP established in June 2002 was endorsed by the World Bank and IMF executive board of directors in December 2002. The four major issues of the PRSP are:

(a) Creating wealth;

(b) Capacity building and development in the social sector;
(c) Improving living environment of impoverished; and
(d) Carrying out strategies and monitoring the outcomes.

Also, a Priority Action Plan (PAP), which outlines the amount of money needed to realize the PRSP and the expected financial resources (in other words, the gap between the money needed and the money available) for each sector. The PAP is appended to the PRSP.

Normally, an Annual Progress Report (APR) analyzing the progress made with the PRSP should be prepared every year, but Senegal does not do this. A survey of documents does not clarify the reasons for this.

The Tenth Economic and Social Development Plan (2002-2007) is another social and economic development plan in addition to the PRSP. It encompasses the PRSP content, so there is no inconsistency between the plan and the PRSP (World Bank, Country Finance Accountability Assessment).

(2) Institutional framework, organization and process for implementing and monitoring PRSP

1) Monitoring organizations

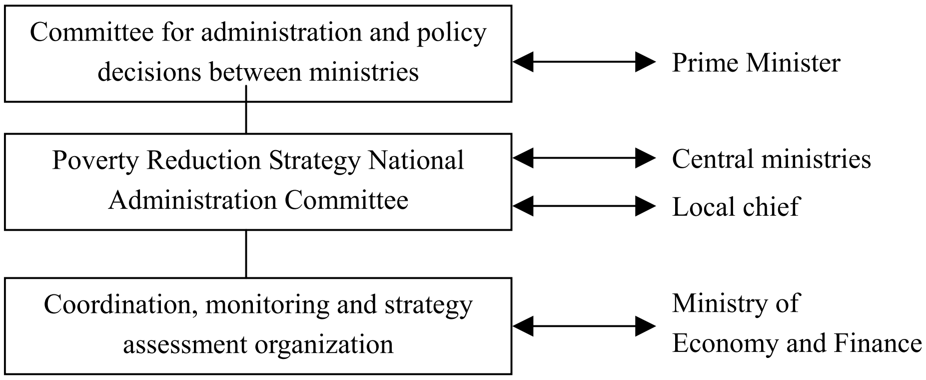
The PRSP was primarily established by the Ministry of Economy and Finance's Poverty Response Program Department. In February 2002 an administrative committee was established within the government, and subsequently it began to plan and draft the PRS (refer to Figure 2-27).

2) Flow of monitoring data

Household spending surveys were carried out twice when the PRSP was established (updating the 1994-95 household survey). Also, the "Core Welfare Indicators Questionnaire (CWIQ)" and "Perceptions of Poverty Survey," which focused on poverty conditions in the health, education and environmental areas, were carried out, providing quantitative information as well as qualitative data.

The CWIQ is a survey method developed by the World Bank, UNICEF and UNDP, and it was designed so that the status of annual PRS achievements can be ascertained using a relatively simple survey. It covers poverty conditions and access, use and degree of satisfaction with public services.

Figure 2-27 Senegal's system for implementing PRSP



(Prepared by study team using documents)

3) Interactions between government and donors

According to a survey on OECD aid cooperation,[78] there are donor groups providing aid cooperation in Senegal, but the Senegalese government itself is not very involved in donor cooperation. The government feels that it is cooperating with aid cooperation in the health, education, public financial management, decentralization and private-sector development fields, but from the donors' perspective the government's initiative is weak.

On the donor side, the UNDP and World Bank coordinate between donors. Donor meetings specific to areas and issues are set up under the general donor meeting, and countries and organizations are assigned to serve as the chair of each meeting. Those interested in a particular topic but who are not regular members may participate in the meetings.

[78] OECD-DAC Survey Results on Progress in Harmonization and Alignment

Table 2-38 Main donor meetings and chairs

Area and meeting	Country or organization serving as chair
Health	EC
Education	France
Agriculture	Netherlands
Environment	Netherlands
Decentralization	Germany
Micro-finance	Canada
WID	UNICEF
Private sector	USAID
Local aid for governance	EC
Natural resources	Netherlands
Industry	UNIDO/UNDP
HIV/AIDS	UNDP

（JICA Senegal Country-Specific Project Assessment, 2003）

Approximately 150 donor missions visit Senegal every year. Joint missions among donors would help reduce the burden imposed on the Senegalese government, but only the World Bank and Belgium send joint missions, while the EC, France, Germany, Italy, Japan and Spain send their own independent missions (Canada is considering participating in a joint mission).[79]

4) Issues

<Issues related to PRSP>

Some observers have pointed out that reducing the impoverished population by half by 2015 is in and of itself a nearly impossible goal.[80] Further, plans to carry out the strategies have not broken down to levels at which they can be implemented. Finally, the major issue is that APR are not prepared.

The following aspects are deserving of praise.[81]

(a) Participatory strategies have been formulated and reflected in documentation;
(b) A thematic working group was set up when the strategy was established and a consensus was reached;
(c) Senegal's poverty was thoroughly analyzed; and
(d) It mentions improvements to the quality of social services and public expenditures.

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79 OECD-DAC Survey Results on Progress in Harmonization and Alignment
80 WB and IMF "Joint Staff Assessment"
81 Ibid

The PRSP also touches on public financial reform, and lays out goals to improve public services by transferring financial authority to local governments.

<Monitoring issues>

One problem is that both the Senegalese government and donors carry out their own monitoring. Aid efficiency could be improved if the government and donors used the same indicators in their monitoring and determined respective policies and aid policies based on these results. However, the results of a survey of donors[82] revealed that only 19% of donors use the Senegalese governments' monitoring results. This is quite low compared to the average in other African countries (less than 30%).

(3) Status of aid from Japan and other major development partners

Donors provide their own aid within the PRSP framework in tandem with aid cooperation. The EC formulated aid strategies for Senegal in April 2002, with budget support as the focal point. The UNDP serves as the donor coordinator, and also provides aid in the PRS monitoring field. The US provides aid for the private sector, a priority aid area, focuses its aid on the health sector, and sends experts to strengthen the link between plans and budgets.

Aid by donor is shown in Table 2-39. In the regions formerly under French control (Burkina Faso), France, which is the top donor, does not actively use the sector approach and does not provide much general budget support, while the Netherlands and other North European donors are quite active in their aid cooperation. Senegal's top three bilateral aid donors are France, Japan and US, none of which are active donors of general budget support. This point is worth noting, although the effect this has on general budget support and aid cooperation can not be determined by studying documents.

Table 2-39 Organizations and countries providing most ODA (including aid from international organizations and bilateral aid)

	Name of organization or country	Unit: US$ million
1	IDA	77
2	France	66
3	Japan	38
4	US	22

Source: OECD

[82] OECD-DAC Survey Results on Progress in Harmonization and Alignment

(4) Sector trends

<Health sector>

In the health sector, a ten-year plan was introduced before the PRSP was established (PDIS). The main objective of the PDIS was to improve poor peoples' access to medical services, develop services based in the community and improve public health in outlying regions. Observers have pointed out this plan's effect (such as improvements in the quality of services) tend to be disproportionately concentrated in cities.

The health sector has an official donor cooperation system, and meetings are held every month. However, conditionalities when providing aid are not consistent among donors.

<Education sector>

A ten-year plan (PDFE) was also adopted by the education sector before the PRSP was established. The objectives of the PDFE is to spread primary education through the entire country by 2010, to dedicate 49% of the education budget to primary education, to improve female access to education and lengthen the education duration, improve access to secondary and higher education and to improve the quality of university education and research.

Canada is currently planning pilot budget support in the education sector (as of December 2004). According to this plan, the Ministry of Education will establish an MTEF and Canada will then provide budget support within this framework. An annual audit will be carried out every year with this pilot aid. There is some consistency in the conditionalities donors use to determine aid in the education sector.

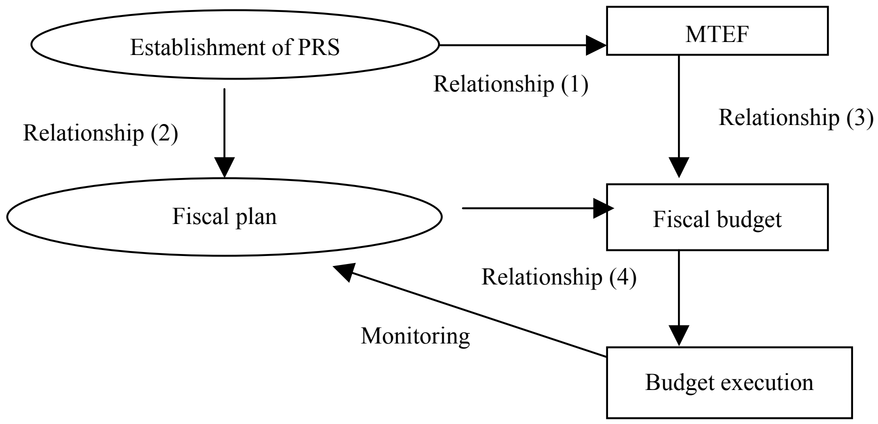
<Water sector>

In this sector, pragmatic strategies and action plans have not been introduced. Donor meetings were held once.

9-2. PRS process and public financial management

In general, the alignment between the PRS process and budget cycle is confirmed in terms of (1) the relationship between the PRSP and the MTEF, (2) the relationship between PRSP and fiscal plans, (3) the relationship between MTEF and fiscal plans and (4) monitoring and plans and the budget for the following fiscal year (refer to Figure 2-28).

Figure 2-28 PRS process and budget cycle



Relationship (1)<PRSP and MTEF>

In general, the PRSP is a three-year medium-term plan. The plan cannot be carried out without financial backing. Typically the three-year MTEF is established based on the PRSP, and the MTEF serves as the financial backing for the PRSP. However, the MTEF must be reflected in the PRSP for it to serve this function. For example, if the PRSP prioritizes implementation of policies in the health sector at the district level, a budget for this sector at the district level must be secured in the MTEF.

Senegal has not established an MTEF, leaving this an issue for the future. However, there are plants to adopt an MTEF in the education sector, as described above, with Canada providing budget support as part of a pilot program.

Looking at trends in the national budget from 2000 through 2004, there appears to be quite a contrast in the growth of the budget allocated to the education sector—a core area in the PRSP—and the health sector (refer to Table 2-40 for its proportion to GDP). While the budget allocated to the education sector has been steadily increasing, the budget for the health sector has not increased since 2002. It is not possible to discern the reason for this in the available documents, but it is essential to take notice of whether the budget for the PRSP's key areas has been secured.

Table 2-40 Progress in budgets for education and health sectors (as proportion of GDP)

	2000	2001	2002	2003	2004
Education and Training	3.8%	3.5	4.1	4.6	4.9
Health, Hygiene, Prevention and Nutrition	1.6	2.0	2.2	2.2	2.1

Source: World Bank, Public Expenditure Review, 2004

Relationship (2)<MTEF and fiscal budget>

Based on the medium-term PRSP, implementation plans for each year are established, and plans can be carried out by allocating the fiscal budget within the MTEF. When establishing the fiscal implementation plans, milestones must be set determining the pace at which the goals outlined in the PRSP should be achieved over a three-year period.

Senegal's PRSP outlines sector strategies and objectives as well as the activities that will achieve these strategies and objectives. However, there are no medium-term indicators pointing to the goals to be achieved over the next three years, as are included in other countries' PRSP, and instead it lays out indicators that are to be achieved by 2005, 2010 and 2015 (impact indicators). The cause-and-effect relationship between the PRSP (2002-05) and these impact indicators (medium-term) is not clear. A review of documents does not reveal the extent to which the government plans annual activities in accordance with the PRSP.

Relationship (3)<Monitoring, fiscal plans, fiscal budgets>

The extent to which plans have been achieved and the status of budget execution should be monitored every year, and the results reflected in the plans and budget for the following year. If the achievement rate for the indicators in the education sector—particularly indicators related to primary education—are low, policies for the next fiscal year should be changed and steps should be taken to allocate the budget according to priorities.

There are two ways to determine whether monitoring results are reflected in the next fiscal year's plan and budget: (a) confirming the content of the annual progress report (APR) and (b) confirming the consistency between the annual monitoring schedule and the schedule for establishing the budget. However, since Senegal does not prepare an APR, it is not possible to confirm this on the basis of the APR content.

<Consistency with schedule for annual monitoring and establishing budget>

The annual schedule must be planned so that review results are reflected in the plan and budget for the next fiscal year, thus ensuring that monitoring results and budget formulation are linked. Ideally, the schedule would be ordered as follows:

(a) Review of previous fiscal year's achievements,
(b) Establishment of policy for next fiscal year,
(c) Establishment of budget policies for next fiscal year (including ceiling),
(d) Ministries establish and request budgets based on budget policy,
(e) Discussions between Ministry of Finance and other ministries,
(f) Establishment of government proposal,
(g) Cabinet decision and submission to legislature, and

(h) Debate and endorsement of budget proposal in legislature.

Senegal's annual schedule for establishing and executing its budget is shown in Table 2-41. However, Senegal does not prepare APR and its annual schedule is not clear. Determining whether the two schedules are consistent requires further study. If an APR were to be prepared and it was implemented before the budget formulation work starts in February, the budget formulation schedule could reflect the content of the APR.

Table 2-41 Schedule for establishment and execution of budget

	Budget formulation schedule	Budget execution schedule
January		Start of fiscal year for budget Budget allocation signed
February	Start of budget formulation work (revenue)	End of budget expenditures for previous fiscal year
March		Ministries start using fiscal budget
April	Confirmation of economic conditions and government's financial needs Ministry of Finance and Economy notifies other ministries of expenditures	
May		Accounts submitted for previous fiscal year's budget
June	Revenue forecasts	
July	Budget meeting (expenditures)	
August	Start of budget negotiations	
September	Conclusion of budget negotiations	
October	Cabinet decisions on budget proposal	
November	Budget proposal submitted to legislature	
December	Budget proposal approved	

Source: Prepared by study group

9-3. Current status of PFM reforms

Improvements to the budget formulation process and budget execution are a major issue in the PRSP, but already the customs duty and tax system has been reinforced and an auditing board has been created, while a system to monitor budget execution conditions and updates to the information system are currently in progress. Further, the government tracks public expenditures in the education and health sectors, and plans to use the results in carrying out PFM reforms.

The World Bank's Country Financial Accountability Assessment (CFAA) of November 2003 stated that improvements were urgently required in the following five areas:

(a) External audits,
(b) Budget formulation and execution,
(c) Audits and reports in the public sector,
(d) Treasury and cash management, and
(e) Management of public employee compensation.

(1) External audits

The government is often delayed in submitting its budget proposal to the legislature, and thus there tends to be little time for the legislature to discuss the proposed budget. The auditing board does not have sufficient capacity to carefully check budget execution conditions. The auditing board is required to report the results of budget execution within six months of the end of the budget's fiscal year, but they tend to be delayed.

(2) Budget formulation and execution

There is no MTEF reflecting the medium-term PRSP. The annual budget also fails to reflect the PRSP. Budget documents do not cover all of the government's expenditures, and there is extra-budgetary spending. Also, there is a considerable amount of extra-budgetary revenue, such as aid from donors.

The Ministry of Economy and Finance does not inform the line-ministries of the budget formulation guidelines, and authority tends to be concentrated in the Ministry of Economy and Finance.

There are cases in which budget execution follows "exceptional" procedures other than the typical procedures. Accounts are not checked adequately. The accounts do not include the balance brought forward, negatively affecting the accuracy of the accounting.

Senegal's fiscal budget starts in January of each year, but in reality the budget is allocated to ministries from April. As a result, budget execution tends to be concentrated in the period from the second half of the fiscal year (November) through February of the following year. This means that financial authorities are extremely busy during this period, often lowering the budget execution rate.

(3) Treasury and cash management

Not all of the accounts of government-related organizations are covered, making cash management inadequate. Fraudulent revenue and expenditures tend to be overlooked.

(4) Public employee compensation

The system and information systems must be improved.

Other cross-cutting issues include flaws in the information system and inadequate management of documents.

Below are the results of a risk assessment by the World Bank's CFAA.

Table 2-42 Risk assessment by World Bank

Item	Level of risk	Notes
Budget formulation: Expenditures	Medium	Expenditure estimates do not cover all fields, and forecasts are inaccurate.
Budget formulation: Revenue	High	Department in charge of revenue lacks knowledge of the potential tax imposition base, leading to the risk of inadequate revenue.
Budget execution: Confirmation, payment orders	Medium	Spending effects are not monitored.
Budget execution: Expenditures	High	There is no internal control mechanism.
Payment enforcement	High	Improvements to public employee salaries are postponed.
Revenue affairs	Considerable	Risks do not decrease with efforts solely from the tax-related departments. There is also the risk of spending shortfalls.
Exceptional expenditure procedures	High	There are rules regarding exceptional procedures, but these rules are used so frequently that they are no longer exceptions.
Public accounting reports	High	Preparing monthly reports takes considerable time.
Financial reports	High	The lack of internal control mechanisms and the time it takes to prepare financial statements lead to risks. It is impossible to discover whether funds are used improperly.
Treasury and cash management	Extremely high	There is no independent internal mechanism for controlling public funds. Delays in integrating accounts raises the risks posed by public fund management.
Debt management	Low	
State-owned companies and organizations	Extremely high	There is no management system or monitoring system, and there is a risk of inappropriate use of public funds.

Source: CFAA, 2003

The World Bank's CFAA recommended ways to address these risks. Urgent items requiring donor aid were "audits of public employee compensation, modernization of the compensation system" and "establishment of master plan for a financial management information system."

Table 2-43 World Bank's recommendations for ameliorating risks

Recommendation	Organization responsible	Need for aid			Urgent	
		Low	Medium	High	Yes	No
Strengthen capacity of legislature's finance committee	Finance committee			X		X
Modernize and strengthen capacity of Auditing Board	Auditing Board		X		X	
Introduce penalties for delays in accounting reports	Auditing Board	X			X	
Introduce MTEF, a results-oriented budget	Ministry of Finance and Economy (MOFE)			X		X
Establish budget guidelines	Budget Office			X		X
Include all government activities in budget documentation	Budget Office		X			X
Establish decentralization strategies and carry out pilot programs	MOFE		X			X
Introduce an internal control system to Tax Bureau, Customs Bureau and Accounting and Treasury Bureau	MOFE	X				X
Simplify spending procedures and clarify locus of responsibilities	MOFE		X			X
Reduce exceptional procedures	MOFE	X			X	
Prepare and carry out agenda for preparing financial statements in accordance with regulations set by the West Africa Economic and Monetary Union	Accounting and Treasury Bureau	X			X	
Prepare quarterly report on Treasury conditions	Accounting and Treasury Bureau	X			X	
Identify public sector's bank accounts and monitor deposits and withdrawals	Accounting and Treasury Bureau	X			X	
Audit public employee compensation and modernize compensation system	MOFE			X	X	
Prepare master plan for financial management information system	Information Systems Department			X	X	
Audit anything necessary for budget documentation at MOFE and Auditing Board	MOFE, Auditing Board			X		X

Source: Prepared using World Bank's CFAA

9-4. Issues not clarified by study of documents

As regional integration moves forward, mechanisms related to public financial management will likely be standardized within regions. Senegal, a central nation in this region of the world, could serve as a good example for Japan as to the extent to which aid will be provided in the public financial management area in this region.

However, there is little interest in PRS implementation and monitoring, compared to

Burkina Faso in the same region. Further study is needed to determine whether Burkina Faso is an exception or whether Senegal's efforts are delayed for a particular reason.

In addition, this study was unable to clarify the following issues:

(a) The reasons that an APR is not prepared;

(b) Whether ministries prepare annual implementation plans based on the PRSP;

(c) Impact from the fact that its top donors—Japan, the US and France—are not active in aid cooperation; and

(d) Reasons that budget in health sector has not increased.

10. Tanzania

10-1. PRS process: Current status and issues

(1) Political and economic conditions before PRS adoption, formulation process and endorsement

Tanzania promoted macro-economic reforms and structural reforms from the early 1990s and succeeded in stabilizing its economy. The country is also stable politically, there is relatively little economic discrepancy among its citizens and the environment is conducive to economic growth. The relationship between governments and donors is good, and while contributions of resources via aid is increasing, more efficient and effective aid approaches are being proposed and experimented with. In Tanzania, 36% of the population is below the poverty line and 19% lack food.

Table 2-44 is a chronological table of the PRS process. The Tanzanian government established an interim PRSP (I-PRSP) in March 2000 under the Expanded HIPC Initiative. Tanzania reached the decision point in April of the same year due to the sound policies implemented up until that point and the establishment of the I-PRSP. Subsequently, Tanzania completed the final PRSP (F-PRSP) in October 2000 and in December of that year the IMF and World Bank board of executive directors approved the F-PRSP. In October 2001, the Annual Progress Report (APR) was prepared and in November Tanzania reached the completion point. Accordingly, Tanzania received US$2,026 million (net present value) in debt relief. This freed up about US$50 million in fiscal 2002/03 in debt redemption.[83]

In addition to PRSP, Tanzania has established “Vision 2025,” a long-term policy lasting until 2025, a national poverty eradication strategy (NPES), a medium to long-term policy lasting until 2010, and the Tanzania Aid Strategy (TAS), a plan to encourage international society to cooperate with social and economic development. Also, a medium-term expenditure framework (MTEF) stipulating a ceiling for budgets established over a three-year period began to be introduced in 1997. While it thus has a supplementary relationship to existing policies, the PRSP was established within the process of the Expanded HIPC Initiative and debt relief. The PRSP is a policy document widely recognized within the government, but awareness about it is still low at several sector ministries and at the local government level.[84]

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[83] The redemption amount freed up in fiscal 2002/03 was due to the IMF and World Bank’s debt relief. The redemption savings from the Paris Club’s debt relief have not yet been realized.
[84] DFID (2003), DFID Tanzania, Country Assistance Plan June 2003-December 2004, p. 8.

Table 2-44 Abbreviated chronological table of Tanzania's PRS process

Dates	Events
Sept 1996	Original HIPC Initiative (O-HIPC Initiative) starts
Sept 1996	CPAR (World Bank)
August 1997	Public expenditure review (PER-97, World Bank)
Sept 1999	Expanded HIPC Initiative (E-HIPC Initiative) starts
March 2000	I-PRSP established
April 2000	E-HIPC decision point reached
Nov 2000	F-PRSP established
2001	PRBS fund for direct general budget support was set up with the cooperation of England and 11 Northern European countries Approximately US$5 million in fiscal 2001 and about US$5 million in fiscal 2002 in aid was given to PRBS; evaluation using assessment matrix (PAF)
January 2001	Public Expenditure Review report (World Bank)
May 2001	Country Financial Accountability Assessment (Tanzanian government)
Oct 2001	APR1 approved by IMF and WB
Nov 2001	Public Expenditure Review report (World Bank)
Nov 2001	E-HIPC completion point (Fourth after Uganda, Bolivia, Mozambique)
Dec 2001	Master plan for poverty monitoring was established and a fund set up for poverty and human development reports
2002	Tanzanian government announces Tanzania Aid Strategy (recommendations for untying aid, common basket, general budget support)
2002	Start of World Bank's PRSC negotiations
May 2002	Public Expenditure Review (PER FY2)
May 2002	PER National Consultative Meeting
Dec 2002	APR2 distributed to donors (Tanzania government process)
March 2003	Tanzanian government releases PFMRP and requests aid from donors
March 2003	APR2 released
April 2003	APR2 approved by IMF and World Bank
April 2003	Country Procurement Assessment Report (World Bank, Tanzanian government)
May 2003	PRSC-1 approved; US$100 million credit, US$32 million grant
May 2003	PER National Consultative Meeting
June 2003	PER FY3 (World Bank)
April 2004	CPAR (World Bank)
May 2004	APR3 approved by IMF and World Bank
July 2004	PRSC-2 appraisal document; US$60 million credit, US$90 million grant

Source: Planning Study Group report, PRSP, PER, World Bank website, other

The Office of the Vice-President carried out most of the revisions to the PRSP from 2003. Opinions were collected from 42 provinces and 168 villages, 33 citizen organizations and three aid organizations to ensure that a wide range of parties were consulted in the revision work. In addition a large-scale questionnaire was given. In August 2004, the PRS-II draft was announced and there are plans to complete the establishment by end 2004 after a broad-ranging consultation.

(2) Institutional framework, organization and process for PRS implementation and monitoring

As shown in Table 2-45, Tanzania has four types of PRS process, as follows:

(a) Preparation of PRS APR, linked to PRS poverty monitoring;
(b) Public expenditure review (PER);
(c) Monitoring of budget support; and
(d) MTEF in process of establishing government budget.

As described above, the PRSP was created in Tanzania as a new policy framework for the preceding MTEF process. In this respect, Tanzania is different than Uganda, where the MTEF was introduced while PEAP (Uganda's version of the PRSP) was implemented.

Table 2-45 Schedule for monitoring PRS process

<table>
<tr><th colspan="2">Process</th><th>PRS poverty monitoring</th><th>Public expenditure review (PER)</th><th>PRBS/PRSC budget support</th><th>MTEF/government's budget formulation process</th></tr>
<tr><td rowspan="12">Fiscal year</td><td>July</td><td>Preparation of poverty and human development reports</td><td>Preparation of annual plan</td><td></td><td></td></tr>
<tr><td>August</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Sept</td><td></td><td>Sector survey ToR decision</td><td>Budget review</td><td></td></tr>
<tr><td>October</td><td rowspan="2">Release of PRS APR, poverty policy week</td><td rowspan="2">Sector surveys, start of macro surveys</td><td></td><td rowspan="2">Preparation of budget guidelines</td></tr>
<tr><td>Nov</td><td></td></tr>
<tr><td>Dec</td><td></td><td></td><td>Annual review</td><td></td></tr>
<tr><td>January</td><td></td><td>External evaluation missions (World Bank)</td><td></td><td></td></tr>
<tr><td>February</td><td></td><td rowspan="2">Sector surveys, end of macro surveys</td><td></td><td rowspan="2">Preparation of sector budget and sector MTEF</td></tr>
<tr><td>March</td><td></td><td></td></tr>
<tr><td>April</td><td></td><td></td><td>Annual interim review</td><td rowspan="2">Preparation of overall budget and sector MTEF</td></tr>
<tr><td>May</td><td></td><td>Annual consultative meeting</td><td></td></tr>
<tr><td>June</td><td></td><td></td><td></td><td>Budget presentation</td></tr>
</table>

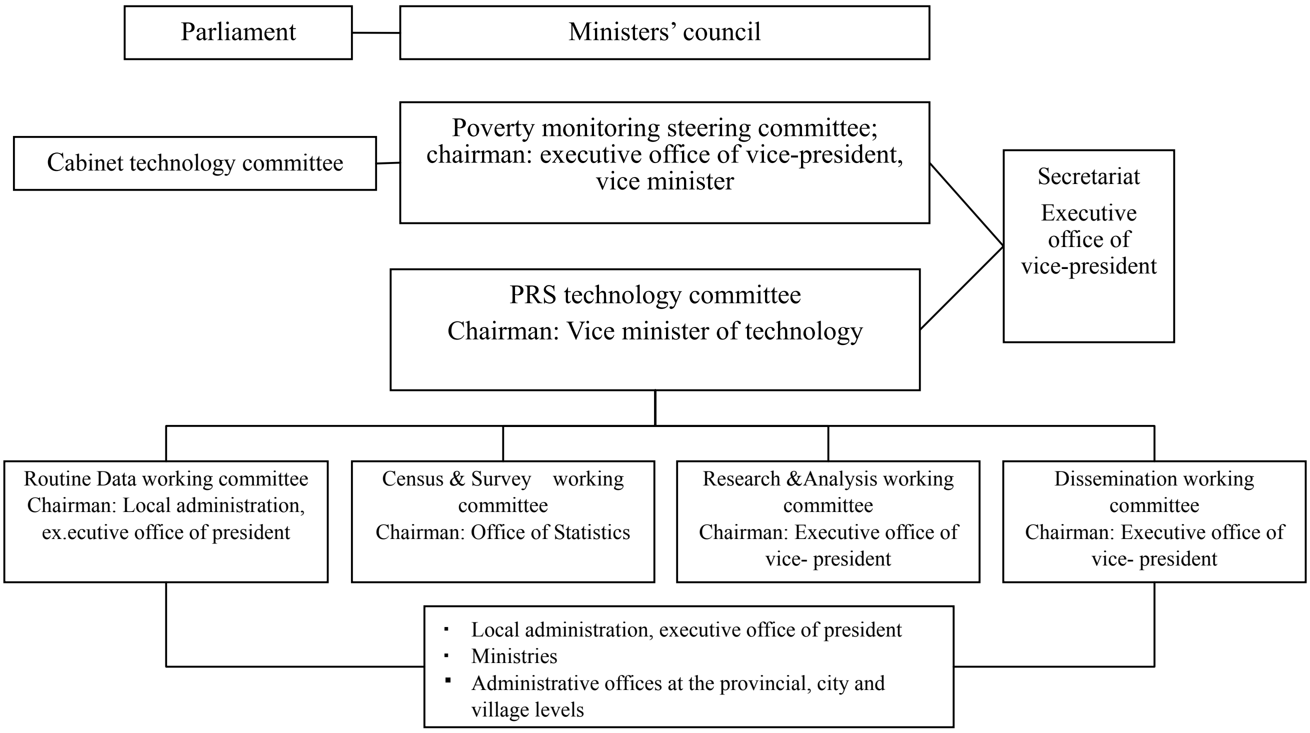
Source: Okuyama Study Group report (corrected by study group)

1) PRS APR and poverty monitoring

A master plan for poverty monitoring was established in December 2001, just after the

PRS annual progress report (APR) had been released in October 2001. The master plan recommended that a pool fund for poverty monitoring be set up. The agreement to establish this fund was signed by the government and development partners (seven countries, including Japan) in March 2003, and the Japanese government contributed US$500,000 to the fund in July (of which US$300,000 was earmarked for surveys in the agricultural sector).[85] Figure2-29 shows the implementation structure for poverty monitoring. A steering committee for poverty monitoring was established in the Executive Office of the Vice-President, and four working committees (the Routine Data Working Committee, Census Survey Working Committee, Research and Analysis Working Committee and Dissemination Working Committee) were set up under the council of ministers. Ministries, regional governments and civil society were asked to actively participate to ensure that a broad range of information was collected.

