

# Progress reviews and performance assessment in poverty-reduction strategies and budget support

## A survey of current thinking and practice

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# Acronyms

ACP	Africa, Caribbean and Pacific
ADB	African Development Bank
ADLI (Ethiopia)	Agricultural Development Led Industrialisation
AP	Andhra Pradesh
APR	Annual Progress Report (on PRSP)
BPR (Uganda)	Budget Performance Report
BWG	Budget Working Group
CAS	Country Assistance Strategy (World Bank)
CDF	Comprehensive Development Framework
CEC	Commission of the European Communities (= EC)
CFAA	Country Financial Accountability Assessment
CG	Consultative Group
CPAA	Country Procurement Accountability Assessment
CPAR	Country Procurement Assessment Review
DAG (Ethiopia)	Development Assistance Group
DBS	Direct Budget Support
DFID	Department for International Development (UK)
DPL	Development Policy Lending (World Bank)
EC	European Commission (= CEC)
EU	European Union
EvD	Evaluation Department (DFID)
FY	Financial Year
GBS	General Budget Support
GoE	Government of Ethiopia
GoM	Government of Mozambique
HIPC	Highly-Indebted Poor Countries
HLF (Ethiopia)	High Level Forum
IEO	Independent Evaluation Office (IMF)
IDA	International Development Association (World Bank low-income country window)
IMF	International Monetary Fund
IMG (Tanzania