Figure2-29 Implementation system for PRSP and poverty monitoring



Source: Okuyama Study Group report (corrected by study group)

[85] JICA study group report (March 2003)

2) PER

Public expenditure reviews (PERs) in other countries refer to reviews carried out independently by the World Bank, but Tanzania's PER has been led by the government since the second half of the 1990s. Currently, sector-specific working committees with a diverse group of members including donors, international organizations, universities and civil society analyze and examine subjects relating to public finance overall, such as the macro-economy, budget formulation and execution, and audits. Working committees for the health and education sectors were set up for sector-level PER. Tanzania is also distinct for the existence of an independent monitoring group that assesses the efficiency of donors' capital contributions and the aid itself.[86]

The ToR for sector-specific working committees is decided in late September and sector reports are completed from March. For that reason, the annual consultative meeting, or general meeting, is held every year in May. The World Bank conducts its external evaluation in January, and their report is subsequently released.

3) Budget support via PRBS/PRSC and performance assessment framework (PAF)

In 2001, a framework for Poverty Reduction Budget Support (PRBS) was set up with the cooperation of 11 countries, including Japan, to serve as a conduit for budget support. Approximately US$3 million (for 2002/03), including the World Bank's poverty reduction support credit (PRSC), was given (refer to Table 2-46). The Performance Assessment Framework (PAF) was used as a shared tool to monitor donors' budget support and the World Bank's aid via PRSC. As shown in the conceptual PAF table in Table 2-47, reviews using PAF are carried out three times a year. The budget review in September performs a detailed analysis of Tanzania's budget execution in the previous fiscal year and reviews the structure of the fiscal year budget and execution in the first quarter. The annual review conducted around December includes an annual evaluation based on the PAF, and revisions to PAF are also considered. The annual interim review in April confirms the progress of PAF, and the World Bank also uses this evaluation to determine the amount of PRSC it will give.

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[86] JICA/ODI (2004), Progress Reviews and Performance Assessment in Poverty-reduction Strategies and Budget Support - A Survey of Current Thinking and Practices, p. 56.

Table 2-46 Budget support amounts in Tanzania (fiscal 2002/03)

Country	Amount (US$ million)
Canada	1.8
Denmark	11.0
EC	37.5
Finland	1.7
Ireland	14.8
Norway	13.7
Japan	4.0
Netherlands	15.3
Sweden	12.8
Switzerland	5.0
England	72.3
World Bank (PRSC) and Development Bank of Africa	106.2
Total	296.1

Source: Endo expert study team report

Table 2-47 Performance assessment framework (PAF) for PRBS/PRSC

Issues	**Number of activities completed as of March 2004**
1. Reduction in economic poverty	13
2. Improvements in poverty monitoring and assessment skills	4
3. Stabilization of macro-economy	8
4.1, 4.2 Setting up environment to facilitate improvements to public services and raise incentives	7
4.3 Improve performance in public sector	3
5.1 Reductions in leakage of funds and strengthening of accountability	22
6. Environmental and sustainable development	6
Total number of activities	**63**

Source: World Bank 2004 Second PRSC Staff Appraisal Report

4) MTEF and government's budget formulation process

The government's annual budget formulation process starts in October with the establishment of budget guidelines, the announcement of these budget guidelines in December, budget proposals from sector ministries based on these guidelines, establishment of sector-specific MTEF (February-March) and the government's budget proposal based on sector budget proposals and the start of overall MTEF preparations for May. The budget proposal is approved and announced in June (typically approval is delayed until August).[87]

[87] 2003 Okuyama Planning Study Report

(3) PRS implementation and status of monitoring implementation

1) Monitoring using PRS APR

As described above, Tanzania reached the HIPC completion point when the APR was established in 2001. The second APR prepared in November 2002 reflected the poverty analysis of the poverty and human development report issued in October 2002 and the study results of the PER working committee, and set a new poverty baseline. The target values were also changed according to the progress made on each item.[88] Signaling its approval of the second year's APR, in May 2003 the IMF and World Bank board of executive directors gave US$1 million in loans and US$32 million in grants through the PRSC-1. The third APR was originally supposed to be completed in November 2003, but this was postponed to 2004. This delay in the report's completion was partially due to the fact that it had to be carried out simultaneously with the PRSP revisions planned for 2004, and the capacity of the Executive Office of the Vice-President, which was in charge of the work, was inadequate. With the completion of the third APR, the World Bank decided to give Tanzania US$60 million in loans and US$90 million in grant aid.

2) PER, PRBS/PRSC review, MTEF and annual budget formulation

The PER review and PRBS/PSC review were carried out according to their own schedules, but it has been pointed out that these reviews, including the review process through the PRS progress report, do not provide appropriate input that can be used in establishing the annual budget and MTEF. The PRBS/PRSC September budget review overlaps with the guidelines for establishing the next year's budget so the review results should be reflected in the guidelines, but the PER review should be reflected in the guidelines to ensure the participation of a wide range of stakeholders. However, the review results are not used in the budget process because the government reviews the budget formulation guidelines for the following fiscal year in October-December of the previous year as the results of the PER review—in which a broad range of stakeholders such as sector ministries participate—are compiled in May. The government addressed this issue as an official item for discussion at the May 2003 PER annual consultative meeting and expressed its desire to resolve the problem to improve the PRS process and budget support schemes when PRSP-2 is established.

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[88] JICA study group report (2003)

(4) Future issues for PRS implementation and monitoring

Many of the issues related to PRS implementation and monitoring overlap with issues involving public financial management. The points deemed most important are listed below.

(a) The results of poverty monitoring, PRS monitoring, PER and other reviews carried out as part of the PRS process are not reflected in the budget or MTEF formulation.

(b) The entire Tanzanian government must be involved in the PRS process, budget allocation and execution and monitoring, including sector ministries and regional governments.

(c) Both the Tanzanian government and donors must have the capacity to set and run general budget support mechanisms and cooperate and manage sector programs between governments and donors.[89]

(5) Aid from Japan and other major development partners

Table 2-48 shows the Tanzanian government's income structure. Using fiscal 2002/03 as an example, 35% of all income consisted of donor aid. Further, interest and principal payments were reduced by 3% under the HIPC Initiative. As such, donors provide more than one-third of Tanzania's income. Overall 16% consists of budget support and 18% of project support. Table 2-46 provides a breakdown of budget support by country. The World Bank, African Development Bank, DFID and EC are the main sources of budget support, and the 2004 MTEF predicted that money given through general budget support would double over the next three years.

Table 2-48 Tanzania government's income structure

	2001/02 (US$ million)		2002/03 (US$ million)	
Total government income	**1,556**	**100%**	**1,821**	**100%**
Domestic tax revenue	998	64%	1,133	62%
Total economic aid	**488**	**31%**	**631**	**35%**
Project aid	**207**	**13%**	**335**	**18%**
Grants (only supplementary)	175	11%	182	10%
Loans	32	2%	153	8%
Budget support	**281**	**18%**	**296**	**16%**
Grants	134	9%	71	4%
Loans	147	9%	146	8%

[89] DFID (2003), DIFD Tanzania Country Assistance Plan June 2003-December 2004, p. 15.

Basket fund grants	0	0%	78	4%
Decrease in principal and interest payments under HIPC Initiative (portion from international organizations)	57	4%	49	3%
Decrease in principal and interest payments under HIPC Initiative (portion from Paris Club)	0	0%	0	0%
Other sources	12	1%	9	0%

Source: World Bank (2003) United Republic of Tanzania Public Expenditure Review FY03, Table A4a.

A poverty monitoring pool fund was set up in 2003 to support the PRS monitoring process. In December of the same year a manual outlining accounting procedures was completed, and donors informed the government of their aid for the next three years in addition to the operation of MTEF (Table 2-49 shows the contributions to the fiscal 2004/05 budget). In March 2004, a survey was carried out on the extent to which the information collected and analyzed during the poverty monitoring process was used during the sector ministries' work in preparing the fiscal budget. The conclusion was that this information was not used to its full potential.[90]

Table 2-49 Estimated contributions to poverty monitoring pool fund

Contributing organization	Contributions to fiscal 2004/05 budget (US$1,000)
Government	991
DFID	1,770
Switzerland	680
Norway	1,128
Japan	500
EC	435
Total	5,505

Source: Yamauchi Study Group report

The Japanese government gave general budget support amounting to approximately 580 million yen in fiscal 2001 and approximately 530 million yen in fiscal 2002 via the PRBS framework, while other donors have provided budget support in tandem with the PRS process. In 2002, Japan designated countries deemed most important for aid cooperation, and in 2004 gave 500 million yen in general budget support using the non-project grant scheme. As shown in Table 2-50, in 2001 Japan began providing aid for the establishment and implementation of development plans in the agricultural sector at the national and local levels in tandem with the PRS process. Its efforts included sending a task force to the embassy and sending JICA study

[90] Ibid.

teams to monitor poverty, the agricultural sector and financial conditions, as well as carrying out development studies in the agricultural sector from 2001. Further, in August 2005 Japan began a development study of the Accounting Department's Ministry of Finance in the public financial management sector.

Table 2-50 Japan's aid

Date	Event
April 2000	Dispatch of poverty monitoring planning task force (April 2000 – October 2002)
2001	580 million yen in general budget support from debt relief grant
March 2001	Study to aid establishment of Tanzania's local development sector program (March 2001 – March 2004)
2002	530 million yen in general budget support from debt relief grant
Feb 2002	Dispatch of agricultural sector planning task force (Feb 2002 – Jan 2004)
March 2002	Dispatch of planning task force for financial monitoring (March 2002 – March 2004)
April 2002	Tanzania designated as priority country for aid cooperation (start of joint work to set new aid cooperation framework)
Nov 2002	Dispatch of planning task force for poverty monitoring (Nov 2002 – Nov 2004)
Dec 2002	Discontinuation of debt relief grants
July 2003	US$500,000 contributed to poverty monitoring fund (of which US$300,000 was earmarked for agricultural survey)
March 2004	Cabinet decision to contribute 500 million yen in non-project grant as general budget support
	Overseas expert investigators dispatched to Ministry of Finance

Source: Planning task force report

10-2. PRS process and public financial management

(1) Role of public financial management in PRS process

Public financial management (PFM) plays an important role in the implementation of PRSP policy. Since it is important to reduce fiduciary risk when providing budget support, donors as well as the government are extremely interested in improving PFM abilities.

Strengthening PFM is also important in ascertaining the amount of resources injected into the PRS process and the distribution structure, as well as effectively and efficiently using financial resources. The budget must be inclusive if the Tanzanian government is to carry out the PRS effectively, and the government must request that donors disclose aid amounts and make long-term commitments so that it can ascertain the flow of money from donors and record it in government budgets.[91]

[91] Tanzanian government, (2000), PRSP

As described in the previous chapter, the PRS monitoring results are not adequately reflected in the budget formulation process, and this reduces opportunities to effectively execute the budget.

(2) PFM mechanisms: Institutional framework and process

Tanzania's public finances are managed in accordance with the Public Finance Law enacted in 2001, the Public Procurement Law enacted the same year and regulations appended to this law. The establishment of these new laws is largely attributable to the World Bank's review in 1996 and the government's follow-up on these recommendations.[92]

As summarized in the section on PRS monitoring, the process of establishing the fiscal budget starts with the formulation of budget guidelines from October through December. From February through March, the sector ministries prepare their budget proposals and sector-specific MTEF, the government budget and MTEF is devised from April through May, and finally in June the budget proposal is approved by the legislature. The budget formulation guidelines is an important process in which ceilings are set for each sector and project based on revenue estimates. The budget committees set up within the ministries are responsible for establishing budgets for the sector ministries. Tanzania introduced a performance budget[93] in fiscal 1998/99, but there have been delays in spreading it to the ministries because its introduction would require changes in the current work process.[94] The Performance Budget Manual mandates that the ministries must devise a plan for tracking monthly flow of funds after the budget goes into effect, but this stipulation is not followed enough.

Income and the status of budget execution are monitored during the PRBS/PRSC reviews carried out three times a year. Funds were previously released every month, but in 2000 the system was changed so that important sectors were given priority in fund allocation.[95]

The audit of budget expenditures is compiled as an accounting report within six months of the end of the fiscal year by the Ministry of Finance's Accountant General and is submitted to the Controller and Auditor General. The Controller and Auditor General audits the central government and local governments and submits an audit report to the Minister of Finance within nine months of the end of the fiscal year. The Minister of Finance then submits the report to the legislature. The fact that the Controller and Auditor General does not submit the audit report directly to the legislature questions the independence of the Controller and Auditor

[92] Tanzanian government, (2003), Tanzania Country Procurement Assessment Report.
[93] Tanzanian government, (2001), Country Financial Accountability Assessment. With this method, the activities needed to achieve the goals are predicted and fund allocation and allocation priorities are determined so as to optimize the productivity of the activities.
[94] Ibid.
[95] Ibid.

General, as some observers have pointed out.[96]

The Integrated Financial Management System (IFMS) was introduced as part of the government accounting development project started in 1995. In 1998, it started as a pilot program and the following year began operating in all central ministries. However, the current IFMS is inadequate in terms of its ability to comprehensively manage the budget and its execution, and in 2001 a salary system, public debt management and development project fund management system began operating separately in tandem with the IFMS. IFMS has not been introduced to local governments.[97]

(3) Framework for PFM reforms and donor fund contribution mechanisms

PFM reforms have been promoted since the 1990s in Tanzania. IFMS was introduced, PFM-related laws revised and employee abilities improved as part of the government accounting project and public sector reform. The results of its 2003 Country Procurement Assessment Report (CPAR), implemented under PRSC-1, convinced the World Bank to carry out the PFM reform program within the PRSC-2 aid framework. This program's steering committee established a statement of agreement stipulating the donor aid framework in June 2004, and cooperating donors are currently being recruited. The PFM reform program aims to reduce fiduciary risk, and also plans activities that will expand and reinforce IFMS, reform organizations and spread awareness of accounting, procurement and auditing laws in accordance with current law.[98]

(4) Issues concerning PFM reform

Tanzania faces a wide range of issues concerning PFM. Issues related to fiduciary risk in particular are mounting, but there are also many issues that must be resolved by donors, such as improving aid predictability and reflecting donor aid in the budget. It has been estimated that about 80% of aid money from donors was not recorded in budget documentation in 2001.[99] Other issues are as follows:

(a) The central government and local governments' expenditure reports lack substance because of a lack of high-quality accounting and internal audit staff. This lack can be attributed to salaries that are low compared to those in the private sector and lenient treatment of improper accounting practices.

(b) Lack of sufficient employees in the public accounting and audit department.

(c) The central procurement committee performs both regulatory functions and runs

[96] Ibid.
[97] Ibid.
[98] World Bank (2004), PRSC-2 Staff Appraisal Report, p. 42.
[99] World Bank (2001), United Republic of Tanzania Country Financial Accountability Statement.

the bidding process, resulting in a conflict of interests. The committee should no longer be responsible for bidding and should have its regulatory function reinforced.

(d) Procurement functions must be divided among the various ministries. Also, committees must be reformed by, for example, removing members of the district legislature from district procurement committees.

(e) There is a lack of methods ensuring the transparency and equitability of accounting and procurement.

(f) There is no foundation from which misdeeds can be indicted.

(5) Aid from Japan and major development partners

Japan's contributions to PFM reforms include the dispatch of planning task forces and the implementation of development surveys, as described above. The development survey aims to train employees and improve operations in "Treasury management and accounting," one of the areas covered by Tanzania's PFM reform program.

Other donors are also providing aid within the framework of the PFM reform program. The PRBS/PRSC performance assessment framework (PAF) also shows that partners providing general budget support are extremely interested in PFM. One-third, or 22, of the PAF sub-items under "5.1 Reducing leaks of funds and strengthening accountability" have been achieved.

11. Uganda

11-1. PEAP Process: Current Status and Issues

(1) Politics and Economy before PEAP Introduction

In the ten years leading up to the establishment of the Poverty Eradication Action Plan (PEAP) by Uganda's government in 1997, Uganda broke out of its domestic political turmoil and showed the most stable growth out of all the African countries. Particularly impressive was the average 8.1% GDP growth during the three-year period from 1992 and the sharp decline in the inflation rate from the 30% level to the 6% range. The IMF gave three loans through its structural adjustment facility beginning in 1987, resulting in the liberalization of trade and foreign currency transactions, the privatization of public corporations, stronger tax collection, and reforms in the financial and public sectors. However, as of 1993 61% of the population was below the poverty line due to the residual effects of the political and economic chaos lasting from the 1970s through the early 1980s. The majority of the impoverished population lived in rural areas with little access to markets.[100] The per capita GNP was US$290 in 1996. The human development indicators were also low, and the government needed to move aggressively to reduce poverty.

In light of these conditions, in 1997 PEAP was established as Uganda's comprehensive poverty reduction measures through consultation with a broad range of participants, including local residents. The establishment and subsequent implementation process is shown as a chronological table in Table 2-51. PEAP is said to have been the original model for the PRSP, which forms the core of the E-HIPC Initiative adopted by the IMF and World Bank board of executive directors in 1999.[101]

In 1997, when the first PEAP was established, Uganda had reached the decision point in the HIPC Initiative, and became the first heavily impoverished country to reach the completion point in April 1998 due to its steady progress in implementing its policies. As a result, its debt was reduced by US$347 million in present value terms.[102] Accordingly, the Ugandan government established a Poverty Action Fund (PAF) in 1999 within its national budget, and differentiated between the money freed up through this debt reduction and general funds in the budget.[103]

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[100] The proportion of the population falling below the poverty line had fallen sharply to 35% as of 2000.
[101] World Bank （1997）； World Bank (2000)
[102] World Bank. 2004. Global Development Finance; World Bank. 2003. The Heavily Indebted Poor Countries (HIPC) Debt Initiative An OED Review; in nominal terms Uganda's debt was reduced approximately US$ 650 million. The aggregate nominal value of the Ugandan government's public debt was approximately US$3,900 million in 1998.
[103] World Bank Feb. 20, 2003; WB March 31, 2004

Table 2-51. Chronological Table of Implementation of Uganda's PEAP Policies

Date	Event
1995	• Promulgation of new constitution in Uganda
1996	• Original HIPC Initiative (O-HIPC Initiative) starts • First presidential election takes place
1997	• Poverty Eradication Action Plan (PEAP) is established; decision point in O-HIPC is reached
April 1998	• Completion point in O-HIPC is reached and Uganda's debt is reduced by US$ 347 million
1999	• Poverty Action Fund is set up within national budget and start of control over general budget support
Sept 1999	• Enhanced HIPC Initiative (E-HIPC Initiative) starts
Feb 2000	• PEAP is revised and Uganda reaches decision point in E-HIPC Initiative
May 2000	• Uganda reaches completion point in E-HIPC Initiative
March 2001	• First Annual Progress Review (APR) is submitted
March 2002	• Public Expenditure Review (PER) 2002 is released by World Bank
May 2002	• Uganda reaches completion point in E-HIPC Initiative and debt is reduced by US$ 656 million
April 2002	• Second APR is submitted to legislature as background report on 2002/03 budget
April 2003	• Third APR is submitted to legislature as background report on 2003/04 budget
August 2003	• Second series of PEAP revisions start
Sept 2003	• World Bank releases PER 2003
June 2004	• World Bank releases PER 2004
Dec 2004	• Revisions to PEAP are completed
Japan's response	
May 2002	• Uganda is made aid priority country A in Japan's basic policy on aid cooperation • Japan gives 50% (80 million yen) of its debt relief for fiscal 2002 as general budget support
Nov 2002	• Japan signs agreement on aid cooperation with Ugandan government and donors
July 2003	• Japan carries out evaluation of general budget support already provided • Japan participates in EPR workshop (April-May 2004) and meetings with donors in main sectors

Source: IMF web site, World Bank web site, Japanese consulate's official telegrams

Under the Enhanced HIPC Initiative established in September 1999, Uganda once again reached the decision point in February 2002 and in May of that year the IMF/World Bank Board of Executive Directors approved the PEAP as its PRSP, thus marking the completion point. As a result, Uganda's debt was reduced by US$ 656 million in present value terms, and in 2002 the external debt-to-exports ratio reached 116%, undercutting the E-HIPC goal of 150%.[104] These two debt relief measures are estimated to have freed up approximately US$800,000 as of

[104] World Bank (2004). Global Development Finance

2004 due to lower debt payments. Uganda received loans under the E-HIPC Initiative from the World Bank's Poverty Reduction Support Credit (PRSC) in 2001, 2002 and 2003[105], and received a total of 13.5 million in special drawing rights (SDR) from the IMF's Poverty Reduction Growth Facility (PRGF) in fiscal 2002/2003[106] and fiscal 2004/2005.[107]

The PEAP was established as a result of the Original HIPC Initiative (O-HIPC Initiative) instituted by the IMF/World Bank Board of Executive Directors in 1996. After subsequent revisions in 2000, it went through a second series of revisions in 2004. Before these revisions, the PEAP promoted the following four pillars:

(a) Establishment of a framework for economic growth and reform;
(b) Strong governance and security;
(c) Skills reinforcement among the impoverished to raise incomes; and
(d) Better lifestyle for the impoverished.

The PEAP was revised with five new pillars to reflect an emphasis on the importance of issues relating to armed conflicts and a format better suiting the government's institutional structure.

(a) Macro-economic management
(b) Improvements in production, competition and household incomes
(c) Security, resolution of disputes, disaster management
(d) Strong governance
(e) Human development

(2) Institutional Framework, Organization and Process for PEAP Implementation and Monitoring

The revised PEAP included a new PEAP Result and Policy Matrix (to be described below), and in addition the monitoring system was extensively revised. The section below describes the Poverty Monitoring and Evaluation Strategy (PMES) used until this point and the new monitoring system, the National Integrated Monitoring & Evaluation Strategy (NIMES).

1) Poverty Monitoring and Evaluation Strategy (PMES)

The Poverty Monitoring and Evaluation Strategy (PMES) is a monitoring and evaluation framework at the national level established in 2002 by the Ministry of Finance, Planning and Economic Development (MFPED) and the Poverty Monitoring Network. The PMES manages and provides information necessary for district monitoring and evaluation

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105 The World Bank began to give PRSC as grants in fiscal 2003/04.
106 Uganda's fiscal year begins July 1 and ends on June 30 of the following year.
107 World Bank, March 31, 2004

systems and PRSC monitoring.

The PMES's monitoring of PEAP has the following two objectives:

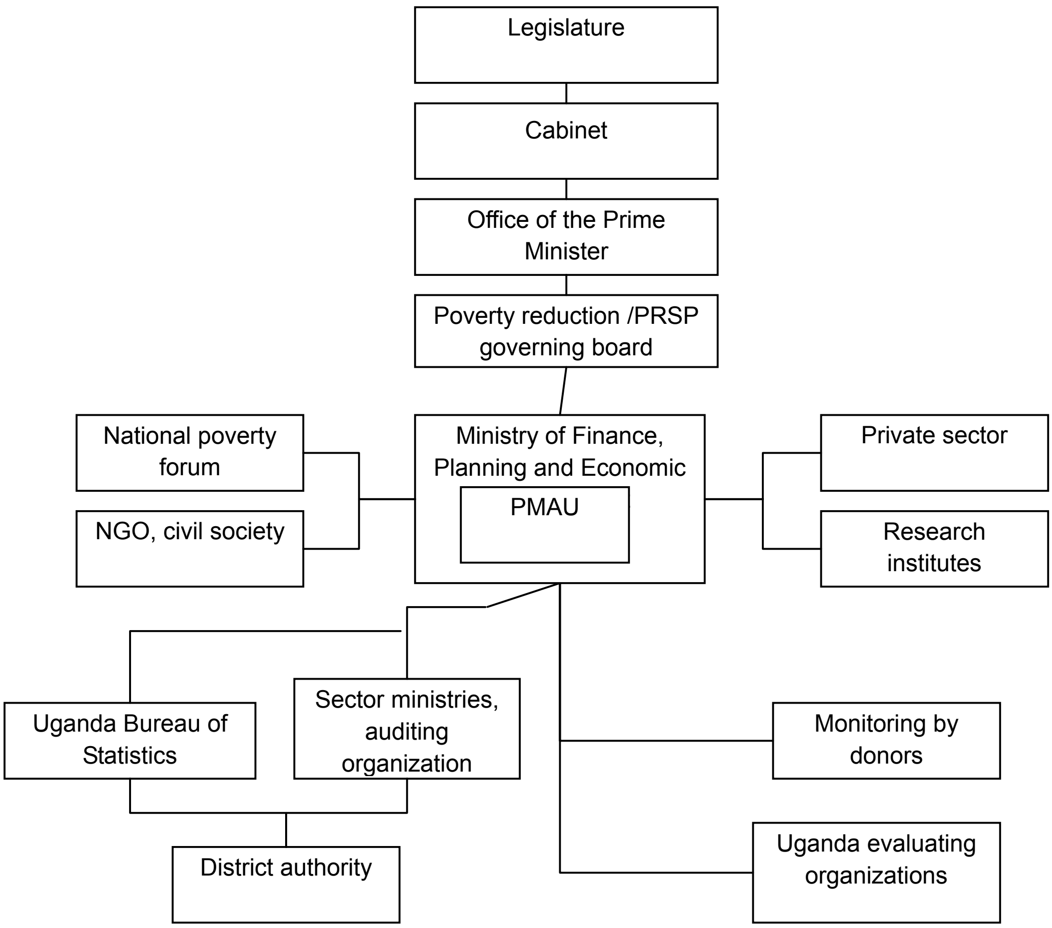
(a) To confirm that information flows between beneficiaries, service recipients and policymakers, and that policies are implemented according to plan.

(b) To clarify the extent to which the objectives are achieved and to ensure accountability.

Under the PMES, PEAP Priority Indicators are set for each sector. However, targets are set for only a minority of the indicators.

The MPFED has overall responsibility for poverty monitoring, and its Poverty Monitoring and Analysis Unit (PMAU) regularly adjusts poverty monitoring measures through the poverty monitoring network. The framework of the PMES and the role of ministries and agencies within the framework is shown below.

Figure 2-30 Institutional Framework of Poverty Monitoring and Evaluation Strategy (PMES)



Source: Poverty Monitoring and Evaluation Strategy

Table 2-52 Roles of organizations in PMES

Organization	Responsibilities
Office of Prime Minister (OPM)	・ Verifies information on policies, influences the country's political and socio-economic decision-making
Poverty Monitoring and Analysis Unit (PMAU)	・ Organizes data compiled on Participatory Poverty Assessment (PPA) ・ Analyzes all data relating to policies ・ Provides views on poverty in Uganda and publishes poverty reports related to the status of PEAP implementation ・ Expands the knowledge obtained by the government, civil society, and working groups on the public service budget ・ Assigns work related to researching and evaluating poverty
Uganda Bureau of Statistics (UBOS)	・ Conducts national censuses and surveys (including comprehensive household surveys, national service surveys, and surveys on population figures and health) and performs basic analysis of data thus obtained ・ Establishes national income accounts
Management Information System (MIS)	・ Designs indicators measuring public services and their direct outcome and compiles administrative data ・ Analyzes the above data in context with other data and identifies policy response
District Authority	・ Compiles information on output, input and reach at the district level for use in drafting plans; shares relevant information with central government

Source: Poverty Monitoring and Evaluation Strategy

Monitoring under the PMES has the following problems:[108]

(a) Each sector ministry has its own information system and there are no consistent standards.

(b) Sector ministries collect the same information, thus duplicating their efforts and burdening the sector level and local governments.

(c) The quality of the information is low and does not meet the information needs of the stakeholders.

2) National Integrated Monitoring & Evaluation Strategy (NIMES)

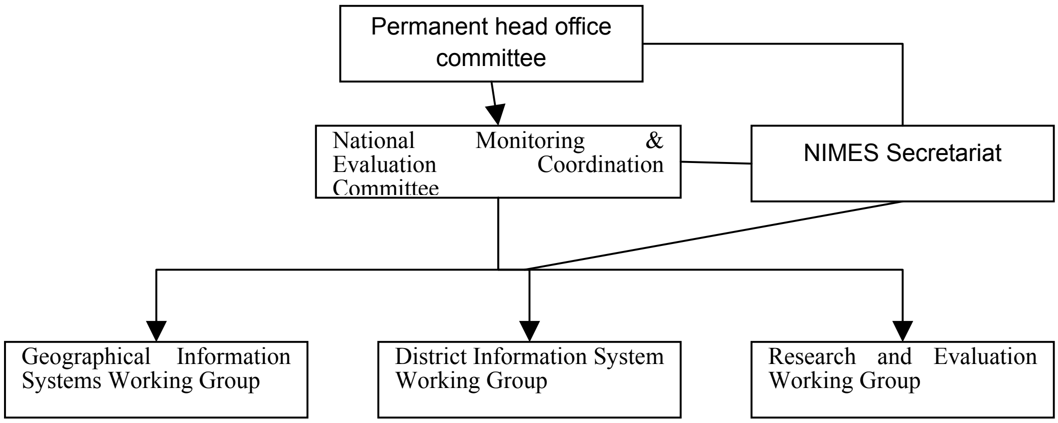
The National Integrated Monitoring & Evaluation Strategy (NIMES) is an adjusted framework developed to improve the quality of the monitoring and evaluation of the

[108] Office of the Prime Minister (2004) National Integrated Monitoring and Evaluation Strategy

government's policies and programs and to resolve the problems described above. NIMES is intended to create a harmonious, integrated, participatory monitoring system by using the current system. NIMES is not a new monitoring and evaluation system, but rather a adjustment mechanism covering all of the existing monitoring and evaluation systems at the national, sector and local government levels.

The NIMES secretariat is the Office of the Prime Minister (OPM), which coordinates sector policies and devises a monitoring and evaluation framework based on the monitoring and evaluation strategy. Under the NIMES, the OPM adjusts policies in line with monitoring and PEAP, while the MFPED analyzes poverty and reflects the monitoring results in policies while coordinating between the ministries.[109]

Figure 2-31. Schematic Diagram of National Integrated Monitoring & Evaluation Strategy (NIMES)



Source: Office of the Prime Minister (2004), "National Integrated Monitoring and Evaluation Strategy"

[109] Yamauchi Planning Survey Team Report

Table2-53 Function and participating organizations in Forums of National Integrated Monitoring & Evaluation Strategy (NIMES)

Forum	Function	Participating organizations
National Monitoring & Evaluation Coordination Committee	・ Ensures consistency of existing data system with needs for data relating to national policies ・ Establishes monitoring and evaluation strategies related to government policies ・ Identifies problems with existing monitoring and evaluation strategies and proposes solutions ・ Supports resolutions to disputes involving a role for monitoring and evaluation strategy ・ Conducts surveys on monitoring and evaluation methods in use ・ Develops consistent monitoring and evaluation standards ・ Identifies needs regarding monitoring and evaluation capacities and addresses these needs ・ Ensures that the data prepared can be accessed ・ Helps prepare regular status reports related to key national indicators	・ OPM ・ UBOS ・ Ministry of Public Services (MoPS) ・ Ministry of Local Government (MoLG) ・ MoFPED (PMAU, EDP&RD) ・ Ministry of Gender, Labor and Social Development (MGSLD) ・ Sector ministries ・ CSOs ・ Donors
NIMES Secretariat	・ Organizes meetings of the various committees and working groups and prepares minutes ・ Ensures a smooth flow information between committees and the working group ・ Serves as the central referring organization for all information related to monitoring and evaluation ・ Provides information on NIMES to all stakeholders ・ Coordinates financing for NIMES activities ・ Manages funds allocated to NIMES ・ Coordinates capacity building for NIMES stakeholders	・ OPM
District Information System Working Group	・ Identifies the minimum data sets for districts ・ Identifies duplications in the various information systems at the district level ・ Ensures the consistency of data needs at the district level and the existing data system ・ Establishes monitoring and evaluation strategies for district policies ・ Supports resolutions to disputes involving a role for monitoring and evaluation strategy for districts ・ Studies methods used in the district's monitoring and evaluation ・ Ascertains capacity needs at the district levels and meets those needs ・ Ensures that the data prepared can be accessed ・ Helps prepare regular status reports on minimum data sets	・ MoLG ・ UBOS ・ OPM ・ MGLSD ・ MoPS ・ Sector ministries ・ Uganda Local Government Conference ・ CSO ・ Donors

Geographical Information Systems Working Group	・ Prepares list of public service facilities ・ Identifies problems in preparing the list ・ Develops consistent standards ・ Discuss various methods in use ・ Identifies overlapping areas ・ Identifies capacity needs ・ Ensures that the data prepared can be accessed	・ OPM ・ UBOS ・ MWLE ・ MoPS ・ MoLG ・ MoFPED ・ MGLSD ・ Sector ministries ・ Private sector ・ Donors
Research and Evaluation Working Group	・ Develops national research and evaluation plans ・ Regulates the manner in which these research plans are carried out ・ Manages the funds allocated to the aforementioned plans ・ Discusses appropriate research issues and analysis ・ Ensures that the knowledge obtained through research can be used ・ Identifies capacity needs in research	・ MoFPED (PMAU) ・ Sector ministries ・ OPM ・ MGLSD ・ Researchers ・ Civil society ・ Donors ・ Uganda Evaluation Conference

Source: Prepared based on NIMES Task Force, OPM (2004) "The National Integrated Monitoring and Evaluation Strategy," pp.10-15 and Office of the Prime Minister (2004) "National Integrated Monitoring and Evaluation Strategy"

The PEAP Result and Policy Matrix specifies the data needed for PEAP monitoring, and the sector ministries and the MFPED come to an agreement on this data. NIMES is expected to accurately and consistently provide this information.

Although NIMES primarily provides information related to PEAP, it also offers information related to frameworks such as the PRSC policy matrix and the Plan for Modernization of Agriculture (PMA).

(3) Achievements of PEAP Implementation and Monitoring

1) PEAP Annual Report and Poverty Monitoring

The Ugandan government's PEAP monitoring is carried out under the aegis of the Poverty Monitoring Strategy and the results are the basic information used when preparing the Annual Progress Report (APR).[110] Monitoring is intended to ensure that information is shared between local residents, NGOs the government and other parties involved, to provide feedback on the implementation process, and to strengthen accountability between those involved. The monitoring is carried out with the participation of a wide range of organizations, including the

[110] Government of Uganda (2003) Uganda Poverty Status Report 2003

MFPED's monitoring unit, the Uganda Bureau of Statistics and the Uganda Participatory Poverty Assessment Project. The monitoring results are compiled in a poverty status report, and are reflected in the APR and resource allocation for the medium-term expenditure framework (MTEF). Further, evaluation standards are verified. The APR is submitted to the legislature every year in June when the budget is drafted as the budget's background document. The poverty status report has been revised every two years since it was first prepared in 1999.[111] The results of the household survey conducted under the poverty monitoring strategy in fiscal 2001/02 were used in revising PEAP, which should be completed at the end of 2004.

Since the second PEAP was established in 2000, ARP have been submitted to the legislature and donor groups in March 2001, April 2002 and April 2003 (refer to Table 2-51). As a result of the IMF/World Bank assessment, Uganda has received PRSC for three consecutive years.

According to the 2003 ARP, under the current PEAP there have been significant improvements in education, health and sanitation and water and Uganda has achieved steady economic growth. However, poverty remains high in certain regions and among certain groups, and there has been little improvement in HIV/AIDS rates. Corruption is improving, but there is still room for improvement in overall governance.[112]

In terms of the macro-economy, the fiscal deficit remains a serious problem, and the dependency of Uganda's fiscal structure on donor funds is a major issue for the medium to long term. Tax revenue, Uganda's main source of government funds, has remained flat at about 14% of GDP over the past few years, and this revenue must be increased if any real improvement is to be made in the country's fiscal structure. However, no immediate increase in tax revenue can be realistically expected, and donor support will be essential for the national finances in the near term. In fiscal 2002/03, Uganda's fiscal deficit (excluding grants) was 11.2% of GDP,[113] and the revised PEAP aims to reduce this to 6.5% by fiscal 2013/2014 through increases in domestic revenue.[114] Other major issues include establishing systems and improving abilities at the sector and local levels to ensure that the PEAP is implemented effectively.[115]

The "PEAP Result and Policy Matrix" was added to the end of the PEAP revised in 2004, specifying the criteria for achievements in three years (by fiscal 2007/08) and the indicators to be achieved in ten years (by fiscal 2013/14) as well as the specific actions required to achieve these indicators. An annual action plan to achieve these indicators was also

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[111] Government of Uganda (2000) Uganda's Poverty Eradication Action Plan
[112] IMF/World Bank (2003), "The Republic of Uganda Poverty Reduction Strategy Paper Annual Progress Report and Joint IDA-IMF Staff Assessment"
[113] From the PEAP 2004; According to the Budget Speech 2004, it was 11.5% in 2003/04.
[114] PEAP 2004
[115] IMF/World Bank (2003) "The Republic of Uganda Poverty Reduction Strategy Paper Annual Progress Report and Joint IDA-IMF Staff Assessment"

established.

2) PRSC Policy Matrix

The loans given through the World Bank's Poverty Reduction Support Credit (PRSC) were monitored using quarterly income and implementation reports as well as annual budget execution performance reports. The results are organized using the Policy Matrix[116] format. This matrix is recognized as the standard format to be used in determining whether the conditionalities of donors providing budget support have been met, and attempts to reduce transaction costs with joint monitoring. The conferences held every month between the Ministry of Health and donors, the annual progress reviews of the health and educations sectors and the biannual progress reviews of the water resource and legal systems also center their discussions on the extent to which the components in this policy matrix have been achieved.[117] Table 2-54 provides an overview of these components. For each component, actions and output targets for each year are given and outcomes for a three-year period are listed in the last column. In addition, IMF study groups monitor the IMF's Poverty Reduction Growth Facility (PRGF) every year.

Table 2-54. Summary of Components in PRSC Policy Matrix

Issues	No. of problems
1. Economic growth and framework for structural adjustment reform	
Objective: Effective and equitable use of public resources	
1.0.1 Budget allocation and actual execution	5
1.0.2 Transfer of money between central government and local governments	1
1.0.3 Emphasis on results and monitoring and evaluations	3
1.0.4 Financial sector	2
2. Good governance and security	
Objective: Implementation of reforms to improve government services	
2.1 Improvements to public service system and services	
2.1.1 Improvements to public services	4
2.1.2 Public procurement	5
2.1.3 Financial management	4
2.2 Improved transparency, encouragement of participation, measures to combat corruption	
2.2.1 Transparency	1

116 The PRSC Policy Matrix consists of four pillars: economic growth and structural adjustment, good governance and security, capacity building to increase the income of the poor, and improvements to the lifestyle of the poor.
117 JICA/ODI (2004) Progress Reviews and Performance Assessment in Poverty-reduction Strategies and Budget Support

2.2.2	Discovery and prosecution of corruption	1
2.2.3	Participation of civil society	2
2.2.4	Reforms to legal system	1
3. Direct support of skills to improve income of poor		
Objective: Arrangement of socio-economic environment to facilitate local development		
3.0.1	Research and technology	1
3.0.2	Agricultural training service	1
3.0.3	Financing for rural areas	2
3.0.4	Processing and marketing of agricultural products	1
3.0.5	Natural resource management: land	2
3.0.6	Natural resource management: environment	3
3.0.7	Local roads	1
4. Direct improvements to living conditions		
Objective: Improvements to basic services		
4.1	**Higher quality of education**	1
4.2	**Higher quality of health services**	1
4.3	**More equitable access to water and sanitation**	
4.3.1	Better access to water and sanitation in rural areas	3
4.3.2	Better access to water and sanitation in rural cities	1
4.3.3	Better access to water and sanitation in cities	2
Total number of problems		48

Source: World Bank, 2003 "Third PRSC Staff Appraisal Report"

As described above, the World Bank's PRSC was conducted three times from 2001 through 2003, and during this process the Policy Matrix formulated for use in monitoring the PRSC became the standard format used by donors providing budget support (refer to Table 2-54).

From now on, the PEAP will be monitored using the PEAP Result and Policy Matrix appended to the end of the PEAP revised in 2004. As described above, the PEAP annual matrix includes the annual action plan. The World Bank's PRSP Mission of February 2005 decided that the PRSC policy matrix would be replaced by the PEAP annual matrix.[118]

In addition, bilateral donors (excluding DfID) prepare a governance matrix and monitor the progress of conditions related to governance in order to strengthen governance. There are no efforts at this point to consolidate this matrix with the PEAP annual matrix.

(4) Future Issues for PEAP Implementation and Monitoring

Future issues for PEAP implementation and monitoring can be summarized as

[118] Feb 2005 PRSC Mission Aide Memoire

follows:

(a) Ownership of PEAP implementation and monitoring: The government and administration's ownership of the Ugandan government's PEAP process should be praised. This ownership should be maintained.

(b) Response to political issues: Donors must gain experience in determining how to cooperate in order to respond tenaciously to deep-rooted problems resistant to easy solutions such as corruption and heavy increases in political expenditures such as military expenditures, as seen in the 2004 PER process.

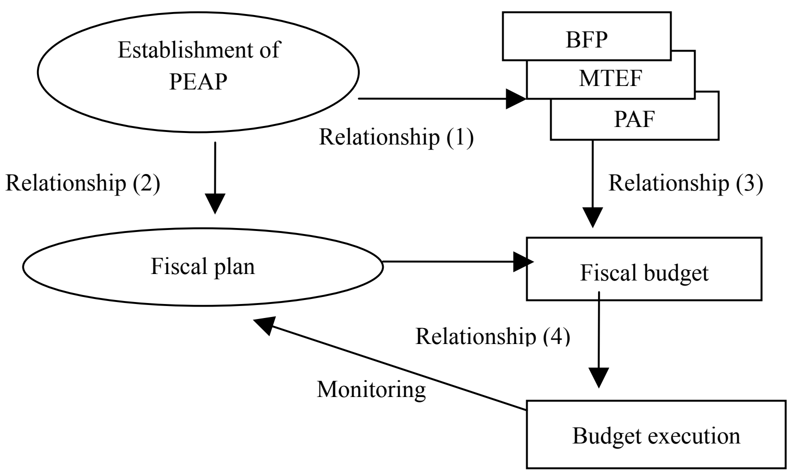
(c) Efforts to reduce transaction costs with the application of wide-ranging aid schemes: The Ugandan government actively advocates that donors participate with budget support in its PEAP. However, it is unlikely that all of its aid will consist of budget support, with other schemes such as project aid also being possible, and we can expect discussions between the Ugandan government and donors leading to adjustment and utilization of overall resources and reductions in transaction costs.

11-2. PEAP Process and Public Financial management

(1) Alignment between PEAP Process and Government Budget Cycle

In general, the alignment between the PRS process and budget cycle is confirmed in terms of (1) the relationship between PRSP and MTEF, (2) the relationship between PRSP and fiscal plans, (3) the relationship between MTEF and fiscal plans and (4) monitoring and plans and budget for the following fiscal year (refer to Figure 2-32).

Figure 2-32. PEAP Process and Government Budget Cycle



Relationship (1): PEAP and Mid-term Expenditure Framework (MTEF) and Relationship

(2): Budget Framework Paper, MTEF and Poverty Action Fund

The Budget Framework Paper (BFP) includes the budget for one year and is used as the three-year medium-term budget. The Mid-term Expenditure Framework (MTEF) is prepared as part of the BPF. The Poverty Action Fund (PAF) is considered to be part of the MTEF; the fund is appropriated with the aim of reducing poverty in priority sectors.

Expenditures through the PAF are increasing, accounting for only 17.3% of the overall budget in fiscal 1997/98 but increasing to 36.6% in fiscal 2002/03. Given the overlap between the PAF and MTEF, there has been talk of abolishing the PAF. However, it provides one method for Uganda's MFPED to ensure that funds are allocated to priority areas, so the PAF is expected to continue for the foreseeable future.

Relationship (2): PEAP and fiscal implementation plan

The PEAP revised in 2004 established three-year and ten-year numerical indicators (PEAP Result and Policy Matrix). The PEAP annual matrix serving as the annual action plan was devised at the same time, and includes annual activity plans to achieve these indicators.

Relationship (3): Monitoring, fiscal plans and fiscal budgets

The links between monitoring on the one hand and fiscal plans and budgets on the other can be roughly divided into two types. The first type is through the sector working group, and the other is through the public expenditure review (PER) meeting.

The sector working group typically conducts a sector review from November through December covering the previous year and a roughly six-month period in the current fiscal year. Activities and the status of budget execution is reviewed for each sector. The sector working group prepares a sector budget framework paper for the next fiscal year based on the results of the review. A wide range of people participate in the sector working group, including the head of the sector ministry or agency, representatives from donors and representatives from the community.

The donor group, centered on the World Bank which provided the PRSC, is responsible for carrying out the public expenditure review (PER). The results are summarized in a report. Typically, the Ugandan government submits its national budget framework proposal to the donor group[119] in April when it presents it to the legislature. At the PER meeting held in May, donors examine the national budget framework proposal in terms of policy dialogues, budget expenditures, the progress made with PEAP, consistency with the MTEF and the results

[119] The donor group primarily consists of donors providing general budget support, but currently it is open to other donors as well. However, there is a possibility that the Ugandan government will restrict the donors participating in the future due to the large number of donors participating in specific meetings and the difficulties in consolidating conferences.

of consultations with sector ministries and donor groups. They submit comments to the government and request revisions as they deem necessary. The legislature gives its final approval to the budget framework paper in June after considering comments from the PER meeting and the Cabinet Office. MFPED discussed changing the timing of the PER meeting from May to March with donors, but it has continued to be held in May in accordance with the results of debates with the World Bank's PRSC Mission in February 2005.

For the group of donors providing the budget support making up more than one-third of the national budget, discussions with the Ugandan government based on the PER and policy matrix are valuable opportunities to examine and negotiate with the government issues related to macro-economic management, the structure of budget allocation and the effect of budget allocation as well as the validity and timeliness of execution. PER monitoring by donors and—in its broadest sense—poverty eradication activity plans (PEAP) monitoring can become political, and both the Ugandan government and donors must respond cautiously in some cases. During the 2004 PER process this year, the donor group meeting in May 2004 refused to endorse the budget, which included major increases in military expenses, carried over from fiscal 2002/03, as well as cuts in the budget for the social sector. In response, the donor group set up a working group through which military expenses will be discussed in the future. Although the donors did not reduce budget support in response to the higher military costs, Ireland switched its budget support from general budget support to PAF.

(2) Role of public financial management in PEAP process

In Uganda, public financial management (PFM) plays a central role in implementing the PEAP as policy and the MTEF established from 1993. If PEAP monitoring is seen as a step toward ensuring revenue from donors and a mechanism for reflecting feedback on the results of budget execution and their evaluation in the budget for the following fiscal year, monitoring becomes a central component of PFM. Further, the process by which local governments' budgets are established and executed in accordance with the establishment of sector plans under PEAP and regional development plans as well as the district MTEF established from 1992 is also a part of the PFM process.[120] The priority areas in PEAP are local roads, spread of agriculture, health, elementary education and water, [121] and PFM—including MTEF—can ensure that budget allocation and execution is optimized for these priority areas.

[120] World Bank, 2003, The Republic of Uganda Public Expenditure Review 2003
[121] Ugandan government, 2000, Poverty Eradication Action Plan Summary and Main Objectives

(3) PFM Mechanism: Institutional Framework

Table 2-55 shows the correlation between the 2003/04 PEAP process and budget formulation. In the PEAP process, the steps for establishing the budget outlined below have been devised to ensure that input from the monitoring process is incorporated. Starting with the workshop for consultation on budget formulation in October 2003, ministries at the central level and districts at the local government level have established budget framework papers (BFPs) for each sector and region.

The budget process can be divided into two phases.[122] The first phase consists of the process from the budget consultation workshop to the preparation of the sector BFP (Phase 1), while the second phase consists of the process through the preparation of the final BFP and MTEF (Phase 2). In Phase 1, the sector working group plays the central role, and in Phase 2 the Ministry of Finance, Planning and Economic Development (MFPED) plays the central role.

In Phase 1, the sector working group reviews the achievements made during the previous period and the current period (about six months) and reflects this in the sector's BFP. The sector working group is made up of a broad range of participants, including the department head from sector ministries and representatives from donors and the community. In December, a draft of the BFP is prepared for each sector and is submitted to the MFPED.

In Phase 2, the MFPED submits the national budget framework proposal in June to the Cabinet Office, and in April the Cabinet submits the budget draft and macro-economic management plan to the legislature. The public expenditure review (PER) is also conducted with donors. In May, the PER meeting is held, and donors submit comments on the budget draft based on the PER. Comments from the PER meeting and the Cabinet are reflected in the BPF.[123]

As with the budget proposal, the PEAP's annual progress report) [124] is submitted to the legislature and approved along with the budget in June. In fiscal 2003/04, the achievements of the approved annual progress report (APR) were analyzed for the previous fiscal year, 2002/03 and the first half of the current fiscal year, 2002/03. Subsequently, the APR was the target of the IMF and World Bank staff's joint staff assessment (JSA), and the approval of the JSA by the IMF and World Bank's board of executive directors in August 2004 was a factor in deciding to continue the next PRGF and PRSC.[125]

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[122] World Bank, 2003, The Republic of Uganda Public Expenditure Review 2003

[123] Since the comments necessitated significant changes in the budget proposal via the PER meeting, this became a heavy burden for the government. As a result, the government proposed to donors that the meeting be changed to March, but after discussions with the World Bank's PRSC Mission held in February 2005 it was determined that the meetings would continue to be held in May.

[124] In addition to the PEAP's annual execution report, a poverty status report is prepared once every two years. This report was most recently prepared in April 2003 and was submitted to the legislature.

[125] World Bank, 2003, The Republic of Uganda Public Expenditure Review 2003

Table 2-55. PEAP Monitoring and PFM (Budget Formulation Process)

Fiscal year/calendar year			Event	
			Monitoring	PFM (budget formulation process)
2003/04 fiscal year	2003	July		
		Aug		
		Sept		
		Oct	• Donors' sector-specific working group consult with relevant ministries through April 2004	• Budget formulation consultation workshop (local governments: budget formulation workshop)
		Nov		• Each ministry establishes sector-specific budget framework
		Dec	• High-level government and donor meetings	• Ministries establish and submit sector-specific budget frameworks
	2004	Jan		• Ministries submit sector-specific budget frameworks; coordination and discussion between ministries (local governments: budget formulation workshop)
		Feb		• Coordination and discussion between ministries on sector-specific budget frameworks
		March		• MFPED submits national budget framework to Cabinet
		April	• Donors begin PER on receiving macro-economic management plan and national budget proposal from Cabinet	• Cabinet submits macro-economic management plan and national budget framework to legislature
		May	• PER workshop reviews macro-economic management plan and national budget framework and donors submit comments to government	• Legislature debates macro-economic management plan and national budget framework
		June	• Release of PEAP progress report (annual) and poverty status report (once every two years)	• Budget is enacted; PEAP progress report (annual) or poverty status report (once every two years) are released as background documents on the budget
Other annual activities			• Once a year: Government and IMF monitor PRGF • Quarterly: Government and World Bank monitor PRSC matrix • Twice a year: Stakeholder progress review of health and education sectors • Once a year: Stakeholder progress review of water sector and legal system	

Source: World Bank, 2003. The Republic of Uganda Public Expenditure Review 2003

The MTEF plays a crucial role in the relationship between Uganda's PFM and PEAP. The MTEF describes the framework for the resources deemed necessary to implement the PEAP, a three-year policy, and serves as a medium-term guarantee that the sectors that are most important in reducing poverty (priority sectors) receive the budget they need. In Uganda, the MFPED began using a MTEF in 1993, and improvements have been since then. The ministries begin preparing the MTEF as part of the BFP from November (refer to Table 2-55). From this point, the ministries hold consultations with donors and civil society, estimate the funds needed for the sector programs and submit the BFP and the MTEF to the MFPED. After the budget finally goes into effect, the MTEF is released as an appendix to the budget speech. The district governments began following this BFP/MTEF process in 1999 when more power devolved to local governments.

(4) Status of PFM reforms and framework for reforms

As a preliminary step in recovering from the domestic chaos reigning from the 1970s through the 1980s, the Ugandan government began reforming its public financial management (PFM) from the early 1990s. With assistance from the IMF and World Bank, the government set up systems for PFM and reinforced the MFPED's capacities.[126] As of this point, the government has established a legal system, trained personnel and adopted the Integrated Financial Management System (IFMS; refer to the next section). These reforms are steadily leading to results, but further efforts are required to ensure that PFM is in accordance with established and revised legislation, that the auditing board is given constitutional independence, that IFMS is spread throughout the government and that corruption is prevented.

1) Legislation and regulations

The current institutional framework is summarized below. Much related legislation has been revised and strengthened recently, and is beginning to reach satisfactory levels as a legal system. However, as will be discussed in the next section, there are many problems remaining to be resolved, such as the constitutional independence of the auditing board.[127]

(a) Budget formulation process and acceptance of loans and grant aid

a) The Constitution

b) The Public Finance and Accountability Act 2003 （PFAA）

c) The Budget Act, 2001

d) Public Finance and Accountability Regulations （PFAR）

(b) Accounting, financial reports, internal audits, external audits

a) The Constitution

b) PFAA

c) PFAR ｓ

d) The Local Government Act

e) The Public Enterprise Reform and Divestiture Act

[126] One example of the way in which the MFPED was reinforced is the high levels at which the ministry's staff were set compared to those in the other ministries.

[127] World Bank, 2004, Country Financial Accountability Assessment

(c) Internal government personnel management

a) The Public Service Act

2) Economic and Financial Information Management Project

PFM reforms are a crucial area in the PEAP, and the Economic and Financial Management Project (EFMP) supported by the World Bank, DFID, Denmark and Norway in three cycles from 1995 has played a big role in PFM reforms. The detailed components related to PFM reforms in the Policy Matrix for the PRSC shown in Table 2-54 are “1. Economic growth and economic structural reform framework” and “2. Good governance and security.” By using this matrix, the progress of reforms can be monitored.

The IFMS is a key tool in PFM, a major component of EFMP, and is beginning to be adopted. Uganda adopted IFMS later than initially planned, but the implementation is going smoothly.[128]

A feasibility study on the introduction of IFMS was completed in March 2002 as part of the aforementioned project. In September 2002, the government finished buying an approximately US$17 million system, and pilot for the income model began operating in June 2003 in approximately 10 pilot sites, including the Kampala city government and the central data center. In June 2004, it was introduced to an additional 22 sites for planned operation.[129] Despite the delays, the implementation went smoothly because it was completed in small segments for each component organization and it was gradually introduced while adjusting the system as the pilot was system operated.

The local governments running the pilot programs were given conditional grants to run the IFMS. Also, MFPED employees were sent to local governments to provide technical training. The local governments that introduced IFMS as a pilot program had the following opinions on the IFMS implementation:

a) The IFMS interface is user-friendly and easy to use.
b) Adoption of IFMS reduced transaction costs.

However, currently MFPED staff operate the system itself as well as providing the technical training, and it is not clear whether they can appropriately carry out the technology transfer to the local government staff. In February 2005 the regional governments’ financial supervisors gathered together for a meeting to discuss advantages and problems associated with IFMS. Many issues related to its sustainability were raised, such as the high recurring costs and

[128] World Bank, 2003, The Republic of Uganda Supplemental Credit to the Second Economic and Financial Management Project (Staff appraisal report)
[129] Ibid.

some overlap in regional governments' work.

(5) Issues with PFM reform

Issues related to PFM reform were examined and analyzed comprehensively through Uganda's national fiduciary risk assessment in 2004. The list below outlines issues directly related to PEAP monitoring.

(a) Uganda's finances remain in the red, and the government continues to compensate for its deficit with grant aid and loans from donors and issuance of government bonds. Tax revenue accounts for about 14% of GDP, which is low compared to the average 24% of GDP in other Sub-Saharan African countries. This indicates that Uganda must work to increase its tax revenue.

(b) The continuation of budget support is crucial in alleviating fiduciary risk and improving the accountability of the beneficiary country's government. However, it takes considerable time to reduce fiduciary risk, and efforts toward this end are essential.

(c) Predictable and regular fund input is essential to the formulation of reliable budgets, and donors must work to make the amount of funds the provide more reliable and regular.

(d) In terms of the cash flow at the time of budget execution, the time at which donors provide their funds and the time at which the funds are used is not consistent. In particular, it has been reported that delays in fund allocations for agricultural dissemination and research have impaired the effectiveness of activities.

(e) Corruption is rampant throughout the entire PFM process, from collection of tax revenue, formulation of the budget and management of its execution to procurement, auditing and reporting. The private foundation Transparency International has ranked Uganda close to the lowest level in its corruption ranking for the past six years. There is an urgent need for measures that would strengthen corruption countermeasures.[130]

(f) Capacities related to tax collection and overall PFM abilities at the local government level are woefully inadequate, and the abilities of local public employees must be improved. This problem is also related to the implementation of decentralization policies currently being carried out.

(6) Format of donor fund contributions

Donors' aid takes the form of (a) budget support and (2) project support. These aid

[130] Bilateral donors are particularly worried about this. In its memorandum from the PRSC Mission held in February 2005, the World Bank stated its concern about corruption. In particular, although the National Anti-Corruption Strategy (NACS) was being implemented, the limited fiscal and human resources of the related organizations prevented the strategy from being adequately implemented.

costs are provided in the form of loans or grant aid. With project support, the donor deposits funds directly into the project account, bypassing government accounts, or provides in-kind aid with resources for the projects. Budget support can be further divided into the following three categories (the actual amounts for fiscal 2002/03 are shown).

(a) Budget support
   Total of US$424 million, accounting for 39% of the national budget, of which US$244 million consisted of grant aid and US$180 million of loans
(b) General budget support: Aid supplied in the form of loans or grant aid was provided to the Treasury (approximately US$198 million)
(c) Poverty Action Fund: Contributions to a fund set up within the budget that is protected from fluctuations in budget cuts and used only for specific activities (approximately US$94 million)
(d) Sector budget support: Contributions to a fund whose use is limited to specific sectors even within the PAF (approximately US$132 million)
(e) Project support
   Total of US$315 million, accounting for 21% of the national budget, of which US$184 million was in the form of grant aid and US$131 million was loans

With the budget support mechanism, PEAP monitoring enables donors to use information provided by the Ugandan government to confirm the results achieved by the fund contributions thus far and also commit to budget support for the next fiscal year once they have determined that Uganda's budget for the next fiscal year is appropriate.

Recent trends in budget support for Uganda shows that in the 1990s 26% of the aid funds were provided in the form of budget support and the remainder was project support. In fiscal 1998/99, approximately US$120 million was allocated to budget support. Further, the amount executed in fiscal 2002/03 shows that, of US$739 million in total aid (approximately 61% of the national budget), US$424 million (39% of the national budget, of which US$244 million consisted of grant aid and US$180 million consisted of loans) was allocated for budget support[131], and the remaining US$315 million (22% of the national budget, of which US$184 million consisted of grant aid and US$131 million consisted of loans) was allocated to project support. Since Uganda's PEAP was endorsed in 1997, the absolute amount of budget support and its weight in overall aid has increased considerably, and the number of donors participating

[131] Approximately 47% of general budget support consists of general budget support, 22% of PAF and the remaining 31% of budget support earmarked for a sector-wide approach.

in budget support is also increasing.[132] As of 2004, the total number of donors providing budget support was 13, including Japan. Of these, DFID in particular is very active in providing budget support, and stated that it would allocate 75% of its aid to budget support by fiscal 2005/06.[133] The World Bank changed its PRSC from a loan to a grant in fiscal 2003/04, and plans to contribute US$1,500 million in grants in fiscal 2005/06.

In response, the Ugandan government announced that it was setting an annual limit of US$200 million for its external debt from fiscal 2005/06[134]. As described above, the government is working to decrease the fiscal deficit, and compensates for shortages by increasing domestic debt.

From fiscal 2003/04, donors' contributions to projects and budget support for sectors began to be included in the ceiling stipulated in the MTEF, based on the Partnership Principle. However, there are problems with the accuracy of donors' information on the funds contributed.[135] An accurate understanding of donor fund contributions, including project support and budget support, is a major issue. The following can be stated about the Partnership Principle:

(a) it is an aid modality aiming for general budget support;
(b) it provides aid to PEAP's priority areas; and
(c) it aims to harmonize views among donors.
(d) Guidelines are currently being established.[136]

11-3. PEAP Process and Sector Program

(1) Relationship between PEAP Process and Sector Program

Uganda's administrative structure is organized by sector, so PEAP is essentially implemented by sector as well. It has been reported that the sector approach is used particularly extensively in the education and judicial sectors.[137] Sector-specific common funds are established for specific areas, and sector ministries and donor groups set up by sector cooperate in running the common fund, setting the budget framework and determining the budget through the usual budget process. As with the monitoring of budget execution, it is run using the PEAP monitoring framework. In fiscal 2002/03, donors gave approximately US$133 million in

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[132] World Bank (2004), The Republic of Uganda Country Financial Accountability Assessment
[133] JICA/ODI (2004) Progress revisions and performance assessment in poverty-reduction strategies and budget support-A survey of current thinking and practice
[134] From the February 22, 2005 edition of the local *Monitor* newspaper.
[135] World Bank 2003, The Republic of Uganda Public Expenditure Review 2003. The reason for the inadequacy of information supplied by donors is that ministries (and donors) want to prevent budget allocations from decreasing as a result of more accurate information on the amount of funds given for projects.
[136] Yamauchi planning group report
[137] World Bank (2003), The Republic of Uganda Public Expenditure Review

sector-specific budget support.

(2) Current status of decentralization and issues

Uganda's decentralization of power to local governments began in 1993 with the National Resistance Movement administration. Since decentralization went forward in 13 provinces in accordance with the Local Government Statute 1993, local governments' authority and roles were clarified by the Local Government Act 1997, triggered by the proclamation of the 1995 constitution.

PEAP stipulates that decentralization must form the core of government structural reforms. Decentralization policies transfer political, administrative and fiscal authority to district-level governments in order to ensure that the provision of public services is more effective in reducing poverty, and are intended to improve the accountability of administrative services to local residents.[138] The Ugandan government has made decentralization a key part of PEAP in its recognition of its importance in reducing poverty.

The section below discusses the current status of and issues facing decentralization.

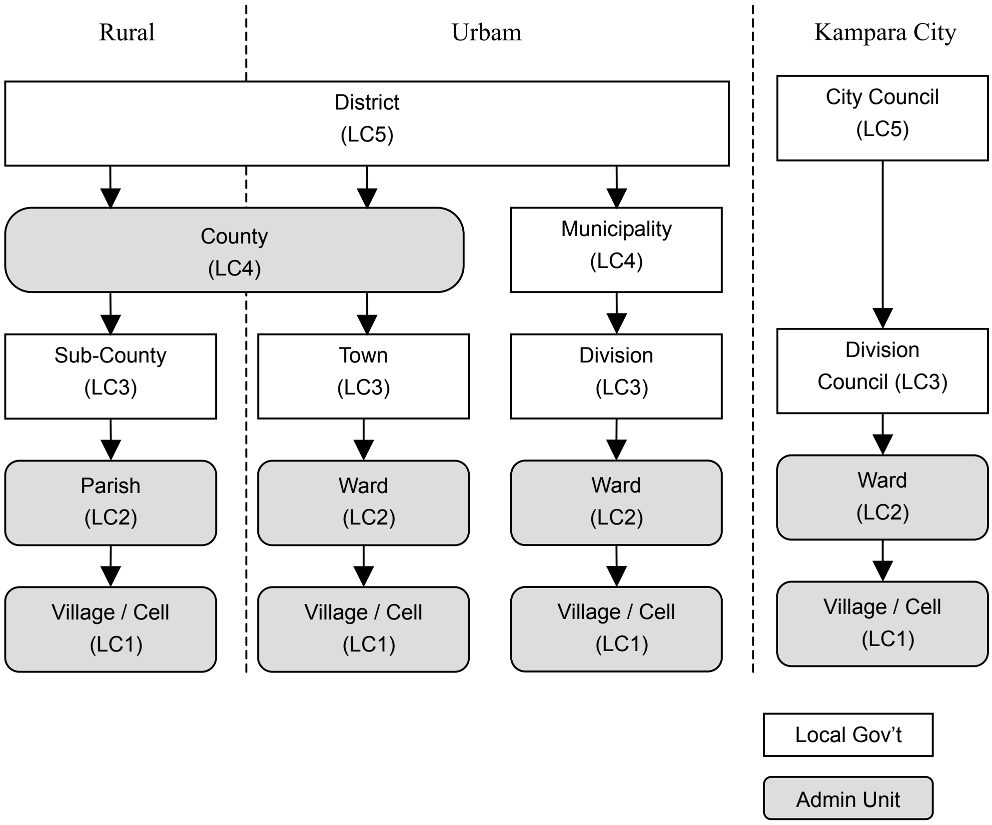
1) Overview of local governments

Local administrative divisions are divided into five levels from LC1 to LC5, of which the District Council (LC5) and Sub-County Council (LC3) are legal entities. LC5 is called "Higher Local Government" and LC3 is called "Lower Local Government."

In contrast, although city government is similarly divided into five administrative levels, the organizations that qualify as legal entities are different than in local government. There are cases in which LC5 is the Higher Local Government (as in local government) and the Lower Local Government is the village (LC3), but in other cases the Higher Local Government is the Municipal Council. The Municipal Council is LC4, has an independent budget and does not fall under the jurisdiction of LC5. The Municipal Council's Lower Local Government is called "Division" (LC3).

138 Ugandan government (2003), Uganda Poverty Status Report

Figure 2-33 Overview of local governments



2) Interworkings of local government and central government

a) Ministries involved in local government autonomy

The Ministry of Local Government (MoLG) has jurisdiction over local governments. The MoLG is in charge of coordinating local governments and supporting them in administrative matters. The MoLG prepared 26 training modules to provide local governments with administrative support. Some of these modules are related to financial management and human resources.

In addition, Local Government Financial Commission also arranges and coordinates local government's fiscal matters. It is this committee's responsibility to set the ceiling on local government's conditional grants (to be discussed later) and unconditional grants.

b) Interworkings between sector ministries and local governments

The sector ministries are responsible for establishing and managing overall policies, and provide technical support to local governments. There are almost no temporary job transfers from the central government to local governments, and local governments are not affected by the central government (including sector ministries) in personnel matters as the District Service

Commission has authority over personnel.

3) Budget process in local government

a) Preparation of development plans and budget framework papers by local government

Local governments prepare a District Development Plan (DDP), which is a three-year medium-term plan, as well as a Local Government Budget Framework Paper (LGBFP).

The DDP is a three-year action plan prepared on the basis of the Indicative Budget Figure (a budget ceiling). It is a rolling plan that is revised every year, and the activities are prepared in accordance with the needs that the Lower Local Government (LC3) took from LC1 and 2. The local government budget framework papers (BFPs) are medium-term budget plans prepared after reviewing the performance of each sector, and are used as a tool in integrating budgets and plans DDPs and BFPs should be more closing linked,[139] and BFPs ensure that budgets are provided to implement the DPP in the medium term.

The advisory workshop held in October is the main link between the central government and local governments in terms of budget formulation and the preparation of development plans. After the MFPED and sector ministries hold meetings targeting local governments in October of every year, the MoLG staff and sector ministries hold workshops in all districts. At these workshops, the local governments are informed of the indicative budget figure for each sector, and they hold consultations on sector administrative policies at the district level.

b) Grants

Money from the central government to LC5 takes the following forms: (i) conditional grants, (ii) unconditional grants, (iii) equalization grants and (iv) projects.

Conditional grants are grants that are given to local governments with specific conditions attached and are so-called "block grants." Unconditional grants are grants whose purpose is not specified, and equalization grants are grants given for the purpose of redressing the income gaps between local governments experiencing particularly severe fund shortages. It has been indicated that grants make up the majority of local governments' income.

As described above, the DDP establishes the activity plans based on the Indicative Planning Figure determined by the central ministries, and the local government BFP records the grants in the budget. Mathematical formulas are set to allocate funds to the sectors so that ceilings for conditional grants are stipulated. Each sector's weight in each parameter can be changed as needed by policies, so it is not clear. As described above, the Local Government

[139] Conditional Grant FY2004/05 General Conditions

Financial Commission sets the ceilings.

Table 2-56 Parameters for allocation of conditional grants

Sectors	Parameters
Education	Number of students attending school Number of teachers employed Number of students attending school compared to number of schools
Agricultural	Population Land area
Roads	District road distance that can be maintained[140]
Waterworks	Population Water source and technology that can use it
Health	Operation expenses for health unit Health unit's service area dimension Special health needs Availability of water-power generation Distance from Kampala city

Source: Local Government Financial Commission

Ceilings on unconditional grants are set in two ways. The first method is called the "non-wage component," in which 85% is allocated according to population and 15% is allocated according to land area.[141] The second method is called "wage component," in which unconditional grants are allocated according to the amount of salary paid as stipulated by statutory salary levels.

c) Local Government Development Programme (LGDP)

The Local Government Development Programme (LGDP) was initiated by the World Bank in 2000 with the goal of providing local governments with financial and technical support. Currently, Phase II (LGDP-II, 2003-2007) is being implemented.

One component of LGDP-II is investments in basic service delivery and the provision of funds for capacity building using grants given to local governments. These funds are given to local governments as conditional grants, and local governments can make independent decisions on the allocation of these grants for the Priority Programme Areas.[142] Although the funds

[140] Roads that can be maintained refers to roads that can be traveled at a speed of over 30km/hour.
[141] Conditional grants in the aforementioned agricultural sector are allocated using the same methods.
[142] Priority Programme Areas are the five fields of primary education, basic medicine, rural roads, water and sanitation and agricultural expansion.

injected by the LGDP are minimal, the goal is to enable local governments to make their own plans through "learning by doing." The funds contributed by the LGDP are divided between LC5 and LC3, with 35% going to LC5 and 65% to LC3 just as with the allocation of tax revenue.

Although when LGDP was initially started the LGDP funds were not allocated to all local governments due to discrepancies in their capacities, they began to be allocated to all local governments in fiscal 2004/05. However, if certain conditions are not met, the grant amount is decreased by 20% compared to the previous year, whereas if all conditions are met it is increased 20%.

d) Fiscal Decentralization Strategy

The Fiscal Decentralization Strategy aims to (1) gradually give authority over re-allocating grants to local governments in order to improve the fiscal independence of local governments and (2) improve the efficiency of the execution of future local grants by consolidating the many different types of conditional grants into ordinary funds and development funds.

Under the Fiscal Decentralization Strategy, the local governments themselves can change some of the allocations of conditional grants to the Priority Programme Areas. The local governments can independently allocate a maximum of 10% of grants for each sector as stipulated by the MFPED.[143] Currently, the amount that can be changed has been set at 10% on an experimental basis, but this percentage will be increased in the future as the capacity of local governments improves. The Local Government Financial Commission is responsible for promoting the Fiscal Decentralization Strategy and preparing manuals.

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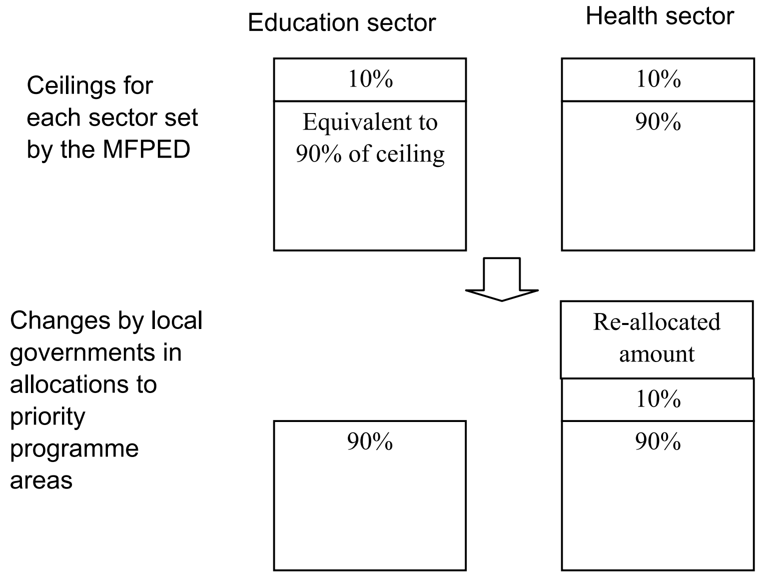
[143] However, the use of conditional grants representing the financial resource for PAF can only be switched to Priority Programme Areas.

Figure 2-34 Examples of changes in budget allocation through Fiscal Decentralization Strategy



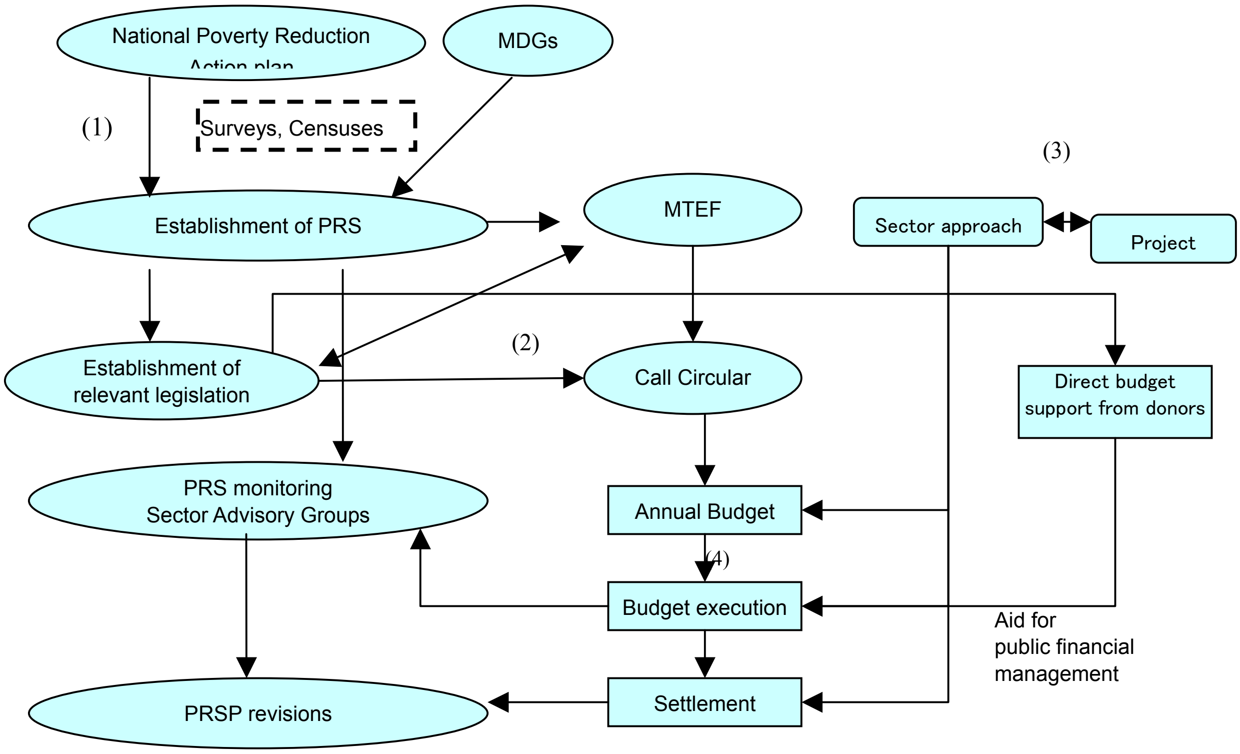
Source: Local Government Budget Committee, General Guide to the Local Government Budget Process for District & LLG Councilors, NGOs, CBOs & Civil Society

However, there are also local governments that do not re-allocate their budgets based on the Fiscal Decentralization Strategy due to inadequate planning capacities.

12. Zambia

12-1. PRS process: Current status and issues

The birds-eye view below is helpful in understanding the PRS process and PFM in Zambia. Chapter 2-5 describes the process involved in introducing PRS (1), the process involved in PRS monitoring and budget formulation (2), and donor aid (3).



(1) Political and economic conditions before PRSP introduction, formulation process, approval

In November 1997, the Ministry of Community Development and Social Services carried out the National Poverty Reduction Action Plan (NAPRAP), and in 1998 the Cabinet approved the National Poverty Reduction Strategic Framework.

Subsequently, in 1999 the World Bank and IMF approved the HIPC Initiative, and while the PRSP was being formulated the Zambian government considered the possibility of transitioning from the NAPRPA to the PRSP. Nevertheless, the PRSP was newly established due to observations that the NAPRAP had not been established with sufficient participation from the community. In June 2000, a stakeholders meeting was held and in July of that year, the government requested the participation of civil society in formulating the PRSP. The Civil Society for Poverty Reduction (CSPR), an NGO, took on the role of coordinating the community's views.

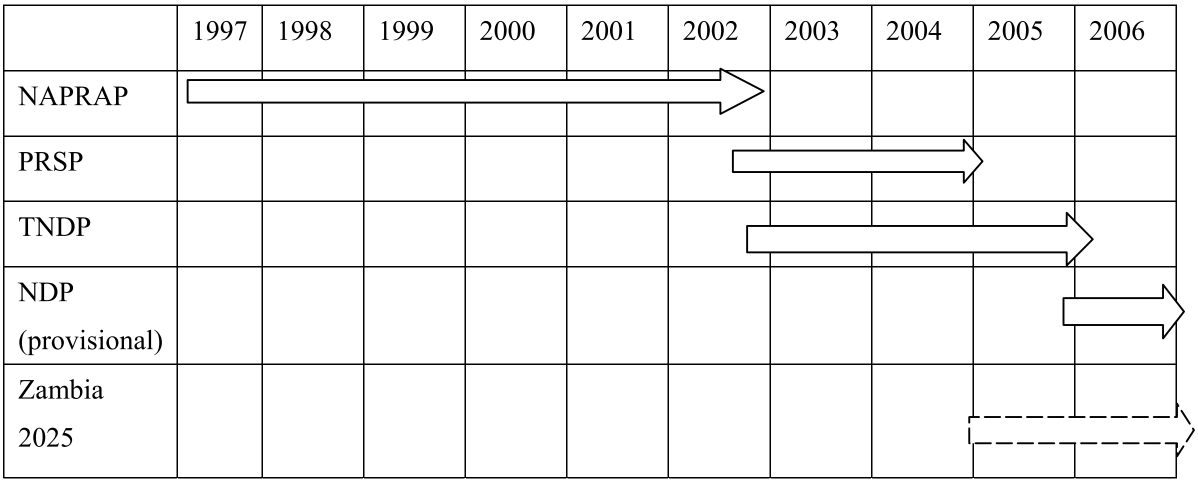
In December 2000, the I-PRSP was approved by the World Bank and IMF and the HIPC Decision Point was reached. In September 2001 the PRSP draft was completed, and the draft was discussed at the National Forum for Civil Society Organizations. In October a National Summit was held for further discussion. After coordination between the various parties involved, in May 2002 the World Bank and IMF's joint staff assessment (JSA) was held and the PRSP (F-PRSP) was formally endorsed in July 2002.

As part of the process of establishing an organizational system to establish and implement the PRSP, in January 2002 a Strategic and Operational Planning Unit was set up in the Ministry of Finance and National Planning's Planning and Economic Management Department with the goal of planning, implementing and monitoring the PRSP. Subsequently, the Poverty Monitoring and Analysis Unit was established to reinforce the monitoring function. However, the role of this unit is not clear and observers have pointed out that it is not functional.

The PRSP was prepared for use with the HIPC, but the Transitional National Development Plan (TNDP) was also established in December 2002. The TNDP is a four-year plan (2002-2005), and includes areas such as housing, urban development, foreign relations and defense not covered in the PRSP. The fiscal 2003 National Development Plan included 1,511.5 billion Kwacha in PRSP-related expenditures and 269.4 billion Kwacha in spending not related to PRSP. Also, the Zambian government is currently devising a long-term strategy dubbed "Zambia Vision 2025" with aid from the UNDP.

Consideration must be given to whether the project is implemented based on the PRSP framework or other countries' frameworks, given that Zambia had other poverty reduction plans before the PRSP and that Zambia has introduced other economic development plans in tandem with the PRSP. However, in 2006 the PRSP and TNDP will be consolidated and transformed into the National Development Plan (NDP). Figure 2-35 shows the time spans for the various development plans.

Figure 2-35 PRSP and other development plans



(2) Institutional framework, organization and process for implementing and monitoring PRS

1) PRS implementing organizations

As described above, the Ministry of Community Development and Social Services established NAPRAP, but the Ministry of Finance and Economic Planning took charge of establishing the PRSP. As the implementing organization, MOFEP coordinated between ministries after it was established, and plays a key role as the coordinator with donors.

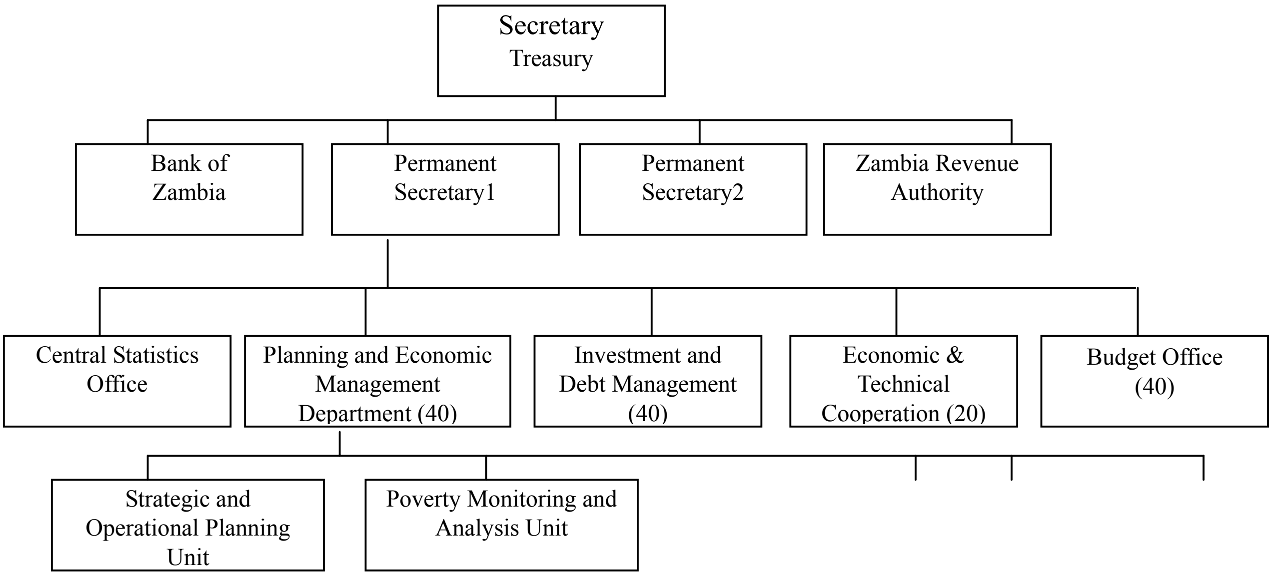
MOFEP's Economic & Technical Cooperation Agency is in charge for coordination with donors (refer to Figure 2-35). As aid cooperation takes off with more general budget support being provided, incorporating donor aid into the national budget system is an important issue. Cooperation between the Economic & Technical Cooperation Agency, the contact point for donors, and the Planning and Economic Management Department, in charge of planning and the budget, will be even more important.

2) Monitoring agencies

In 2003, Sector Advisory Groups (SAGs) were set up with the aim of planning, implementing and monitoring the PRS and TNDAP. SAGs not only monitor, but also identify sector issues, analyze, address cross-cutting issues, make policy recommendations and approve budgets.

SAGs for each sector as well as administrative organizations in regions and districts monitor the progress of poverty-related projects for each sector and region based on PRSP indicators, and report the results every quarter to the SAG Conference. A SAG meeting for presentation of final reports is held every year in November, at which point the results of activities for that year and plans for the next fiscal year are determined and submitted in December to the Cabinet. The MOFEP is in charge of coordinating. Each sector's SAG is made up of representatives from the sector's relevant ministry, the Ministry of Finance, private-sector companies and civil society. Donors participate in an advisory capacity (Japan participates in SAGs for the macro-economy, education, governance, water and infrastructure/roads). As such, Zambia plays the primary role in the SAGs.

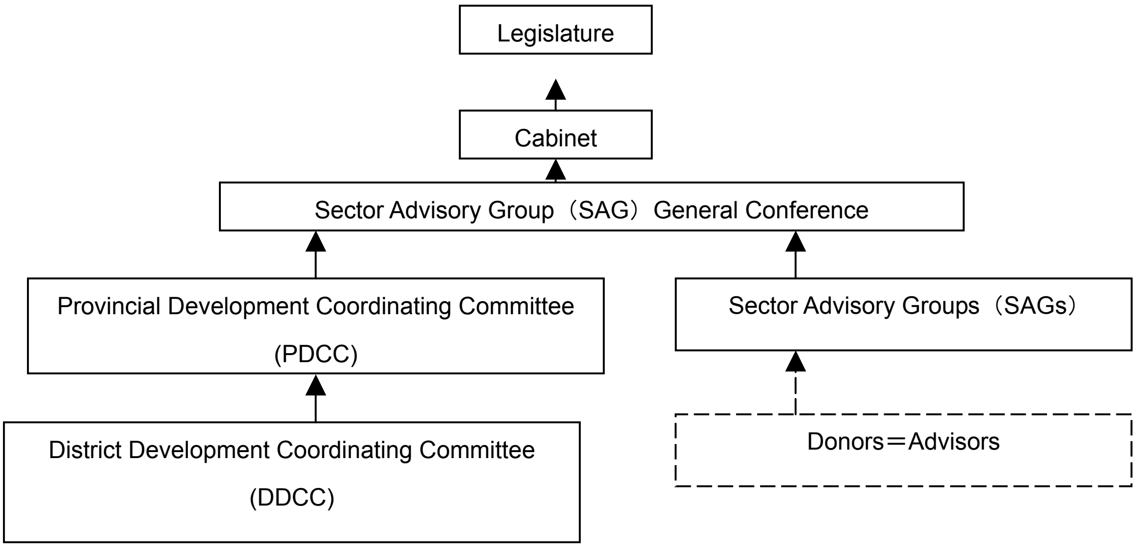
Figure 2-36 Organizational diagram of Ministry of Finance and Economic Planning



＊The figures within parentheses represent the approximate number of staff.
＊The chart was prepared based on the results of interviews with Mr. Tsurusaki, an adviser to the Ministry of Finance. Please note that it could change as it is not an official organizational chart and organizational reforms are underway.

The plan stipulates that the district and province monitoring results are to be presented at SAG general conferences by each sector's SAG, but in reality the monitoring results from outlying areas and monitoring results from the sectors are each reported separately at the general conference (refer to Figure 2-37).

Figure 2-37 Monitoring framework



Source: Prepared by study group with reference to materials collected locally.

Monitoring by the SAGs, started in 2004, has improved, with general conferences held every quarter and reports prepared, but there are many issues remaining. The main issues pointed out by observers are as follows:

(a) Monitoring indicators and report format are not used adequately;

(b) The capacity of the Ministry of Finance and National Planning's Planning and Economic Management Department, which is in charge of operating and supervising the SAGs, is inadequate;

(c) Accurate data needed for monitoring cannot be obtained and the analysis is simplistic;

(d) SAG members are not aware of issues and have insufficient monitoring abilities; and

(e) Information management systems do not function in outlying regions.

The relevant ministries and donors have been cooperating and adopting a sector approach in the health and education sectors. Accordingly, not all sectors are carrying out activities through the aforementioned system.

NGOs also carry out monitoring independently. The Catholic Commission for Justice, Peace and Development monitors budget execution in outlying regions. However, its financial resources are limited and its activities have not expanded throughout Zambia, so they are not at a level at which they could rival monitoring by SAGs.

3) Donor developments

The government and donors hold a “Harmonization in Practice (HIP) Initiative” with the aim of promoting aid cooperation. In March 2003, the Zambian government and seven like-minded donors (the Netherlands, Ireland, Denmark, Sweden, Finland, Norway, DFID) signed a Memorandum of Understanding (MOU). They selected seven issues and decided to set up five working committees to address these issues. However, in reality only the working committee dealing with aid cooperation policies was launched.

Subsequently, a new MOU was signed at an upper-level HIP Initiative conference held on April 1, 2004 with the goal of further harmonization. The signatory countries and organizations were Zambia, the Netherlands, Denmark, Norway, Finland, Sweden, Ireland, DFID, UNDP, World Bank and Germany, while Japan, the EC, IMF and Canada stated that they were considering signing if possible (USAID announced that it was not able to sign the MOU but would participate in the harmonization framework). Japan later signed in July 2004. The HIP bureau set up an Economic Cooperation Agency in the Ministry of Finance and National Planning. The MOU lays out 25 goals that should be achieved in four areas (programming, funding mechanisms, human resources and “housekeeping”) to achieve better aid cooperation.

The donors in SAGs are limited to an advisory role, but they are also involved in various activities to improve monitoring. Around October 2002, DFID held a PRSP Monitoring Informal Donor Conference, assuming the HIP Initiative’s component to support the creation of a PRSP monitoring system. The component’s members are GTZ, JICA, the World Bank, UNDP, UNICEF and USAID, while DFID, the Netherlands, Norway, Denmark and the EC have announced their intention of participating. GTZ and JICA serve as the chairperson, and are in charge of communication with the Ministry of Finance and National Planning.

Given the aforementioned organization frameworks, it would appear that donor activities related to PRS monitoring take place within the HIP Initiative framework rather than within SAGs, but in reality donors act with flexibility by carrying out activities to improve the monitoring system. For example, donors submit proposals on improving SAGs to the Zambian government, and also plan aid for capacity-building activities for PRS monitoring carried out by the Ministry of Finance and National Planning. On the other hand, donors discuss these same issues at various meetings, and some have pointed out that the organizations need to be consolidated.

4) Methods of obtaining data to formulate indicators

Data for indicators at the input-output levels comes from administrative information held by ministries, and qualitative surveys such as the Central Statistics Agency’s statistical surveys and participatory assessments are used at the outcome and impact level. In this way, the

Central Statistics Agency should play a key role in PRS monitoring, but many observers have stated that its role in PRS monitoring should be clarified.

Indicators were revised in May 2004. Not only were targets set for each sector, but indicators for input, output, outcome and impact in all sectors were outlined (refer to Figure 2-38).

Figure 2-38 Examples of indicators

Objective/Fields of Intervention	Intermediate Indicators		Final Indicators	
	INPUT Financial and physical resources provided	OUTPUT Goods and services generated	OUTCOME Access, use of services and satisfaction	IMPACT Direct benefits on key dimensions of well-being
Education				
To provide relevant, equitable, efficient, and quality education for all			- Literacy rate – population aged 15 and above - Ratio of literate females to males of 15-24 years olds - Percent population with grade 7 and higher grade of education	
Basic education				
High school	- Budget amount - Released amount - Actual expenditure - Expenditure in percent of budgeted amount	- Pupil/trained teacher ratio - Pupil/Class ration - No. of scholarships given to vulnerable groups	- Gross enrolment rates(%) - Net enrolment rates - % of girl enrolment in high schools	- % population with grade 7 and higher grade of education - % of women among population with grade 7 and higher grade of education
Functional Literacy				
- - - - - - - -				

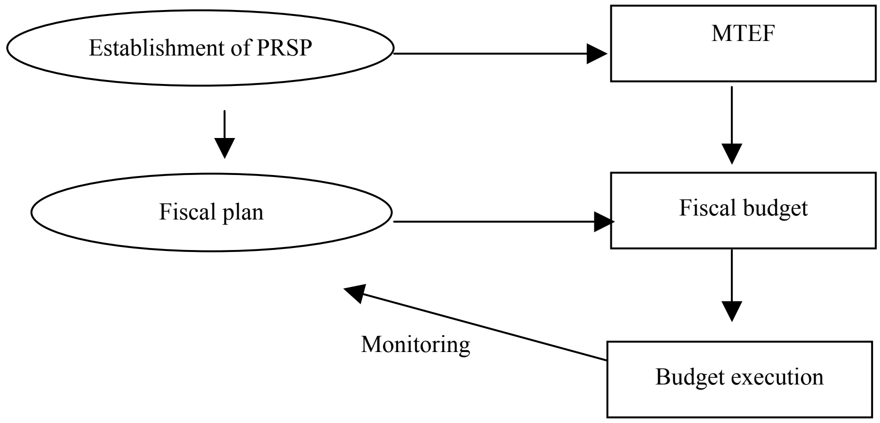
(Monitoring and Reporting Progress in the PRSP by Means of the Refined Indicator System, Ministry of Finance and National Planning, May 2004)

(3) Achievements in PRS implementation and monitoring

1) Achievements of monitoring system

Planning, budgeting, implementation and monitoring must all be linked together organically if the PRS monitoring system is to function properly. The PRSP is backed financially by the MTEF, and a fiscal plan based on the three-year PRSP is established and budgeted for within the MTEF. Annual monitoring results are then reflected in the plan and budget for the next fiscal year. Figure 2-39 shows the PRS monitoring as it should work.

Figure 2-39 General PRS Monitoring System



(1) PRSP and MTEF

While the PRSP was established in 2002, the MTEF was not prepared until 2003 (introduced with the fiscal 2004 budget). Observers have pointed out that the MTEF is not very accurate because it does not include funds from donors. There have also been positive assessments, however, such as that the MTEF was prepared at Zambia's initiative, with the efforts primarily stemming from the Ministry of Finance and National Planning.

Aid predictability is one of the major issues in donor cooperation, but the Ministry of Finance and National Planning's Economic Cooperation Agency has asked donors to submit an aid plan (including spending plans) each quarter (according to the expert Mr. Tsurusaki, Japan has begun cooperating in this matter). There are plans to create a database for this system with technical cooperation from the UNDP.

Some have stated that the linkage between the PRSP and MTEF is low (although there is a plan, it is not budgeted for), and in 2003 the UNDP carried out a survey to strengthen links between PRSP and MTEF (the results are to be announced in 2004). The survey was motivated by the goal to study the links between poverty-related policies and the budget (including precedents in other countries), the possibility of an Activity Based Budget (ABB) and past trends in public spending.

(2) PRSP and fiscal plans

To ensure the realization of the medium-term PRSP, a plan spelling out the extent to which measures should be achieved each year needs to be established. Although the PRSP specifies indicators that should be achieved over a three-year period, there are no milestones for each fiscal year. The issue of whether an annual plan based on the PRSP should be established could differ depending on the sector, but this is not certain.

(3) Fiscal plans and fiscal budgets

Some observers have indicated that the poverty-related budget has been used for other purposes. There are also problems with execution after budgeting, such as a low execution rate.

(4) PRS monitoring and plans and budget for next fiscal year

PRS monitoring results should be reflected in the plans and budget for the following fiscal year. There are two ways of assessing the links between monitoring results and the budget for the next fiscal year: confirm the content of the Annual Progress Review (APR) or confirm the consistency between the annual monitoring schedule and the schedule for establishing the budget.

If the APR is limited to a discussion and analysis of past achievements such as the extent to which indicators were achieved, there is little room for the monitoring results to be used in the budget for the following fiscal year. Conversely, if the APR included proposals for improvements in the next fiscal year as well as a discussion and analysis of past achievements, the monitoring results can be used to establish the budget for the next fiscal year.

According to a survey by the Strategic Partner for Africa[144], Zambia's APR include proposals for new activities and revisions to indicators as well as discussion of past achievements. However, there is no mention of goal-setting for the next fiscal year or priorities for the next fiscal year's budget. The content of APR must be improved for monitoring results to be used in the budget formulation cycle.

Table 2-57 shows the annual monitoring schedule and budget formulation schedule in Zambia. When the SAGs present the annual reports and plans for the next fiscal year in November, the final proposal for next fiscal year's budget is prepared. This schedule does not seem conducive to reflecting SAG monitoring results in the budget for the following fiscal year.

Zambia's fiscal year begins in January, but the budget proposal is not actually presented to the parliament until January, and the budget is executed from April (a supplementary budget is used for the January-March period).

[144] "Survey of the Alignment of Budget Support and Balance of Payments Support with National PRS Processes, SPA Budget Support Working Group, December 2003

Table 2-57 Annual monitoring schedule and budget formulation schedule

	PRS monitoring	Budget formulation schedule	Donor developments
January	SAGs (1)		
February			
March			
April	SAGs (2)		
May			Joint Staff Assessment by World Bank and IMF
June		Call Circular*	
July	SAGs (3)	Start of debate on tax system for next fiscal year Opinion collection	
August			
September			
October	SAGs (4)	Ministries submit budget proposals to Ministry of Finance and National Planning	
November	Annual reports, plan for next fiscal year	Ministries submit final budget proposals to Ministry of Finance and National Planning	
December		Cabinet decision	
January	SAGs	Start of discussion in Parliament	
February			
March		Approval of budget	

＊The Call Circular lays out the policies for the budget for the following fiscal year, and includes the ceiling.

Although a monitoring mechanism is being established, donors have asserted that monitoring results are not yet being analyzed. Up until this point, plans for the following year have not been changed due to monitoring results.

2) Achievement of indicators

According to the APR released in 2003, there was progress in the macro-economic area, but there was little obvious progress in the economic sector. In the social sector, the mortality rate improved—particularly the infant mortality rate—but the maternal and child mortality rates rose. There was no progress with malaria, and the same was true of measles vaccinations. The attendance rate improved in the education sector, but there was no improvement in the discrepancy between attendance rates for boys and girls in primary education.

The PRSP was formulated to facilitate achievement of the Millennium Development Goals, but as of 2003 there are three areas in which these goals are unlikely to be achieved (there is a good outlook for seven areas). It is deemed unlikely that goals will be reduced in reducing the absolute number of those living in poverty, reducing the population experiencing starvation and reducing the maternal mortality rate.

(4) Future issues for PRS implementation and monitoring

The participatory nature of its establishment and monitoring are strong points for Zambia's PRS, but there are several issues remaining, as outlined below.

1) Organizational issues

(a) Ministry of Finance and National Planning

There is no coordination between the Economic Cooperation Agency, the donor's contact, and the Planning and Economic Management Department, which establishes plans and carries out monitoring. For that reason, donor aid and PRSP implementation plans are not coordinated. Both organizations are under the jurisdiction of the same administrative vice-minister (refer to Figure 2-36), so the organizational format itself would not prohibit such coordination, but there are problems with information sharing between these organizations and the Budget Agency. Implementation of the Public Expenditure Management and Financial Accountability (PEMFA) and the Integrated Financial Management Information System (IFMIS) currently being planned is expected to resolve these issues.

Currently, the Economic Cooperation Agency is in charge of SAGs, the monitoring organization, but donors have pointed out that the Agency's capacity is limited. Many observers point to the inadequate capacity of the Ministry of Finance and National Planning, but it is not clear whether it is caused by insufficient staff or inadequate abilities. However, the high turnover rate also affects capacity.

(b) SAGs

As described above, SAGs release monitoring reports every quarter, but there is no format and there are gaps in the level of the content. The ministries change budget execution without consulting with the supervising SAG members and members are often replaced. This can be attributed to SAGs do not have any legislative backing.

Donors presented SAG issues to the Ministry of Finance and National Planning. Their main points are as follows:

a) The definition of SAG activities and donors' roles are not clear;
b) The level of participation and commitment by the permanent vice-minister and other technical staff differs by sector;

c) SAG chairpersons should serve as the permanent vice-ministers; and

d) SAGs should not only debate poverty reduction funds, but also overall poverty reduction strategies.

2) Links between PRS, MTEF, budget formulation, budget execution and monitoring

In addition to the issues described in "Achievements in PRS implementation and monitoring," the following issues have also been noted.

(a) There is no correlation between the importance of a problem and the budget allocated to address this problem. For example, in the agriculture sector, the PRSP discusses the need for higher productivity among small-scale farmers, but the programs needed to make these improvements are not budgeted for.

(b) Even if programs are budgeted for, the PRS-related budget is used for other purposes. Particularly during the period from January through March, a supplementary budget is executed, but ministries use this supplementary without restraint.

(c) Budget execution management is weak. The introduction of the MTEF in 2004 is expected to result in execution of the budget according to plan.

Issues for the public financial management field are:

(a) Transparency of budget execution and auction procedures;

(b) Although the PRSP and MTEF are linked, their plans deviate at the execution stage;

(c) There is no legal foundation for the MTEF; and

(d) The auditing system is weak.

As described above, it is generally recognized that capacity building for the Ministry of Finance and National Planning is needed to realize the PRS, but at the same time capacity building for the other ministries—and particularly abilities in drafting policy and in executing budget—must be strengthened, as other ministries, and not the Ministry of Finance and National Planning, carry out policy contributing to poverty reduction.

<Reference>

SWAT analysis of Zambia's PRSP by Oxford Policy Management (November 2003)

<Strengths>	**<Weaknesses>**
• Participatory • Multi-faceted nature of poverty is recognized • Comprehensive approach is adopted to reduce poverty	• Links between sectors • The extent to which policy adoption leads to poverty reduction is not clear • Cross-cutting issues do not prevail • It does not include objectives set internationally, such as MDGs • Monitoring framework is not complete
<Opportunities> • Donors, civil society and the government broadly recognize the PRSP • Participation by civil society, particularly in monitoring and evaluation • Approved by IFIs	**<Threats>** • Inadequate capacity in terms of implementation • System for delivering public services, which has been centralized, weakens the grassroots impact • Ministry of Finance and National Planning's insufficient ability to coordinate between ministries • Sector plans and budget are not linked with PRSP • There is no unified view on what constitutes "pro-poor" expenditures • ABB is not widely used • MTEF is not adopted

(5) Aid from Japan and main donors

This section will focus primarily on the way in which JICA's aid falls within the PRSP framework and how projects are initiated.

1) Japan's aid

Japan's response to PRS and aid cooperation is shown in Table 2-58.

Table 2-58 PRS and Japan's response

SAGs general conference	JICA general manager, planning surveyors (in charge of PRSP)
SAG by sector	Participation of JICA staff in SAG for macro-economy, education, governance, water and infrastructure/roads
HIP Initiative general conference	Ambassador, JICA general manager
HIP Initiative Working Committee	Planning surveyors (in charge of PRSP) participate in monitoring working committee

One issue is the meeting participants' right to self-expression. The participants in donor meetings must speak as representatives of their respective countries. Discussions would never get anywhere if representatives waited until they had consulted with their head offices before speaking. Transferring authority to the JICA offices abroad is one of the prerequisites for debate at these meetings. According to interviews with surveyors in Zambia, they feel free to express themselves in Zambia and do not feel particularly restrained.

In August 2004, the embassy and JICA office released an ODA strategy paper. This paper outlined an action plan (a rolling plan) from 2004 through 2006 covering the priority areas for Japan. It also described the extent to which Japan's ODA contributed to achieving the Millennium Development Goals.

The surveyors were dispatched beginning in 2002, and participate in various donor meetings on governance (decentralization, PRS, PFM) as well as identify overall PRSP trends. Training on monitoring based on PRS monitoring indicators was carried out at the provincial government level beginning in 2004 (covering all provinces).

<Training projects for functional improvements in regional governments to create PRSP monitoring system>

In March 2003, local consultants carried out a "Western Province Regional Administrative Management Survey" to identify potential projects. As a result, several projects were proposed at the workshop, and as a follow-up in September a workshop was held with the aim of reviewing JICA measures supporting stronger regional administrative and management abilities. Subsequently, in the fiscal 2004 survey on requests, the Ministry of Local Government requested projects. The Ministry participated in the aforementioned workshop, and used the workshop presentations as a reference in preparing the project request. When the workshop was held, it was essential not only to choose participants suitable for the workshop topics being discussed, but also to invite and confirm participation. Participants could be appointed precisely because of regular participation in donor meetings and an increase in connections.

Based on the requests submitted, in March 2004 a baseline survey (needs analysis) was conducted in nine provinces and the results announced to the Zambian government and donors. Mr. Chaponda, a JICA adviser in the decentralization field, was responsible for laying the groundwork with the Zambian government. Training during the first year covered capacity building to build a PRSP monitoring system, an area that JICA, along with GTZ, is in charge of in the HIP initiative. In this way, the project is linked to trends in PRSP and aid cooperation.

In another example of Japanese aid, as described above the Ministry of Finance and National Planning interviews donors on a quarterly basis on their aid plans to improve aid predictability, and Japanese experts gave advice on preparing a format when this effort was first started.

2) Aid in other countries

The status of aid from other countries in the PRS monitoring field is as follows:

(a) GTZ holds workshops on promoting the use of monitoring indicators for government employees.

(b) UNDP is carrying out a capacity building project to improve administrative skills. They also conduct surveys to improve the links between the PRSP and MTEF, provide PRS monitoring training to government employees and give aid to build up a database to improve aid predictability.

(c) DFID provides aid to establish a PRSP monitoring framework and strengthen links between the PRSP and budget compilation.

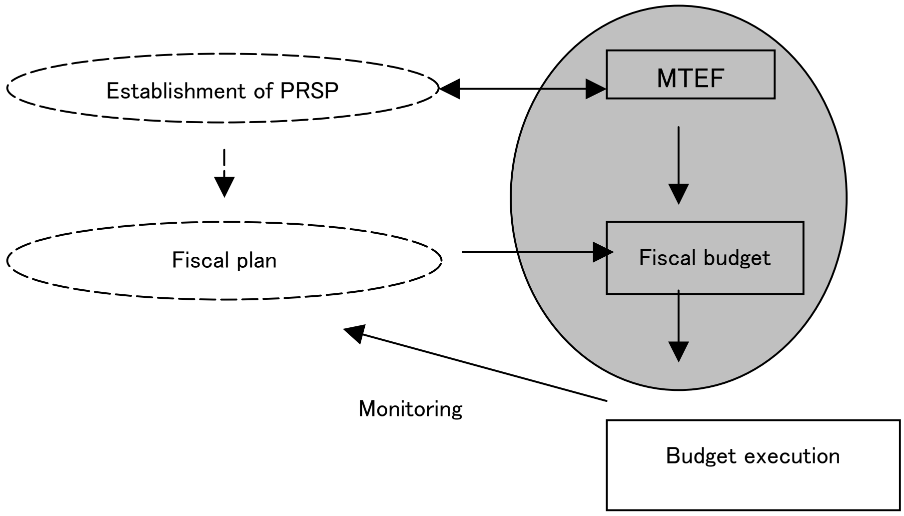
3) General budget support

As of November 2004, only the EC had provided general budget support. The EC began carrying out "Poverty Reduction Budget Support/2004-2006" in February 2004 (110 million euros over a three-year period). The minimum commitment, or fixed tranche, is equivalent to 10% of this amount, while the variable tranche paid when each performance condition is cleared, is equivalent to 90% of the total. Typically the ratio is 50: 50, but the 90: 10 ratio was motivated by the risks involved, as indicated by the fact that Zambia is off-track with the IMF's Poverty Reduction Growth Facility (PRGF). There are six tranches, and each has indicators representing conditions. Also, EC staff have been stationed with the Ministry of Finance and National Planning to track the flow of money. The World Bank has not given PRSC.

Subsequently, in December 2004 the World Bank started to provide PRSC when the IMF's PRGF was on track again, and in 2005 DFID, the Netherlands, Norway and Sweden began to provide general budget support.

12-2. PRS process and public financial management PRS

This section describes the sequence of public financial management ((4) in the birds-eye view).



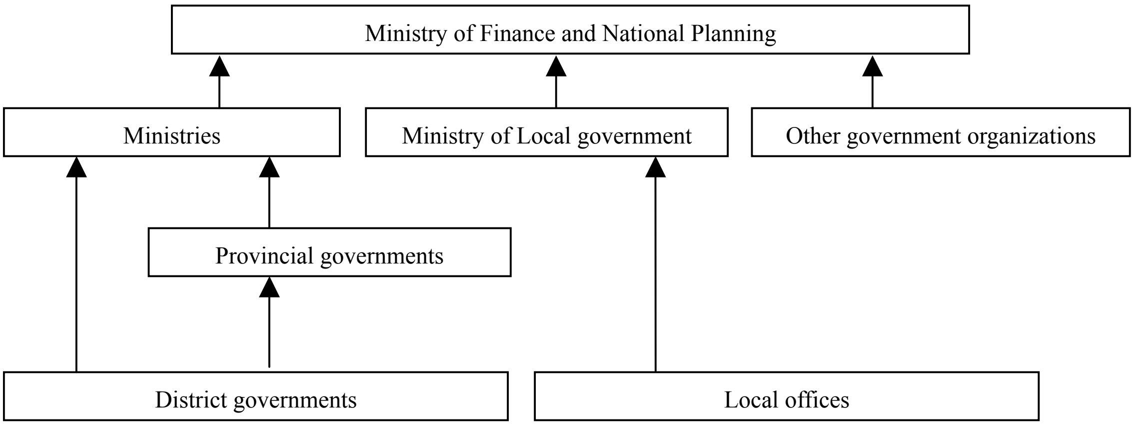
(1) Role of public financial management in PRS process

This refers to "2-5-1.(3) Achievements in PRS implementation and monitoring." The PRSP process cannot function if public financial management is dysfunctional.

(2) Public financial management mechanism: Institutional framework and process

The Ministry of Finance and National Planning issues the "Call Circular," which outlines the policies for establishing the next fiscal year budget, the ceiling and procedures, to ministries and local governments each year in June. Local governments' budget establishment can follow two sequences. In the first scenario, provincial governments compile budget proposals for the district governments under their jurisdiction and submit them to the Ministry of Finance and National Planning. In the second scenario, provincial governments put in budget proposals via the ministries (refer to Figure2-40).

Figure2-40 Flow of budget establishment



(Prepared by survey group)

Provincial governments are no more than local offices of the central government and have no autonomy.

(3) Status of PFM reforms, reform framework, donors' fund input mechanisms

In recent years, the Zambian government has received aid from donors to fund its efforts to promote financial reforms that would improve public expenditure management and accountability. However, there is still much room for improvement in the public financial system, from budget compilation to execution, fund-raising and auditing. Accordingly, in November 2003 the Zambian government conducted a review of comprehensive public expenditure management and fiscal accountability with aid from donors such as the World Bank. This review consisted of the public expenditure management financial accountability review (PEMFAR), a country financial accountability assessment (CFAA)[145] and a country procurement assessment review (CPAR)[146]. This review showed the need for comprehensive and integrated PFM reforms rather than a single project, and the government reviewed the possibility of implementing a program to improve public expenditure management and financial accountability (PEMFA). In June 2004 the Cabinet improved this program, and in July an appraisal report was prepared with cooperation from donors.

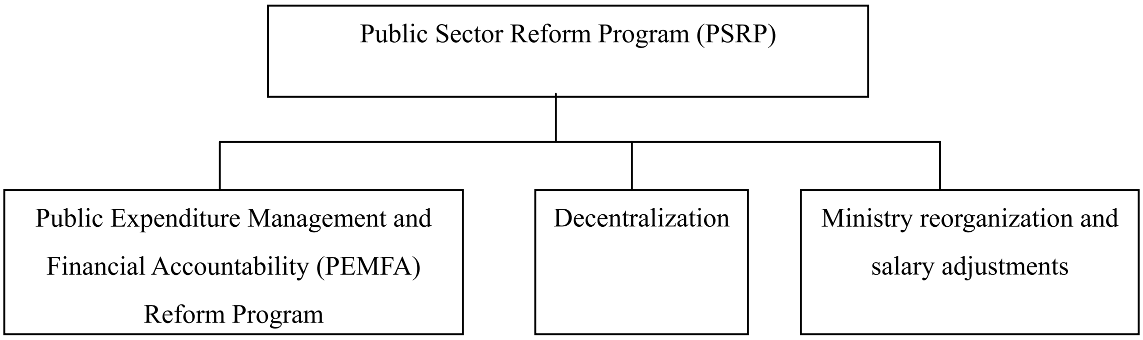
The PEMFA reform program includes a MTEF and IFMIS. This program is considered to be a component of the Public Sector Reform Program (PSRP)[147] (Figure 2-41).

The PEFMA reform program is prepared based on the PEMFA reform program, but

145 A diagnostic tool used to assess a country's private and public financial management systems. Fiduciary risk is also assessed.
146 A diagnostic tool used to assess the reliability of a country's procurement system.
147 The PSRP started in November 1993, and in 2004 a program running from 2004 through 2008 was approved.

while the reform program is a five-year plan, the reform action plan covers three years. A basket fund is created to provide financial resources for the PEMFA reform program.

Figure 2-41 PSRP and PEMFA



(Prepared by study group)

A PEFMA administration committee and a secretariat are set up to provide organizational support. The administration committee and secretariat fall under the jurisdiction of the Ministry of Finance and National Planning's administrative vice minister. The administration committee is responsible for program implementation and adjustment and also serves as the contact for consultation with donors. There are plans for the government and donors to sign a memorandum of understanding (MOU).

The PEFMA reform program is divided into the 12 components listed below. A task manager is assigned to each component.

(a) Accounting and Integrated Financial Management Information System (IFMIS),
(b) Reform in fiscal policy and economic planning,
(c) Improvements in establishing budgets,
(d) Improvements in budget execution,
(e) Improvements in debt management,
(f) Improvements to internal auditing,
(g) Coordination of external financing such as donor aid,
(h) Legislative preparation for public expenditure management,
(i) Stronger external auditing,
(j) Stronger supervision by legislature,
(k) Training in accounting, and
(l) Improvements in public procurement.

Activity Based Budgeting (ABB)[148] was introduced in stages from 2000. However, it was only used within ministries to establish budgets and was not incorporated into the overall accounting system.

The use of information systems is essential in implementing the PEMFA reform program. The Ministry of Finance and National Planning has been preparing for the introducing of IFMIS with donor support. A steering committee and project team were established and a project manager has been selected. However, it was not carried out according to plan. As of June 2004, development was in the final stages and vendors had been selected, but advisors and quality guarantee managers had not been appointed. IFMIS had still not been put into practice in November.

When an information system is introduced, accounting procedures must be revised and when necessary the legal and regulatory framework must be changed. The information system will not be effective if it is adopted while the existing methods are still in place. Further, personnel must be found and employees' technical skills must be improved through training.

(4) Issues in public financial management reform

The issues at the budget establishment stage are as follows:

(a) There are not revenue estimates. Since the expenditure limits are not identified, they are set too low when the budget is established.

(b) It has become a habit for supplementary budgets to be used to cover shortfalls. Occasionally the supplemental budget even exceeds the initial budget. Further, the source of the supplementary budget is not clear.

(c) Budget items do not follow global standards (such as the IMF's government finance statistics) and do not reflect actual expenditures.

The issues related to budget execution are as follows:

(a) Funds are not allocated according to the budget,

(b) Execution diverges from the schedule for establishing the budget,

(c) Activities are carried out without fund allocations, and

(d) As a result, by the end of the fiscal year expenditures far exceed the budget.

(5) Status of aid from Japan and major donors

PEMFAR is run with funds from the World Bank, DFID, EC GTZ and Denmark. Instead of the public expenditure review (PER), country financial accountability assessment (CFAA) and country procurement assessment review (CPAR), the World Bank introduced

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[148] A budget management method based on activities.

PEMFAR jointly with other donors.

As described above, the Zambian government and donors will sign an MOU concerning the implementation of the PEMFA reform program. Donors expected to sign are Denmark, Finland, Ireland, Norway, Netherlands, Sweden, the EC, DFID, GTZ, World Bank, UNDP and IMF.

12-3. PRS process and sector program

(1) Relationship between PRS process and sector programs

The education and health sectors are directly related to poverty. Both sectors started using a sector approach before the PRSP was introduced, and some observers have pointed out that the sector approach used by the sector advisory groups (SAGs) and the existing approach are not consistent (refer to "12-3.(2) Implementation status of sector programs, areas, institutional framework, aid modalities and other issues").

(2) Implementation status of sector programs, areas, institutional framework, aid modalities and other issues

1) Health sector

The sector-wide approach (SWAPs) was adopted by the health sector in the 1990s. The main activities are outlined below.

(a) Operation of a District Basket Fund, earmarked for the District Health Management Board at the district level, began in 1994.

(b) In 1999, an MOU was signed and government and major donors promoted SWAPs.

(c) In 2002, a Hospital Basket Fund was introduced at a level above the district level (state level) and was subsequently enlarged to the Expanded Basket Fund.

(d) Some donors have shifted to general budget support for sectors (Netherlands, DFID, Sweden, EC, Ireland). However, there are few donors and NGOs that provide aid on their own in the health sector, and basket portion is not substantial.

(e) In 2006, benchmarks necessary for comprehensive basket funds and general budget support covering the entire health sector were set ("GRZ/Donor Coordination and Harmonization Memorandum of Understanding" dated 1 April 2004).

Donor meetings are structured in the following layer:

Annual Consultative Meeting (held once a year)

↓

Health Sector Committee Meeting (held twice a year)

↓

MoH/CP Policy Consultative Meeting (held once a month)

↓

Monitoring and Evaluation Sub-Committee (held once a week)

In March 2004, donors came up with a framework for efficient aid cooperation and decided to set up general donor groups, core donor groups and related donor groups for each major issue. JICA is the general donor for "infrastructure," "AIDS" and "tuberculosis." It is particularly worth noting that USAID is participating in the sector approach. Although the reason behind their participation is not known, some take the realistic view that their participation essentially served as the fee for the opportunity to identify trends in Zambia's health sector.

These developments in aid cooperation make information transmission and sharing very important for donors and the Zambian government. When new projects are planned, donors must explain to other donors the ways in which it is consistent with the Ministry of Health's five-year plan. When JICA attempted to launch a project aiding the creating of a database (with the Ministry of Health as counterpart), it was essential that JICA explain the project to other donors. When the project budget was announced, some donors criticized the project for not distinguishing itself from other projects and for the excessively high costs, temporarily halting the project. However, the JICA manager asserts that this was a necessary step, and that it was better to release the project budget, get back on budget and clarify the medium to long-term commitment. By releasing the budget itself, JICA is then able to ask other donors to disclose information and request that the Zambian side make a commitment to the project (bearing local costs).

Some feared that if discussions were spearheaded by like-minded groups, other donors would be excluded, but no donors are excluded because of non-participation in the sector-wide approach (SWAP) in Zambia's health sector. Nevertheless, donor meetings tend to focus on discussion of basket funds.

Besides this donor trend, Zambia's Ministry of Health is striving to respond to exacting demands from basket donors. For example, the Ministry prepares accounting reports for each district on a quarterly basis.

Since SWAP started before the PRSP, the monitoring system via SAGs has not bee introduced as it has in other sectors. There is little discussion of PRSP and SAGs even at meetings.

2) Education sector

SWAP started in the education sector in February 2003, and eight donors signed a MOU. Germany and Sweden did not participate. Although USAID signed the MOU, it decided to contribute to the pool fund in September 2004.

Since SWAP started before SAGs were introduced, there have been requests for SAG activities in addition to SWAP activities, resulting in overlap. There is a debate over whether SAG activities are really necessary if monitoring is taking place with SWAP. In reality, the education sector did not hold SAGs until August 2004. SAG is a framework that is standard across sectors that the Ministry of Finance and National Planning in particular endeavored to introduce, but it is unfamiliar in the education sector.

The Joint Steering Committee, Sector Plan Co-ordinating Committee, Financial Technical Committee and Sector Plan Support Group all use SWAP. Of these, countries that have not signed the MOU can participate in the Financial Technical Committee and Sector Plan Support Group (currently, Japan is a member of the Sector Plan Support Group), but only signatory countries can participate in the Sector Plan Co-ordinating Committee, which is an organization that establishes policy.

(3) Issues related to coordinating with PRS process

As described above, in sectors such as the health and education sectors that started SWAP separately from the introduction of PRSP and SAGs there is an overlap between their own activities and activities required by SAGs. It is worth considering whether it would be possible to coordinate with SAGs while respecting the original SWAP activities.

12-4. PRS process and decentralization

(1) Relationship between PRS process and decentralization

Decentralization did not start as part of PRS, but rather it went forward after Zambia achieved independence from its colonial rulers. Government functions were shifted to outlying regions, with the central government establishing local offices at the provincial level and transferring authority to local governments. In August 2004, a national decentralization policy went into effect. The Cabinet Office is in charge of decentralization, and a Decentralization Promotion Department was set up.

(2) Status of decentralization reform implementation

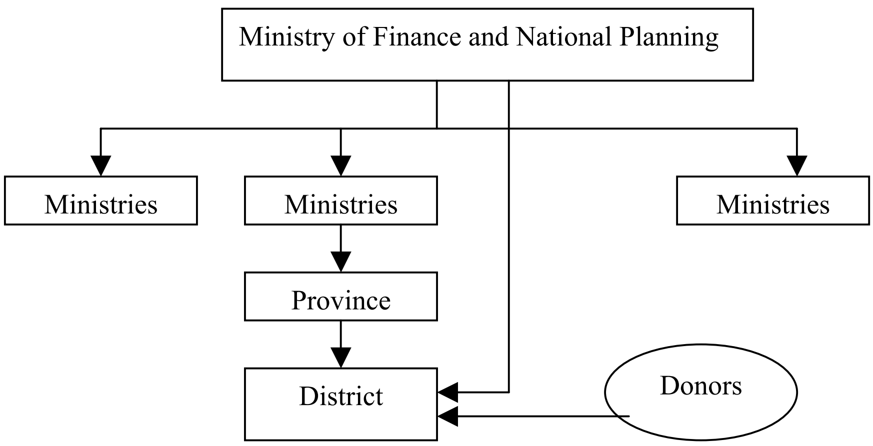
Currently, although provincial governments are merely local offices of the central government, the district government has a legislature and drafts policy. District governments have their own revenue sources, but it is not sufficient to cover capital expenditures. The transfer of financial resources from the central governments differs by sector. The health, education and agricultural sectors account for a large proportion of the transfers to the local governments. If decentralization is carried out in the future, district governments will draft policy and prepare MTEF, as well as taking responsibility for procurement and service provision. The national decentralization policy aims to carry out decentralization in ten years.

(3) Issues related to PRS process

One of the issues facing the Ministry of Finance and National Planning is that they are not able to ascertain donor aid. As shown in Figure 2-42, the flow of money to districts follows three routes: money that flows directly from the Ministry of Finance and National Planning, money from the ministries and provinces and money directly from donors. It is difficult for the Ministry of Finance and National Planning to ascertain the flow of all aid, and particularly aid coming directly from donors. This is one factor that impedes efforts to raise the accuracy of budget compilation.

If decentralization moves forward, district governments' authority strengthens and district governments become counterparts, the entry point when planning aid in Zambia could shift to these district governments.

Figure 2-42 Route of money from central government



(Prepared by study group)

(4) Status of aid from Japan and major donors

Japan provides training to improve the capacity of local public officials; other donors also provide aid for this purpose.

GTZ: Project to improve administrative abilities of local governments in southern provinces.

UNDP: Employs consultants as aid for the Cabinet Office's secretariat to promote decentralization.

Ireland: Provides aid to improve administrative abilities of district government in some provinces.

World Bank: Carried out survey to aid decentralization; provides support to improve functions of provincial and district governments and carry out poverty programs.

13. Decentralization policies and PFM: Case study of agricultural sector

13-1. Direction of Investigation and Analysis

This chapter describes tasks for policies in decentralization of power and public financial management in Ethiopia, Mozambique and Tanzania with an example in the development partners' assistance in the agricultural sector. The forms of Japanese assistance and the possible sectors to assist is based on the framework of assistance cooperation, which has been developed with progress in the PRS process, and are considered in terms of assistance in the agricultural sector in these three countries.

The PRSPs of the above three countries state that the enforcement in administrative services by both central and local governments and accountability for local citizens is both necessary in achieving poverty reduction. These three countries have promoted policies for decentralization in power and enhanced self-government and administrative authority in local governments to achieve poverty reduction through district development stimulated and assisted by these provisions of administrative services. However while the role of local government is expected to get larger, administrative and financial capacity of local governments have not been able to catch up with decentralization. Policy for decentralization of power needs to be carried out with capacity development in local governments, which is relatively weak compared to the central government.

Based on the above situations, we focus on the public financial management function which is the most important function within organizational management. We consider the function as representative of the capacity of current local governments to grasp the situation and find out tasks to assist in the sector wide agricultural approach. In the beginning, outlines of local governments and decentralization of power with a focus on public financial management will be described. Then agricultural sector wide approach will be explained, and tasks will follow afterward.

13-2. Environment Surrounding Public Service in Agriculture

Most of the population in these three countries is engaged in agriculture. Particularly the agricultural population in Ethiopia is extremely poor. In terms of human recourses the literacy rate in Tanzania is relatively high, but its rate in Ethiopia and Mozambique is low which in general means their educational level is considered to be low. Short average life spans and high HIV/AIDS infection ratio must be concerns for future labor forces. In Ethiopia and Mozambique agricultural self-subsistence cannot withstand damages by climate change and needs from emergency food assistance every year.

In these countries, agriculture mainly produced in rural areas account for the majority of the GDP. Secondly, development in the agricultural sector is considered to contribute towards poverty reduction in rural areas as most of the poor families in rural areas are engaged in agriculture. Based on the above situation, the PRSP in these three countries emphasize the importance of strengthening agricultural public services for poverty reduction. Each country has different tasks, priorities and policies to attack problems in the agricultural sector. However, all countries acknowledge that the following are all effective elements in poverty reduction; national policies regarding agricultural market and research, complementary support amongst direct and regional policies such as reduction in farmers' restrictions in their capacity building, as well as budget allocation and implementation which puts these policies into practice and finally capacity development in local government.

These three countries have promoted decentralization of power since the mid-1990s with different political and policy backgrounds as the next chapter will describe. While the PRS process has developed under the cooperation between the government and development partners, more development funding has been allocated to local governments which had not been able to secure enough funds before such policy for decentralization of power. The agricultural sector which is a focus of PRSP is not exceptional. In addition to project/program assistance, general financial support and common basket financial support are adopted these days in order to promote provisions in public agricultural services. In addition to a framework for closer assistance cooperation based on these new assistance modalities, another framework has been formed so that development partners are able to assist sector policies which beneficiary countries can take initiative in. ODA accounts for the majority of their national budgets in these three countries. Financial support takes up half of the ODA, and part of the budget is appropriated for local governments for development.

As described above, the development partner funding is clearly appropriated as part of development funding in local governments (appropriated in the ordinary budget for general financial support), capacity development for local governments has been considered as a priority task in order to effectively carry out these budgets. The importance of effective provisions in public services by local governments is acknowledged for poverty reduction. However, as the literacy rate data shows, it is indicated that there are many constraints to provide quality service as local governments do not have enough capacity to work out and implement plans or administrative capacity for public financial management.

Amongst the tasks which local governments have, the high risks regarding public financial management of local governments has been a concern as the financial support modality was adopted. It is necessary to assess and reduce risk in order to increase the effectiveness of input resources such as the governmental budget, technical assistance by development partners and financial support. Generally speaking the risks in local governments is believed to be much higher than that of the central government. While the financial rules of local governments are seriously considered to be not strict enough, local governments also have accountability to the central government and the national assembly in addition to local citizens and parliament on the local finances depending on subsidies from the central government. Because of these reasons, it is vital to improve the capacity of local governments in order to effectively promote decentralization of power, provide proper public services based on local needs, and contribute toward poverty reduction.

13-3. Characteristics of Decentralization Policy in Ethiopia, Mozambique and Tanzania

The characteristics of decentralization policies which are now in practice in Ethiopia, Mozambique and Tanzania are summarized in terms of power transfer in Table 2-59. It can be seen that each country has its own characteristics in its decentralization policy.

The characteristics of decentralization in Ethiopia are the state governments with high level of independence and the decentralization to districts or “Woredas” which has been accelerated recently. In Ethiopia, the establishment of an ethnically-based state government was guaranteed by the federal Constitution established in 1994. As a consequence, decentralization of power from the federal government to state governments started from 1994 and highly independent state governments have been formed since then. In states, the Administrative Office represented by the Council and the state governor is established under the state constitution. Its financial resources are state taxes as well as unconditional grants from the Federal Government called “Block Grant”. The ongoing process of the Second Decentralization started in 2002 and the power and financial and human resources are being transferred rapidly from state governments to district governments.

The characteristics of decentralization in Mozambique is that (1) especially the district governments ensure own financial resources and grants and expand their power for budget preparation and execution in the administrative line of the central government-provincial government-district government; and (2) it consists in two types of decentralization: establishment of autonomous cities and enhancement of the function of city administration and public finance. Another aspect of decentralization in Mozambique is that it is regarded as an important measure to overcome the attitudinal and organizational problems which are attributed to the colonial regime by Portuguese until 1975 and the subsequent centralized socialist regime continued until 1990. However, the public sector still has a strong nature of centralized government and the system to ensure the accountability of the government toward local residents is less developed.[149] In addition, it can be pointed out as a remarkable feature that the

[149] World Bank (2003), "Project Appraisal Document on a Proposed Grant from the International Development Association in the Amount of SDR 29.9 Million to the Republic of Mozambique for Decentralized Planning and

roles of traditional leaders (chief) was legally admitted as the responsible to take charge of a part of district revenue administration.

In the decentralization policy of the Government of Tanzania, it is aimed to secure administrative and financial accountability toward local citizens through political autonomy by reducing the faculty of administrative services carried out directly by the central government and at the same time by decentralizing the power to the districts in a large scale[150]. Traditionally, an administrative organization was organized for each sector in a top-down manner: the central government- region- district- ward- village. Provincial governments have occupied an important position as the representative institution of the central government at local level and played a central role in administrative service delivery to local residents. On the contrary, the roles of provincial governments are being reduced focusing on supervision of districts' administration and technical guidance under the ongoing decentralization. District and village governments are expected to function as a self-governing unit and the district council or the village council composed by councilors elected by residents is established. The chairperson of these councils becomes the chief of the district or the village. However, it can be considered that a certain degree of administrative control by the central government still remains as the district chief is appointed by the President and the district Chief Administrative Secretary, who is ranked after the district Chief, is appointed by the District Council.

Table 2-59 Changes in self-governance and administrative power by decentralization

Ethiopia	Mozambique	Tanzania
Federal Government Parliament⇔President reduced power⇓ policy/guidance and supervision	**Government of the Republic** Parliament⇔President reduced power⇓ policy/guidance and supervision	**Government of the United Republic** Parliament⇔President reduced power⇓ policy/guidance and supervision
State Regional Council⇔State Governor expanded power⇑ policy/guidance and supervision	**Province** **Provincial Governor** reduced power⇓ guidance and supervision	**Region** Regional Governor reduced power⇓ guidance and supervision

Financing Project."

150 This chapter is mainly based on the World Bank (2004), "Project Appraisal Document on a Proposed Credit in the Amount of SDR 35.6 Million to the United Republic of Tanzania" unless there is any footnote.

Zone Administrative Office reduced power⇓ policy/guidance and supervision	**Autonomous City** City Council⇔Mayor expanded power⇑ budget preparation/execution	**District** District Chief⇔(Consultative Committee) expanded power⇑ budget preparation/execution	**District** Council⇔Governor expanded power⇑ budget preparation/execution
District District Council⇔District Chief expanded power⇑ policy/guidance and supervision			**Ward** Development Committee/Executive Officer
Village Development Committee⇔Village Chief		**Village** Traditional Chief expanded power⇑ tax collection	**Village** Council/Executive Officer

Source: The study mission summarized extracts of various references.
Note: Administrative units which have expanded their power are in highlighted boxes.

13-4. Decentralization Policy and Public Financial Management in Ethiopia: A Case in the Agricultural Sector

One of the four points of view of SDPRP[151] (Ethiopian PRSP) is to achieve industrial development through agricultural promotion and it is expected that the agricultural sector contributes to poverty reduction. In Ethiopia, the 1994 Constitution guarantees the establishment of ethnically-based state governments and its decentralization policy is the most complete one among the three countries. The reason why the state governments are highly independent especially having a state Constitution, for example, is that it is aimed to mitigate political tensions between different ethnic groups within the country as demonstrated by the conflict with Eritrea. The authority of the federal government is reduced to specialize in policy making, finance, regulation and security while the self-governance and administrative power in states and districts are expanded. However, the finance of those local governments largely depends on the federal government in reality. Looking at the fiduciary risk in public financial management of local governments, it can be concluded that it is relatively low in state governments in general, even though the degree differs by each state, and the district governments have high level of fiduciary risk, which requires an enhancement of administrative and financial capacity. The enhancement of local governments' capacity is a big issue. Various programs for capacity development which is necessary for decentralization (procurement,

[151] Sustainable Development and Poverty Reduction Program (SDPRP) is the Ethiopian PRSP.

accounting, budget preparation and execution, monitoring and evaluation, etc.) are now actively implemented through the Public Sector Capacity Development Program with estimated amount of 4 million dollars in 5 years.

(1) Progress of Decentralization Policy and the Relationship between the Federal Government and Local Governments

The decentralization policy in Ethiopia is attributed to the fact that the Federal Constitution is established in 1994 by which the establishment of ethnically-based state governments is guaranteed based on the self-determination rights.[152] Ethiopia consists of 9 ethnically-based states[153] and 2 self-governing administrations[154] based on the agreement between ethnic residential area and residents. States are composed by districts or "Woredas" which is composed by villages. There is an administrative division called "Zone" between states and districts which serves as the representative institution of the state.[155]

1) Structure of State Government

In each state, the division of the three powers is maintained formally by establishing the Regional Council as the legislative body, the Regional Administrative Office as the administrative body, and the Regional Court of Justice as the judicial body. The state has its own Constitution which was designed by the state government and approved by the Regional Council within the framework of the Federal Constitution, and enacts state laws under the state Constitution. The state Constitution and state laws are only applicable within the state. Also, there are some cases that the state laws are different from the federal government ordinance and the Civil Law.[156]

The basic structure of state governments is almost the same in each state. The Regional Council is the supreme decisive and legislative body of the state and is composed by the councilors elected from woredas within the state. The model of state administrative bodies is basically the structure of the federal government's ministries. The regional executive committee is composed by the state governor, deputy governor, secretary of state affairs and 4 secretaries of the planning and finance sector, economic development sector, social welfare sector and judiciary and public safety sector[157]. The Regional Bureau of Finance and Economic Development is responsible for the state budget preparation as well as the preparation of the

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[152] Ishihara (2001) "Decentralization and National Politics" The Constitution guarantees the right of separation and independence in Ethiopia at the same time.
[153] Tigray, Amhara, Afar, Harari, Oromiya, Southern Nations, Somali, Binshangul, Gumuz and Gambela Peoples
[154] Adis Abeba (capital) and Dire Dawa
[155] Ishihara (2001) "Decentralization and National Politics"
[156] Ishihara (2001) "Decentralization and National Politics"
[157] Ishihara (2001) "Decentralization and National Politics"

state, zone, and district accounting reports. The Regional Court of Auditors is established as an independent institution from the state government and assumes the accountability only to the Regional Council. Furthermore, the Regional Court of Auditors carries out an audit of state, zone, and district accountings.[158]

Each administrative institution in the state is not completely independent from the federal government's relevant ministries. It assumes the accountability to the federal government's relevant ministries as well as the secretary of each sector within the state government, and is obliged to inform regularly to them[159]. As is mentioned below, a state government institution carries out the monitoring and evaluation of the program activities with respect to some aid programs in which the Federal Government serves as the coordinator.

The 1994 Constitution determines the roles of the central government and local governments. The responsibility of the central government are the military services, development and maintenance of main roads, hospitals and so on while state governments are responsible for the basic education, insurance, local hospitals, agricultural promotion and so on. With respect to the tax system, the federal government gains tax revenues by import/export taxes while state governments gain revenues by land use, agricultural products and business taxes. The tax revenue of the federal government accounts for 70-80 % of the total tax revenue. However, the federal government has a redistribution function, distributing 60 % of its tax revenue to state governments as grants called Block Grant. The grants to state governments form a part of the state government's revenue and its use is determined as the state budget by the Regional Council. Also, a part of the state budget is granted to district governments and its use is determined as the district budget by the district council.

2) Block Grants of the Federal Government and State Governments

It was since 1992 that the state governments began to receive the Block Grants from the federal government in the stream of decentralization. The formula for distribution of the Block Grants to states is drafted out by the Bureau of Local Planning of the Ministry of Finance and Economic Development[160] and approved by the Federal Parliament. Once the formula is determined, the Block Grants to each state are also determined almost automatically.

The federal government of Ethiopia adopts an offset system by using a formula to determine the amount of the Block Grants, which is a system in which the aid amount is

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[158] World Bank（2003）"Ethiopia Country Financial Accountability Assessment Volume 1: Main Report" p.47.
[159] Ishihara (2001) "Decentralization and National Politics"
[160] The Bureau has following missions in addition to drafting out the formula for grant distribution: 1) making cross-state policies which cover all the states in the country, 2) implementing a joint capacity development through training to state officers with Addis Ababa University (supported by GTZ and JICA was asked if it can take over the support after the GTZ mission is over), 3) secretariat of the central-local governments forum, and 4) investigation on and correction of regional gap.

subtracted from the Block Grants to the state government when donors provide support to a specific state. The meaning of this system is that it has been introduced to correct the imbalance of resource distribution caused by the concentration of donor supports in a limited number of states. The exception is the food security aid. The aid is given to states suffering from food shortage and there's no need to consider the balance of resource distribution between states in this case.

The district governments were in charge of preparing budget and executing it with the approval of the state government until 2001. Then the provision of Block Grants from state governments to district governments started in four states: Tigray, Amhara, Oromiya, and Southern Nations. The district governments prepare budget based on the estimated amount of the Block Grants from the state governments announced in advance and the revenue estimation of district tax. And the district council approves the budget. However, the capacity of the district governments to execute the budget is not sufficient. This wouldn't be a big problem if the current cost accounts for the most part of the budget as it has until now; however, a concern is that in case the development budget increased in this way, the budget execution ratio would decline unless the management and implementation capacity increases.

3) Promotion of Decentralization to Districts and Capacity Development

The first tide of decentralization has been the power transfer from the federal government to state governments started in 1996. On the other hand, the second tide of decentralization which is now in the process started in 2002 and focuses on the transfer of power and of financial and human resources from state governments or zone offices to "Woredas".[161] Especially in the four biggest states: Tigray, Amhara, Oromiya, and Southern Nations, a part of the state budget is distributed to districts as Block Grants from 2002.[162] Like this, it is considered that democratic decentralization, enhanced administrative accountability to residents and provision of administrative services that can meet residents' demand will be realized by carrying out further decentralization to districts in an appropriate manner.

The discipline of public officers in Ethiopia is evaluated to be relatively high and so is at state and zone levels. Also, the fiduciary risk of the federal government as well as the state governments is evaluated to be relatively low. However, the level of the fiduciary risk varies in each state: Somali State has a high risk while the risk is low in Southern Nations. It is pointed out that there are problems in the budget comprehensiveness and opportune accounting report and audit in state governments in general.[163]

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[161] Districts or "Woredas" are the most inferior permanent administrative unit and have the Council elected by the local election and sector offices. The district population is approximately 100 thousand on average.
[162] World Bank(2004), "Ethiopia Public Expenditure Review Volume II." p.36
[163] World Bank (2003), "Ethiopia Country Financial Accountability Assessment Volume I: Main Report." pp.40, 60.

The administrative capacity of districts is insufficient in both quantitative and qualitative ways. Although there are intents of capacity enhancement such as personnel transfers from zone offices to district governments, it is said that the intents are less successful for some reasons such as the poor living environment. Thus the enhancement program of the administrative capacity of districts hasn't made so much progress as planned.[164] On the other hand, the management of budget preparation and execution of the Block Grant has already been transferred to district governments and it is urgent to enhance the administrative capacity of districts in order to achieve the goals of decentralization. It is necessary to implement seminars and trainings on overall fundamental management issues such as budget preparation, acquisition and execution, financial management, accounting report and audit.

(2) Framework of Providing Public Agricultural Services and Support by Development Partners

The Ministry of Agriculture and Rural Development has an action plan that includes a three-year plan and draft budget to realize SDPRP. The task force consisting of section chiefs is putting the action plan into practice. Half the expenditure of the action plan is for agriculture dissemination activities, but the plan has little financial backup and gets implemented slowly. The Ministry has recently set up the marketing division. As decentralization proceeds, the role of the federal government seems to shift to interregional policy formulation, institutional development, and enhancement of the agricultural products market for helping economic activities in the private sector. In the Ministry, the Disaster Prevention and Preparedness Commission (DPPC) is responsible for the conventional emergency food aid, supporting population that occasionally faces food shortage. The Food Security Coordination Bureau（FSCB）has been set up as the section in charge of developmental food security work. FSCB manages and coordinates at the federal level the implementation of the food security program for the population that faces permanent food shortage. Woreda governments are the main implementing agencies of this program.

1) The Heightened Roles of the Local Governments in the Provision of Public Agricultural Services

The provision of public agricultural services is delivered through two types of operations: the federal operations executed directly by the Ministry of Agriculture and Rural Development and the participatory operations executed by the provinces and districts with the beneficiaries. In the current growing trend for decentralization, the roles of the Ministry of Agriculture and Rural Development have been limited to ones at the federal level such as

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[164] For example, in Amhara State, 3,500 staffs were assigned to district offices. However, only 300 staffs have been transferred there as of 2003.

policymaking, research and development, and coordination of foreign aid and food security programs, and also the functions of human resource development in the agriculture sector are being transferred to the provinces. For instance, in the implementation of the Productive Safety Net Program (see the next section), to which ten per cent of the federal budget for the year 2004/05 are allocated (more than that if the funds of development partners are included), the earmarked funds are allocated to the district governments and the implementation are taken charge of by the district governments. In addition, although research and development is among the roles of the federal government, diffusion of packaged agricultural technologies is supposed to be the role of the district governments. The problem is that, whereas authority, budgets, and executive responsibilities have been transferred to the local governments such as the provinces and districts as above, enhancement of the capacities of the local governments, especially those of the district government, has lagged behind it. In considering assistance for enhancement of the capacities of public agricultural services, it is necessary to carefully appraise such roles and capacities of the local governments and then proceed to planning of assistance programs.

2) The Programs for Food Security

While five million people on annual average are in need of food aid during the period from 1994 to 2004, the population in need of food aid during the period from 2001 to 2004 excluding the year 2003 are estimated to be 6.4 million on annual average (with the data in the famine year 2002 excluded in the estimation), which demonstrates an upward trend in the food-short population. Furthermore, in the drought in 2003, those population reached more than 13 million,[165] which has heightened awareness of fragility of the living and industrial basis for the local populations as a serious issue. In response to such situations, two measures have been introduced as methods to realize food security considered by the federal government and donors: 1. in-kind allowances of food as emergent food aid; 2. and as developmental food aid, addressed to the constantly food-short population, implementation of cash allowances in return for their services in the public and private goods formation projects. While irregularly occurring food shortages to be addressed by the former are treated by the DPPC of the Ministry of Agriculture and Regional Development, the latter "Food Security for Development" is implemented by the FACB of the same ministry. The respective features of emergency food aid and developmental food aid are summarized as follows.

a) Emergency Food Aid

[165] The World Bank (2004),"Project Appraisal Document on a Proposed Credit in the Amount of SDR9.8 Million and a Proposed Grant in the Amount of SDR38 Million to the Federal Democratic Republic of Ethiopia for a Productive Safety Net Project in Support of the First Phase of the Productive Safety Net Program."

Aid for the food-short population, annually since the 80s, has been implemented by the federal government and donors. The results of the FAO/WFP assessment of demand and supply of food, which is conducted in November usually at the end of rainy season, are reflected in the federal government and UN joint appeal to donors in December. In response to the appeal, each donor procures and supplies food in time under the arrangement of the WFP so that food can be stably provided until the next year's post-harvest period.

Although the method to bring in a large amount of grain in a short time from abroad and distribute them to food-short households free of cost has been a conventional principal method in emergent aid, various problems[166] accompanying the method have been also pointed out. With the exception of the harsh drought year of 2002, it is said that the total crop production in Ethiopia can nearly meet the domestic demand usually even in the year when food-short households are estimated to occur. The underdeveloped traffic system and rudimentary grain markets due to the dearth of information of price and demand and supply are included among those pointed out as reasons why foreign aid is in need nonetheless.[167] Given this situation, recently, aid approaches that take into account the dynamics of the Ethiopian labor markets and grain markets are being increasingly adopted though emergent import of food remains the mainstream of aid. In 2001 and 2002, for instance, about 160 thousands tons of crops were domestically procured by the EC and the like and provided to the shortage areas. Also, parts of aid money have been spent on small-scale public projects in the rural areas, nutrition and enrollment programs targeted at children, and the like. Japan has also tapped into the KR counterpart fund to implement domestic procurement and supply though small in size.

b) Developmental Food Aid

Regarding the battered food-short households in need of long-term support, support for those households has been launched by use of food security programs taking into account developmental aims. Whereas attempts to switch from food security support addressed to the local population to developmental support have been recently undertaken as stated above, those are intended to inhibit the fomentation of habitual reliance on aid as side-effects of emergent aid to the minimum and at the same time direct the resources devoted by aid not only to elimination of food shortage but to improvement of the production and distribution base. As a major program of developmental food aid, the Productive Safety Net Program has been implemented.

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[166] The habitual reliance on aid resulting from the provision of food to the deficient households, the price decline induced by a large amount of crop imports and its negative effects on the domestic grain markets such as decline in local motivation to produce, the necessity of aid approaches accommodating the battered food-short households who can hardly recover from repeated droughts, etc.

[167] The World Bank (2003),"Technical Annex on a Proposed Grant in the Amount of SDR 43.5 Million to the Federal Democratic Republic of Ethiopia for the Emergency Drought Recovery Project." p.3.

The program aims to enhance the food security capabilities of farmers by development of economic infrastructures, equalization of household consumptions, and encouragement of market-based food production and supply while the funds that have been directed to in-kind allowances of food as emergent food assistance are redirected to public investments such as road construction in the food-short regions. The federal government places importance on the program and the budgetary step they took for it in its first year (2004/5) was 180 million dollars that amount to about ten per cent of the federal budget. Regarding development partners' assistance, the World Bank has already pledged around 70 million dollars during the two years for 2004-2005 (14 million of loans and 56 million of grants) and the EC around 60 million dollars. In addition, the CIDA, DCI (Ireland), DFID, USAID, and WFP have expressed their intensions to support.[168] At the present, while the idea of signing an MOU to launch a formal SWAP is not considered, instead to develop a loose form of SWAP by use of the existing aid coordination framework for the JBAR and the like is under consideration.

The program is financed by food safety budgets of the federal government, by which the funds are provided as the earmarked funds to the provinces and districts. For such circumstances, donors have to provide aid through the channel 2 funds. Responsible organizations for the program are the districts, which use resident-participation type methods and play the roles of identifying the food-short households and fixing up the processes such as selection and implementation of public projects plans. The projects are planned to be implemented in 262 provinces, where the earmarked funds are structured to be transferred to the special accounts of the district governments through the provincial governments, based on the requests from the villages, to progress the projects.

(3) The Challenges for the JICA in Implementing the Agricultural Sector Assistance

1) The Assistance for the Capacity Building of the Local Governments

The roles of the local governments such as the district ones, which are the closest to the farmers and local residents as the beneficiaries, have been more important in the implementations of agricultural sector policies through the provision of public agricultural services. Currently, under the decentralization policies, the delegation of authority to the districts and delivery of blocked grants are launched but still in their infancies. However, the district' capabilities of the district-level public administration, formulation of development plans, formulation, execution and auditing of the budgets, procurements, monitoring, and evaluations vary widely among the districts and are low. For this reason, there is a good chance that Japan could contribute to these issues through the program support and project support. Since the

[168] Ibid. p.13.

Public Sector Capacity Building Program (PASCAP)[169] in Ethiopia is situated in the framework of the federal government, assistance through the program is desired. In doing so, program and project support incorporating the capacity enhancement methods such as the on-the-job-training and learning-by-doing at which Japan excels is required to be considered.

2) The Assistance for Emergency Food Security

The adverse effects such as the habitual reliance on aid and inhibition of development of the domestic markets that are induced by the emergent food-security assistance should be reduced, and the forms of aid that foster improvement of the households' robustness to social and economic shocks in the long and medium terms are desired. It is considered to expand and refine further the scheme for the domestic procurement in Ethiopia of food, which has already been considered as one of the time-proven assistance by Japan, together with the monitoring of market information, and then combine this method with the road maintenance and improvement implemented under the grant aid finally to assist the expansion and development of the domestic grain markets. In this regard, it is supposed to seek close coordination between grant aid (the MOFA scheme) and technical assistance (the JICA scheme) through the aid task force composed of the Embassy and the JICA.

3) The Assistance for Developmental Food Security

Addressed to the battered food-short households in need of long-term support, the developmental food security program has been launched. The program can be considered still new to those households as an investment scheme related to food security in that it aims to set off rural development by creating jobs through public projects. It seems that research and consideration on its effects and weakness has been undertaken in the preliminary stages, and yet uncertainty about accomplishing the objectives in the implementation stages is expected to be large taking into account complicated social and economic responses to the introduction. Therefore, the JICA could be required not only to provide its assistance in cooperation with other development partners in doing such a new approach, but also to make intellectual contributions such as the impact examination of the program through the monitoring of its socioeconomic impacts so that it could deal with such risks.

4) The Assistance Scheme of JICA and the PRS Process

Generally speaking, it is necessary for the JICA to further improve consistency of the assistance projects by the JICA under the HIPC with the poverty-reduction policies by the recipient country and enhance effectiveness and efficiency of the injected resources. In that

[169] The PSCAP Office expects technical assistance from Japan.

regard, it is desired to manage project cycles so that the PRSP (medium term policy) and relevant aid coordination framework JICA can be effectively reflected in the whole aid cycle of formulation, execution, and evaluation of the various JICA scheme proposed in JICA's project evaluation guideline[170] and the like.

In addition, it is desired to lay out the framework so that it can better deal with the flexibility of the Japan's assistance and the needs of clients, by establishing as a new aid approach the General Budget Support and financial support for the common basket funds that are being implemented in Tanzania and other countries, program and project support that are made on-budget, and the like to widen the scopes of the aid approaches by Japan.

13-5. The Decentralization Policy and Public Financial Management in Mozambique: A Case in the Agricultural Sector[171]

(1) The Aims of the Decentralization Policy

One of the six prioritized areas[172] in the PRSP[173] formulated in 2001 by the Mozambican government is the agriculture and rural development. About 70 per cent[174] of the Mozambican population are distributed in the rural areas and make a living on agriculture, forestry, and cattle breeding. In addition, since the proportion of the poor households in the rural population is considered high, promotion of the agricultural sector is expected to progress poverty reduction. Furthermore, both the decentralized policymaking and public financial management are described in the PRSP to play important roles to effectively promote rural development.

The important policy in the PRSP is to encourage a decentralized political and administrative environment out of the centralized politics and public administration lasted through the 1990s. It is considered that if delivery operations of public service are implemented under proper decentralization of authority then such services could effectively and economically contribute to rural development and poverty reduction. Such a decentralization policy have the following elements[175]: 1. development through broad citizen participation; 2. delivery of

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170 JICA (2004), "The Guidelines for Project Evaluation", in *The JICA Project Evaluation Guidelines*, the revised ed
171 If not otherwise specified, reports on Mozambique are based on the JICA Office in Mozambique (2004), "Study on Poverty Reduction Strategy Plan and Public Finance Management Reform Process in Mozambique."
172 The six prioritized areas of the PRSP are education, health, social infrastructure, agriculture and rural development, good governance, macroeconomic policy, and fiscal policy. Since the current PRSP will enter its last year in 2005, the revision work for the PRSP II (2006-2010) is under way (JICA (2004), "Study on Poverty Reduction Strategy Plan and Public Finance Management Reform Process in Mozambique.").
173 The Portuguese version of the PRSP is called the PARPA (Action Plan for the Reduction of Absolute Poverty).
174 Ministry of Planning and Finance, Republic of Mozambique (2003), "PARPA Implementation Evaluation Report," p. 19.
175 The World Bank (2003), "Project Appraisal Document on a Proposed Grant from the International Development Association in the Amount of SDR 29.9 Million to the Republic of Mozambique for Decentralized Planning and Financiering Project." p.5.

administrative services responding to the needs of citizens; 3. implementation of public sector reforms; 4. establishment of self-governed cities and implementation of local administrative reforms; 5. improvement of human and organizational capabilities. Such decentralization policies are promoted by the national committee on decentralization program for planning and finance, which are chaired by the Ministry of Planning and Finance and composed of the Ministry of State Administration, Ministry of Agriculture and Rural Development, and Ministry of Public Works and Housing. The major duties of the committee include the promotion of reform policies, introduction of new mechanisms and institutions, and improvement and popularization of the district administrative organizations, capacity building laws, district financial administrations and their budgeting processes, district governance, accountability framework.

(2) The Evolution of decentralization policies

The pattern of Mozambican local administrations that is problematic in the organizational and democratic terms stemmed from the colonial rule by Portugal that lasted until 1975 and the subsequent centralized socialist rule that lasted until 1990. After realization of peace due to the end of civil war, development models based on the pluralism in economic, social, and political dimensions have been increasingly supported under the liberalization policies and revision of the Constitution. Nonetheless, as exemplified by the fact that some centralized nature continually remain strong in the public sector, the development of institutions that could requires the government and public administrations to achieve accountability to the local citizen have been delayed.[176]

With the enactment of the self-governed city law in 1997, by which the establishment of a self-governed city with its independent parliament and finance are made possible, (higher-order) decentralization including the politics level has shown some progress. Due to this, 33 self-governed cities were created and legislative elections were held in 1998. And yet, 70 per cent of the population and 90 per cent of the national territory exist under the rule of 10 administrative provinces and 128 district administrative bodies as their lower administrative units. Although these provincial and districts administrative bodies are operated under the control of the central government in the institutional terms, administrative deconcentration has been promoted even in such a vertical administrative structure.[177] In 2000, the roles of

[176] The World Bank (2003), "Project Appraisal Document on a Proposed Grant from the International Development Association in the Amount of SDR 29.9 Million to the Republic of Mozambique for Decentralized Planning and Financing Project."
[177] The World Bank (2003), "Project Appraisal Document on a Proposed Grant from the International Development Association in the Amount of SDR 29.9 Million to the Republic of Mozambique for Decentralized Planning and Financing Project."

traditional leaders were legally recognized on the grounds that they play a part in the revenue administration in their districts, and in 2003, the independent formulation of development plans by the provincial and district administrative bodies and their power of budget formulation and execution were guaranteed by legislation. In this manner, decentralization in Mozambique are composed of the following two elements of decentralization given the administrative line running from the central government to the provincial administrative bodies to the district administrative bodies: 1) the securing of independent revenue sources and subsidies and the exercise of their budget formulation and execution powers; and 2) and the establishment of self-governed cities and the enhancement of the functions of urban administration and public finance.

(3) The Enhancement of Independence of the Local Administrative Bodies' Policymaking and Public Financial Management and the Issues

1) The District Development Plan (DDP) and the Provincial Strategic Plan（PSP）

The guidelines for formulation of the District Development Plan (DDP) were announced in1998 and then development plans were formulated in the pilot terms in the districts in the Mampula province. The guidelines for formulation of the Provincial Strategic Plan (PSP) were announced in 2001 and thereafter plan formulations were undertaken in some provinces. The formulation of PSP and DDP is not compulsory but left to the discretion of each administrative organization.

Currently the formulations of PSP and DDP are implemented as part of the activities in the projects that development partners assist. In addition, since those plans assume a strong character of a basis for negotiations to secure funds from the central government and other assistance organizations, satisfactory coordination among the PRSP, MTEF, and annual national budget based on them has not been attained. Therefore, budgets for executions of the programs and projects stipulated in the PSP and DDP have not been provided in the annual national budget with some exceptions. And yet, formulation of the PSP and DDP has provided opportunities to further strengthen the aspects such as the enhancement of the plan-making capacity of the local governments and maintenance of a tense relationship regarding optimal resource allocations between officials of central and local governments.

2) The Budgets of the Districts

Currently, the major emphases in the decentralization policy in Mozambique are placed on empowerment of the district administrative bodies and enhancement of the administrative capabilities. Regarding the DDP in the district administrative bodies, it is considered important to make the DDP a more effective plan in the future by providing the funds for plan implementation specifically in the annual national budget and raising the tax revenues of the district governments. Examples in 2000 include the efforts to improve the districts' finances by granting the rights to levy taxes to the traditional leaders.[178] In 2003, the reorganization to realize close coordination among the sectors at both the province and district levels and the Law of Local State Organs that stipulates authority to secure required budgets were implemented, whereby authority to formulate and execute the budgets were granted to the district governments and independence of the districts' finances from their senior organizations such as the provincial and central governments was enhanced. While governance by use of participation of the local citizens is enshrined in the law and it is claimed that citizen participation in planning of plans and budgets are realized through committees like consultative bodies, there is a suspicion that it lacks concreteness. In addition, examples in which managerial responsibilities are explicitly transferred include local water supply and non-classified roads.

Under the Law of Local State Organs in 2003, the revenue sources of the districts are composed of the following three types of budgets: the districts' own budget revenues such as the tax revenues, the grants (non-earmarked) from the central government provided through the provinces, and the budgets secured by each sector departments as part of the budgets related to their respective relevant central government ministries. In actuality, since most part of the districts' finances relies on the latter two funds sourced from the central government, development investment budgets of the districts in particular are seriously subject to the delay in distribution of funds or capital shortfall in the central government, which has given a difficult challenge to implementation as planned.

3) The Accountability of the District Administrative Bodies

The accountability of the district administrative bodies has many issues and is regarded as an area that requires some long-term approaches, like the reduction of trust risks. Regarding the accountability of the district, there are the one directed at the senior organizations such as the provincial and central governments and another one directed at the district citizens. In particular, the accountability to the latter is one of the essential motivations and aims of the decentralization policy. In that regard, it is stipulated in the guidelines for formulation of the district social and economic plan (DDP) that were prepared by the Ministry of State Administration that consultative councils composed of citizens get engaged in reviews during all stages of formulation and execution of plans to achieve accountability to the citizens. Nonetheless, as exemplified by the facts that final determinations of the DDPs are placed under authority of the district administrative bodies and legal binding force of the committees'

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[178] This tax collection is operated in which the traditional leaders (chiefs in the village communities) take some commissions from the tax revenues.

decisions are not guaranteed, there are still many issues in fulfillment of accountability to the district citizens.

Like the accountability to citizens about the DDP, the accountability about the provision of district administrative services by local instruments of the ministries has also many issues. The local instruments of the ministries constitute some specialized departments within district administrative bodies and assume double accountability to the heads of the districts as well as to the relevant senior organizations (the relevant departments in province governments and the central government). However, also negatively affected by circumstances such that the parliaments composed of the civil representatives do not exist, any institution allowing citizens to monitor their districts' administrations and finances has not yet been established. Currently, the Ministry of State and Administration take the lead in formulating sector reform plans so that all the ministries in charge of sectors can promote decentralization through transfer of human resources. The implementations of the plans are scheduled to be launched in 2005 after province presidents are appointed after the general election in 2004. In the ministries related to the education, health, and agriculture sectors, the completion of these plans are scheduled in the later part of 2007.

4) The Accountability of the Provincial Administrative Bodies

Like the cases of the districts, monitoring functions by citizens have hardly worked on the formulation and approval of the PSP by provincial administrative bodies and the accountability about supply of administrative services. Although the specialized departments delivering sectoral administrative services assume accountability to the relevant central government ministries and the province presidents as in the cases of the districts, their accountability relations remain weak since there is no provincial parliament representing the citizens.

(4) The Establishment of Self-governed Cities

The civil warfare lasting from 1975 to 1992 caused the local population to flow into the urban areas, the urban population increased triple-fold during the period from 1985 to 1995. The urban population made up 38 per cent of the total population in 1998 and currently it grows at the rapid rate of around 6 per cent as compared with the national average growth rate of 2.4 per cent. The population flowing into the urban areas consists of the poor and delivery of public services addressed to the population has been seriously delayed. As shown in the poverty survey conducted in 1996-7 that 62 per cent of the urban population were under the poverty line and lived in very bad living environments, expansion of urban administrative services and improvement of their quality should be highly prioritized.

While most part of the financial bases of 33 current established self-governed cities rely on the grants from the central government, political and administrative independence of those cities are guaranteed by the Constitution. The administrative bodies of self-governed cities take on the duties of the formulations of the annual budgets and activity plans and the execution of determined plans to their respective city parliaments. Whereas in this manner basic political and administrative authority is granted to self-governed cities, the delegation has been still confined only to part of all the specific authority items that are stipulated by law.[179]

1) The Finance of Self-governed Cities

Budgets approved in the self-governed parliaments are submitted to the Plan and Finance Department of the Ministry of Plan and Finance in the central government for reference. The law requires a balanced budget each year. If the revenue amounts planned in the course of the budget execution are expected to differ from the budgeted ones, the initial budget must be supplemented. Since the formulated budget is laid out for each expenditure item, it is not a performance budget that is compiled based on the activities and products. Throughout the periods during 1998-2003, self-governed cities have never formulated any medium- and long-term expenditure framework. However, in the periods during 2003-2008, it is planned that the formulation of a medium- and long-term expenditure framework will be made compulsory with budget formulations based on the Manual for Formulation of Strategies, Plans, and Budgets[180] approved.

Self-governed cities can secure their respective independent revenue sources and also independently determine the tax rates and commission rates. However, since the establishment of self-governed cities, there have been large gaps among the self-governed cities regarding the degrees of their respective independent revenue source expansions. While some self-governed cities have been able to secure independent revenue sources that dispense with the central government grants that were initially provided, it is said that there exist some self-governed cities whose revenue sources have still largely relied on the central government grants. Self-governed cities can receive, besides their respective budget revenue such as tax revenues, 1) grants that are sourced from the central government's Municipal Compensation Fund (MCF) and can be provided to the general fiscal expenditures of local governments, 2) and grants that are sourced from the Local Initiative Fund (FIL) and can be provided to the small-scale public investments as development budgets. Each distributed amount of the former grant is calculated in a uniform way based on some given formulas and variables such as population. Since the

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[179] The items on which authority has been already transferred are 1) the authorization right of land use, 2) the authorization right of construction, 3) the establishment of small-scale water supply, 4) the establishment of sanitary equipment, 5) the establishment of markets, 6) the city police (in rare cases).

[180] The Ministry of State and Administration is in the process of its formulation with assistance by Switzerland.

independent revenue sources of self-governed cities are still unlikely to increase sharply, the overall habitual reliance on the central government grants is expected to continue for a while.

2) The Administrative Capacities and Accountability of Self-governed Cities

While self-governed cities assume accountability to the citizens through their respective parliaments, they are not in any obligatory relation with the provincial administrative body the city belongs to in the administrative world. Therefore, unlike the specialized departments of the provincial and district administrative bodies that are accountable to both the local administrative bodies and the relevant central government ministries, the specialized departments of self-governed cities assume accountability only to the cities they belong. However, provincial administrative bodies sometimes resort to political interventions beyond their authority in such areas of self-governed cities as personnel affairs, urban planning, and determination on land use. Improvement of the centralized tendency in administrative bodies would reportedly take some time. Legitimate powers of intervention are given to the Ministry of Plan and Finance, Ministry of State and Administration, and Administrative Court.

The variability of the capacities of administrative service delivery among self-governed cities is wide. The number and quality of administrative officers largely differ among self-governed cities, and consequently some cities can offer attractive employment conditions to able personnel while other cities suffer from a shortfall of such personnel. The quality of administrative services are not only correlated with the sizes and historical length of self-governed cities but also affected by the quality of their respective leaders such as mayors. Taking budget documents for example, their contents variably range from the high-quality and well structured ones to the ones that only include the least information. However, in either case, it is considered that they have quality better than those of the budget documents of provincial and district administrative bodies. It is also said that this is because self-governed cities assume direct accountability to their respective parliaments without involving intermediate administrative stages.

(5) The Assistance by Development Partners

1) National Strategy for Decentralized Planning and Financing (NSDPF)

Assistance by development partners for decentralization have been expanded since the guidelines for district development planning were into effect in 1998 and pilot projects using this (assisted by the Netherlands and UNCDF) were launched in the Nampura province. After the model of this project, the government formulated the National Strategy for Decentralized Planning and Financing and launched the National Program based on it. This program are managed by the steering committee composed of the Ministry of Plan and Finance, Ministry of

State and Administration, Ministry of Agriculture and Rural Development, Ministry of Public Works and Housing, and aims at policy reforms, establishment of new organizational mechanism, and dissemination of the district capacity building methods, administrative and financial methods, and the methods to enhance governance and accountability.

Currently some projects are in progress under this National Program and the largest project among them in terms of the investment size is the Decentralized Planning and Financing Project (DPFP). The DPFP is a project covering 4 provinces and 49 districts and the World Bank has committed 42 million dollars of grants during for four years while other development partners such as UNDP/UNCDE and GTZ have assisted this project. In this project, the securing of capacity building required to implement the Law of Local State Organs and the reduction of deposit risk required to secure the General Budget Support that is being one of the major aid modalities has been tried. In the area of decentralization enhancement, in addition to this, Ireland, Sweden, Denmark, Switzerland, the IFAD, the UK, the UNDP, and Australia have provided assistance for the DDP formulation in four provinces where the DPEF has not implemented.

2) The Assistance for the Functional Enhancement of Self-governed Cities

Projects for the functional enhancement of self-governed cities include the Municipal Development Project assisted by the World Bank. The project has been launched in 2001 and aimed at the following: a) the improvement of legal and administrative framework for governance of the self-governed cities, b) the establishment of framework for training addressed to elective parliament members and administrative officers and the implementation of trainings, c) the establishment of city funds in the central government in the pilot terms to promote capital investments in the cities (this transfer of funds will be in the future incorporated in a budgetary system covering the central government and local governments), d) the enhancement of technical and financial capacities of self-governed cities through projects using the city funds.

3) The Assistance by Development Partners and the Shift to a On-Budget Basis

From the perspective of the coordination framework between the government and general budget support development partners that has been developed under the PRS, it is pointed out that there are two issues in the assistance described above. The one is that if the project assistance stated above is direct assistance to local governments then the amount of its assistance may not appear in the national budget, and another is that the plans of local governments that rely on the local share grants have been inconsistent with those of the central government since coordination between the formulation of the DDS and the PRSP, MTEF, and annual budget of the central government has not been conducted. As for the latter issue, it is considered that solutions will be sought by implementing the district versions of assistance for the PRSP, MTEF, and annual budget in the DPFP.

(6) Framework for providing public agricultural services and support by development partners

1) Sector-wide Approach (SWAP)

Since the late 1990s, Mozambique has seen an increase in the programs that take the sector-wide approach (SWAP). SWAP places earmarked funds (funds for specified purposes) from development partners as common basket funds under the control of the partners and the government so that activities for specific sectors can be implemented in a more coordinated fashion. Such activity coordination was difficult under individual project support. SWAP saves the government of Mozambique the transaction cost that used to occur in implementing many isolated projects. For development partners, SWAP constitutes a basis for considering a long-term assistance strategy that views the sector as a whole. SWAP makes it possible to provide assistance to not only technical issues such as policy formulation, plan implementation, monitoring and evaluation, but also a longer-term development objective such as improvement through support to capacity building in organization and function for public administration services.

Currently in Mozambique, three SWAPs are being implemented and one is being planned. The first SWAP is PROAGRI that began in 1999. PROAGRI set as its main objective human resources development of the Ministry of Agriculture and Rural Development, expecting as indirect results an increase in agricultural production and improvement in productivity of farming households and the agricultural sector as a whole. Following PROAGRI, the Ministry of Health began PROSAUDE in 2000, aiming at expansion of healthcare services nationwide through establishment and operation of health centers and procurement of medicine. The Ministry of Education began FASE in 2001 with the purpose of increasing educational opportunities and improving educational contents. The Ministry of Public Works and Housing is currently planning SWAP in the water supply area to start implementing in 2005. Thus SWAPs in Mozambique have just begun. It is necessary to watch over how they proceed, what they accomplish, and how they will relate to the aid coordination framework that is being formulated with general budget support under the PRS process.

2) SWAP － PROAGRI in Agriculture

Phase I of PROAGRI is a five-year agricultural SWAP program that began in 1999. The government of Mozambique formulated the plan for PROAGRI from 1992 to 1995 with the support of development partners. After negotiations with the development partners on such aspects as securing funds, PROAGRI began its activities in 1999. An important objective of

PROAGRI is to reduce transaction fees by consolidating donor procedures with the establishment of a common basket fund. In 1997, the development partner coordination meeting agreed upon common implementing procedures[181], and selected PROAGRI as a means of pilot implementation.

So far, led by the EC[182], 18 development partners took part in PROAGRI, and 11 of them provided funds directly to PROAGRI. Prior to PROAGRI implementation, 90% of the development budget of the agricultural and natural resources management sectors was provided by the development partners and nearly 100 stand-alone projects were implemented. However, PROAGRI supported provision of and investment in public service for priority issues in the agricultural sector through direct support to government budget. As a result, as of 2003 the number of stand-alone projects is down to approximately 20.

<Implementation Mechanism of PROAGRI and Decentralization Policy＞[183]

Organizational reform of the Ministry of Agriculture and Fisheries (now Ministry of Agriculture and Regional Development) was also considered. PROAGRI planned to have the Ministry concentrate on strengthening the market mechanism and transfer the Ministry’s other functions and authorities to local government and the private sector to make public administration functions more efficient. To carry out such organizational reform efficiently, an advisory council was set up with representatives of the Ministry of Planning and Finance, Ministry of National Public Administration, and development partners. As of 1999, the following preparatory measures for PROAGRI implementation were already done: organizational strengthening of the Economic Department of the Ministry of Agriculture and Fisheries (now Ministry of Agriculture and Regional Development); consolidation of much of financial and procurement work on projects implemented under the Ministry and implementation of the result as the PROAGRI system at the Ministry’s Management and Finance Department; establishment of the Agricultural Research Committee for coordinating agricultural research as a whole; and legal preparation for privatizing public corporation on agricultural products such as cashew nuts and cotton.

The following are characteristics of the management of the common basket fund for implementing PROAGRI: i) formulation of annual plans for activities and budget that the

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[181] The donors agreed on the procedures and standards of the following: budget formulation; financial management; asset management; local procurement; accounting audit; monitoring and evaluation; management of incentives for staff; employment of local consultants; project management; and dispatch of missions.

[182] The EC is the leading donor in terms of both the amount of financial assistance and the extent of involvement in PROAGRI.

[183] The World Bank, January 1999, "Project Appraisal Document on a Proposed Adaptable Program Credit in the Amount of SDR21.7 Million to the Republic of Mozambique in Support of the First Phase of an Agricultural Sector Public Expenditure Program (PROAGRI)".

Ministry of Agriculture and Rural Development and the development partners agreed upon; ii) a quarterly fund transfer from the common basket account to the PROAGRI account in the national treasury; iii) a quarterly progress report and financial report by the Ministry of Agriculture and Regional Development as a condition for consideration and approval of the following quarter's activity plan. In addition, monitoring of the fund is done by the working group of the government and development partners, the internal financial management committee, and the annual review group that examines annual activity and budget plans and audit results. The fund is designed to function as part of the Mozambique government's public finance management system in the following ways: it must be approved by the parliament as part of the national budget; and the source of the fund must go through the national treasury. In addition, investment by development partners to the agricultural sector is earmarked so that it is free from political pressure[184].

Unlike a project, PROAGRI does not carry out activities along a detailed plan from the beginning. Activities for investment are to be selected based on the eight principles[185] that the government and development partners agreed upon. The selected activities will have achievement indicators as criteria for annual evaluation and budget approval. PROAGRI has eight activity categories[186] such as institutional strengthening, research and dissemination, support to production, forestry, and wildlife.

PROAGRI's programs are designed in such a way as to support promotion of decentralization. Reform of the Ministry of Agriculture and Regional Development, the major component of the programs, plans to concentrate the Ministry's functions to those on policy, regulations and supervision, and provision of agricultural administrative services, and reduce the number of sections. PROAGRI plans to transfer the authorities of the reduced divisions to the state and county governments, contributing to promotion of decentralization. Accordingly, the agriculture and rural development sections and divisions of the state and county governments are expected to take the lead in PROAGRI implementation, and improvement of the planning, administrative, and implementing capacities of those sections and divisions is a top priority.

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[184] The World Bank, October 2003, "Memorandum of the President of the International Development Association, International Finance Corporation and the Multilateral Investment Guarantee Agency to the Executive Directors on a Country Assistance Strategy for the Republic of Mozambique"

[185] 1) Poverty reduction; 2) decentralization and transfer of authorities; 3) good governance (transparency, accountability, participation of stakeholders); 4) consideration on gender; 5) sensitivity to the rights and needs of small farmers for access to land, capital goods, and markets; 6) environmental and social sustainability; 7) agricultural policy with social consideration; and 8) restructuring and strengthening of implementation capacity of the Ministry of Agriculture and Rural Development.

[186] 1) Development and strengthening of institutions and organizations; 2) Research on agriculture and fisheries; 3) Dissemination of agriculture; 4) Livestock breeding; 5) Support to agricultural production; 6) Securing farmland; 7) Forestry and wildlife; and 8) Irrigation.

＜Achievements So Far and Future Issues＞

The achievements of PROAGRI up to 2003 include the following: procurement of vehicles, equipment, and consumables; capacity building of the Ministry of Agriculture and Rural Development through utilization of a consultant; improvement and repair of irrigation facilities; promotion of decentralization through capacity building of local governments (agriculture departments and sections in particular); and outsourcing of veterinary services to the private sector. Capacity building of local governments carried out the following: budget formulation and procurement of materials by state governments; distribution of subsidies to county governments; and budget formulation and procurement of equipment and consumables by county governments. In addition, a control system on finance and information was introduced, and training of government officials was done for managing the system. The ratio of distribution of the agricultural sector budget to the county level was 40% at the time of the start of PROAGRI in 1999, and 60% in 2003. These figures on budget distribution indicate the progress of decentralization. However, it is reportedly hard to render definite judgment on the accomplishments of these activities as of 2003[187].

The planned five-year budget input of the Phase I of PROAGRI (1999 – 2005) was US$202 million. However, as of 2003, the estimated input until the end of the Phase was about US$120 million. The delay in program implementation due to lack of initial fund utilization capacity caused extension of the Phase I until the end of 2005. An issue is a lack of fund implementation capacity (or excessive funding plan compared to actual execution capacity). The joint evaluation of 2002 on the Phase I renders the following judgment: it made substantial accomplishment in introducing principles of good governance such as organizational capacity building, financial management, issuing of land ownership certificates, decentralization and transparency, but made little progress in promotion of agricultural policy, reform of the Ministry of Agriculture and Rural Development, and addressing cross-sectoral issues. The evaluation also pointed out a risk of losing financial sustainability in the long run as the implementation of PROAGRI is heavily dependent on the support from the development partners.

The Phase II of PROAGRI plans, with the approval of the Public Sector Reform Committee, to carry out vigorously the organizational reform of the Ministry of Agriculture and Rural Development that is running behind the schedule. Behind this development is the following recognition: effective service provision to rural farmers is necessary for achieving the goals of PROAGRI, and success of the Phase II will be achieved with dissemination of

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187 The World Bank, October 2003, "Memorandum of the President of the International Development Association, International Finance Corporation and the Multilateral Investment Guarantee Agency to the Executive Directors on a Country Assistance Strategy for the Republic of Mozambique"

administrative capacity strengthened in the Phase I in local governments so that they can provide public agricultural services efficiently. The government and the development partners still maintain that effective implementation of PROAGRI in rural areas needs expansion of authorities of state and county governments through decentralization and strengthening of administrative and financial capacities. In addition, the planned Phase II needs to forge close ties with the Decentralized Planning and Financing Project (DPFP) backed by such partners as the World Bank as the Phase I has reportedly relatively weak ties with DPFP.

(7) The Challenges JICA faces when implementing aid in the agricultural sector of Mozambique

1) Challenges in aiding the Public Financial Management Field

When JICA considers supporting the agricultural sector in Mozambique, it is essential to improve the administrative capacity of the local governments that lead in providing agricultural services. For example, in light of the high trust risk of the local governments of Mozambique, formulation of the mid- and long-term plans, budget formulation and execution, discipline in organizational management, and improvement in capacity for internal and external audit function are the main challenges. Capacity building through training would be effective if on the job training and learning by doing, which are Japan’s fields of specialty, were added to classroom sessions.

2) Aid under PROAGRI II

Aid for the agricultural sector in Mozambique should be done within the framework of PROAGRI. This is because PROAGRI is the only SWAP in the agricultural field, and this approach was made under the recognition that the increase of transaction cost through the multiple individual projects should be avoided, and coordination of aid within the development policy framework is necessary. It is desirable that the Japanese government take part in the financial aid for the Common Basket. However, even if it is difficult to realize such financial aid in the near future, it is necessary to intellectually and technically contribute to PROAGRI through developmental surveys and technical support. When doing this, it is important to decide the technical support, contents and timing through careful consideration of the implementation plan, implementation mechanism, activity contents and timing of PROAGRI in order to keep the transaction cost as little as possible.

The main goal of Phase 1 of PROAGRI was capacity building of the agricultural local development ministry and the affiliated agricultural sector of the state and county administrations. On the other side, Phase II will focus on offering specific public agricultural service by the local governments and strengthening the planning and management sector to support this. Through the process of formulation and implementation of the PROAGRI Phase II plan, JICA is able to implement means of technical cooperation including the following: analysis of the challenges in the agricultural sector; budget formulation and execution of the local government; financial management; procurement; extraction of the challenges through the participatory method in the audit of the public financial management field; formulation of appropriate plans; and training. JICA would also be able to support to formulation of the index to measure the PROAGRI performance and the monitoring method of index through data analysis and collection.

3) Political dialogue for deciding the aid contents

By having the country assistance taskforce engage in policy dialogues through the PROAGRI framework, it is necessary to decide the contents of JICA's assistance through policy dialogues with the government and other development partners.

13-6. Decentralization policies and public financial management of Tanzania: A case of the agricultural sector

(1) Decentralization policy of Tanzania

In the decentralization policy, the government of Tanzania acknowledged that the improvement of governance, financial and administrative basis and capacity in the local government would help provide efficient and sustainable public service, fulfill accountability to the citizens, and is essential for achieving poverty reduction. Strengthening of organizational and financial capacity of the local government is necessary for provision of efficient and sustainable public service. Accordingly, while greatly reducing the federal government's direct share of administrative service functions, the policy has delegated substantial authority to the districts, and distributes public resources equitably under civic participation through self-governance to ensure accountability toward the citizens.

In Tanzania, the Cabinet approved the Local Government Reform Policy in 1998. The four pillars of this policy were as follows: 1) Political decentralization; 2) Financial decentralization, 3) Administrative decentralization; and 4) Appropriate relations between the central and local government. This policy was implemented through a six-year plan called the Local Government Reform Program of 1999. With this policy background, PRSP of 2000 chose the following as the main fields of poverty reduction: education, health, road construction, and water. PRSP also gave priority to the improvement of service provision by the local government in these fields. The Local Government Reform Program has been implemented in areas such as delegation of administrative responsibility to the local government, organizational reform and capability development in the local government, improvement in the legal system related to this sector and local government, and financial management guidance from the central government to the local government.

1) The structure of a new governmental administration organization

Originally, the administration organization was organized in a top-down form from the central government, region, district, ward, to village. The regional government used to play an important role as a branch office of the central government, and was the nucleus of administration service provision to the citizens. On the other side, the role of the regional government in the decentralization now in progress is reduced to audit and technical support towards the district. The district and village governments are expected to function as local self-governance units, and have the District Council and Village Council consisting of elected legislators. The chairmen of these councils become the heads of counties and villages, respectively. However, the district governor is appointed by the president and the district administrative secretary is appointed by the District Council; therefore they are not completely free from the administrative control of the central government.

The region and ward are both like the administrative bureau under the central government and the district. The ward development council, a subordinate agency of the District Council, is set up in the ward. The district representative become the chairman of the development council, and is composed of parliament members and village assemblymen. The main function of the council is to observe whether the district policy or plan is implemented appropriately within the applicable ward, and has no implementing agency under it.

The basic accountability of the central government and local government is mainly regulated by the Local Government Acts. The Local Government Acts rules that the local government will become the main body for administrative services such as garbage disposal related to primary education, health, water, road construction, and city function. The President's Office and the regional administrative local governmental agency hold the management responsibility of the whole local government system and decentralization process, and is responsible for the financial decentralization policy establishment along with the Ministry of Finance. The ministries of each sector have the role of policy making and supervising the field of responsibility. The Ministry of Finance has the role of sending the budget from the national budget for the administration of the local government, and the National Accountant Audit is responsible for the Audit Board of the local government.

2) Finance of the Local Government

The finance of the local government is greatly dependent on the various subsidies from the central government. These subsidies do not go through the sectored ministries, and directly delivered to the local governments by the Ministry of Finance. The district government is expected to hold a core role in the administration through political autonomy. Approximately 20% of the public sector expenditure was at the local governmental level, and expense at the education, water, road construction and health sector are the main fields of expenditures. However, most of the expenditure at the local governmental level is operating expense, and the development and investment budget is extremely low. For this, the local government created a development plan and budget itself, and has little experience in administrative service such as administrative management of the expenditures, evaluation of the results. In addition, along with the lack of capability of the local government, the trust risk is high, and many challenges are left in the perspective of appropriate resource distribution and securing investment effects.

3) The Local Administrative Reform Program

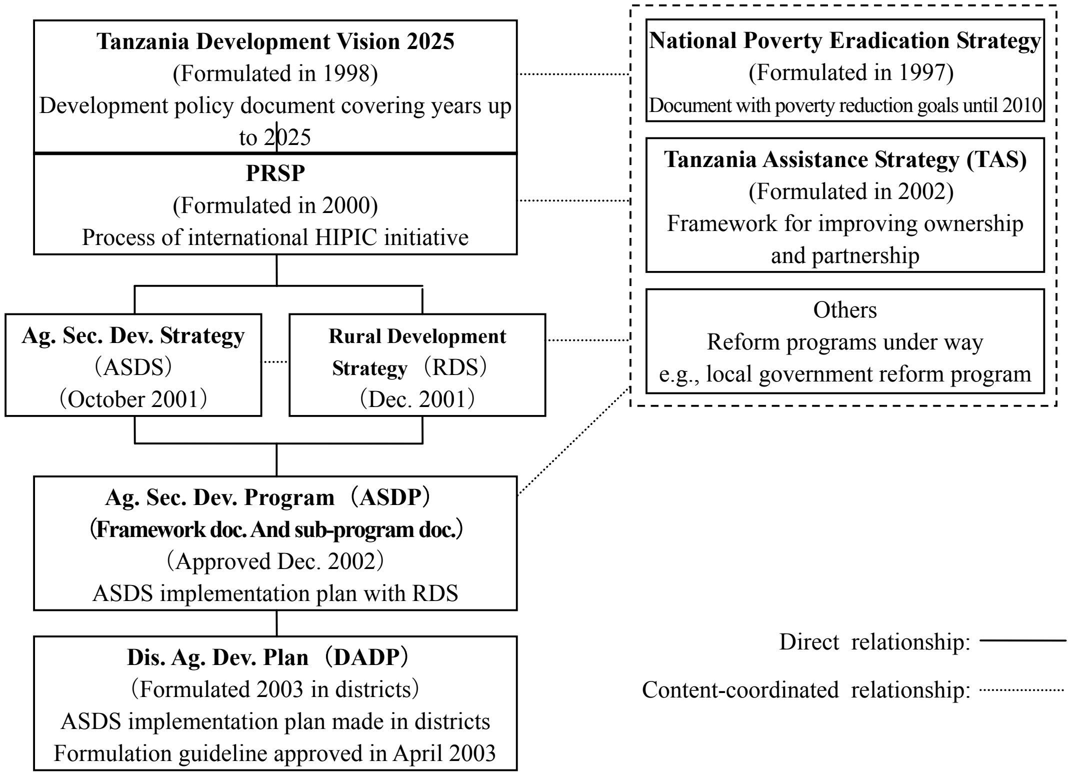
The Local Administrative Program was established in 1999 as a six-year program to promote decentralization. This program consists of the components given below: (1) Democracy, good governance, increasing awareness of the governmental accountability to the citizens; (2) ability development to increase the quality of administrative service in the local government; (3) Expanding the revenue sources of the local government and improvement of effective investment abilities of the funds; (4) penetrating the awareness of accountability and human resource management in the local governmental staff; (5) Organization reform of the local government and promotion of decentralization through the revision of the related laws; and (6) Effective implementation of the program. The program is planned in 3 phases. In the first phase, 38 districts within the 114 districts which are though to have a relatively good revenue base were implemented, and in phase 2 and 3, 45 and 31 districts were each chosen as enforcement rights.

(2) The Framework of Public Agricultural Service Provision and Support through Development Partners.

1) The Reality of Developmental Policies and Agricultural Policies

Many midterm plans exist in Tanzania, and numerous strategies and plans are implemented at the same time. As the context of each plan is different it is difficult to clearly pinpoint the relations, however it is as shown in Figure 2-43. The agricultural policy of Tanzania is established to be consistent with the strategies at the upper level.

Figure 2-43 Relations of major agricultural policies, strategies and plans in Tanzania



Source: By the study group based on Study for Support to Formulation of the Tanzania Local Development Sector Program, Vol. 3, Section 2, Phase 3 (2002) (JICA, 2004)

"Tanzania Development Vision 2025" shows Tanzania's long-term economic and social vision for the future and the national policy to achieve it by the year 2025. The other strategies and plans in the figure above are short- and midterm plans needed to achieve the above vision. The Tanzania Assistance Strategy (TAS) began its implementation in June 2002, putting forward a framework for improving aid coordination and improving Tanzania's ownership in the development process. A goal of TAS is to manage aid funds from overseas effectively and support national efforts for development.

The formulation of PRS began in 1999 and completed in October 2000. PRSP regards economic growth as a major means of poverty reduction and states that the major goal of poverty reduction is to accelerate equitable economic growth. It also regards agriculture as a strategic sector because most of the poor make a living on it. PRSP that was completed in October 2000 aims to formulate the agricultural sector development strategy by June 2001 and the rural development strategy by December 2001. The Agricultural Sector Development Strategy (ASDS) was formulated in October 2001; the Rural Development Strategy (RDS) was also formulated by December 2001. With the completion of these strategic papers and achievement of other conditions for debt relief, the World Bank and IMF recognized that

Tanzania officially reached the Completion Point of HIPC and approved debt relief for the country.

2) Agricultural Sector Development Strategy (ASDS) / Agriculture Sector Development Program (ASDP)

The Ministry of Agriculture and Food took the lead in the formulation of the Agricultural Sector Development Strategy (ASDS). The task force (consisting of representatives of the government and development partners) under the Food-Agricultural Sector Working Group (FASWOG), the Ministry's advisory committee, carried out the formulation. The formulation of ASDS was completed in October 2001. The formulation of the Agricultural Sector Development Strategy (ASDP) also began in October 2001, and completed in December 2002[188].

ASDS aims by 2025 to achieve high productivity and profitability through modernization and commercialization of agriculture and maintain sustainability of natural resources utilization. It also aims at strengthening of partnership and dialogues between the private and public sectors, and strengthening of small farmers' cooperatives and research institutions.

ASDP is the sector program with the implementation of ASDS in mind and shows the institutional and budgetary framework for ASDS implementation. The main objective of ASDP is to increase farmers' income through improvement of productivity and profitability of the agricultural sector, and raise the annual growth rate of the agricultural sector from 5% in 2003 to 8% in 2007. ASDP has the following three sub-programs: (i) agricultural investment at the central and local levels; (ii) support to the agricultural sector at the central level; (iii) cross-sectoral issues in the agricultural sector. The framework of ASDP implementation has been revised and developed several times. Currently, the four task forces consisting of the government and development partners take the lead in formulating and implementing ASDP. In addition, the Inter-ministerial Coordination Committee are arrange the task forces[189]

3) Rural Development Strategy (RDS)

The Rural Development Strategy (RDS) was formulated on October 2000 by the Inter-ministerial Technical Committee set up by the Inter-ministerial Coordinating Committee under the Prime Minister's Office. The Government-Development Partners Working Group under the Inter-ministerial Technical Committee drafted RDS and finished the task in December

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188 Study for Support to Formulation of the Tanzania Local Development Sector Program, Vol. 3, Section 2, Phase 3 (2002) (JICA, 2004), p. 14-3.

189 The Inter-ministerial Coordinating Committee is the decision-making organization composed of the vice ministers of the Ministry of Agriculture and Food Security, Ministry of Fisheries Development, Ministry of Cooperatives and Distribution, and the Agency of Local Self-Governance.

2001[190]. RDS shows the framework for coordinating and implementing sector policies and strategies on rural community development. RDS and ASDS are closely linked and constitute two pillars of rural development in Tanzania.

4) District Agriculture Development Strategy（DADP）

Agricultural investment and project implementation at the central and local levels, which are the sub-programs of ASDP, are to be implemented on the basis of the District Agriculture Development Strategy（DADP）. Based on the formulation of ASDP in 2002, the government of Tanzania in 2003 appropriated the 2003/4 budget of US$11 million and decided to allocate a development budget for implementing DADP that were formulated by district governments and it approved. The ASDP formulation guideline (a working document) by the government of Tanzania was already complete with the backing of Japan. The DADP formulation workshop using the guideline began in February 2003. In 2004, the Ministry of Agriculture and Rural Development assessed DADP and allocated a budget for it. Thus, partly due to political consideration, the formulation of DADP and allocation of a budget to it was done and implemented in a short time, covering all 113 districts nationwide. Accordingly, improvement in the capacity of district governments in formulating and implementing plans is critical for effective implementation of DADP[191].

(3) State of the major projects and programs that the development partners support[192]

This section will describe a few major projects by JICA and other development partners in the agricultural sector. The project team believes that there should be no unnecessary duplication between Japan's assistance to the agricultural sector and the assistance by other development partners; they should rather complement each other. According to a report by the ASDP office in February 2004, in addition to Japan, the following are the major development partners of current or planned assistance projects in the agricultural sector of Tanzania: IFAD, the World Bank, the African Development Bank, Denmark and Ireland. Assistance by the development partners covers a wide range of areas. The following passage is on assistance projects that seem relevant to assistance to rural administration capacity building in the agricultural sector.

1) Study on support to formulation of the rural development sector program in Tanzania

JICA served as both the secretariat for the task force of the Food and Agriculture

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[190] Ibid.
[191] Ibid.
[192] Based on the report by the study mission on strengthening the support system to agricultural development in the coastal states of Tanzania.

Sector Working Group (FASWOG) under the agricultural sector development strategy office and the secretariat for the unofficial development partners meeting on the Rural Development Strategy（RDS）. The study above provided technical support to JICA in these tasks. The study mission supported the government of Tanzania in the formulation of ASDS, ASDP, DADP formulation guideline and DADP itself. It also assisted JICA in setting up the coordination framework of development partners on formulating and implementing the above plans. The study mission also carried out collection and analysis of basic information, making intellectual contribution to the government of Tanzania and development partners.

In addition, JICA carried out assistance in the following areas: master program by the study on the development plan for small horticulture in poor farm households in the coastal states, formulation of an action plan, and field study (for four years starting in 1999); selecting potential areas for irrigation and formulation of a development program by the national irrigation master plan study (implemented since November 2001); and improvement of healthcare administration at the regional and district levels through the plan for strengthening healthcare in Morogoro region. The following means used in these projects will be useful for future support by JICA for DADP formulation and implementation: a participatory capacity building approach, formulation of a guideline for the irrigated farming development division, and the contents of strengthening administrative and managerial capacity of regional and district governments.

2) Participatory Agricultural Development and Empowerment Project

The government of Tanzania has been implementing this project since 2003 with a loan from the World Bank. Aiming at improvement in farmers' income and food security of communities, this project provides financial and technical support to small agricultural development projects that the communities and farmers' groups plan and implement on their own for such purposes. This project targets small farm households in 840 villages in total and is to be implemented in 28 out of 114 districts nationwide.

The first component of this project consists of the following activities: beneficiary farmers or farmer groups plan and implement on their own small projects called sub-projects with the support of agriculture dissemination personnel of district and county offices, NGOs and the private sector. Funds for implementing sub-projects are sent directly to communities and farmers' groups through county offices. The second component is to strengthen institutions and administrative and managerial capacities at the village, district and central levels for supporting and managing such project.

3) Support to the Agricultural Sector Program, Phase II

Since 2003, supported by Denmark, the government of Tanzania has been implementing the Phase II of the Agricultural Sector Program. The development objective of this program is to sustain a higher rate of income growth in rural areas than now. The program consists of the following components: (i) support to policy and regulatory reform; (ii) support to the private agricultural sector; (iii) guaranteed seed production project by small farmers; and (iv) strengthening in a participatory fashion the planning and financial management capacities of districts, counties and villages, as well as small infrastructure development such as roads and irrigation with an investment development fund.

4) Agricultural Services Support Program I

The Agricultural Services Support Program is a program that the government of Tanzania is planning with the support of IFAD, Ireland and the World Bank. In February 2004, the government of Tanzania released its concept paper of the program to the development partners[193]. With improvement of agricultural productivity and profitability and increase income in mind, which are the objectives of ASDP, this program is meant to improve agricultural knowledge of farmers and their access to technologies. The duration of this program’s implementation is 15years, and the first phase is expected to last 5 to 7 years. The first phase of this program is to implement the following three components: (i) empowerment of farmers (demand side); (ii) reform and capacity building of public and private sector agricultural services (supply side); and (iii) program coordination at the central government, zone and district levels and quality control of services.

[193] "Agricultural Services Support Programme (ASSP): Concept Paper, Draft for Discussion on 17 February 2004", Government of Tanzania, 2004.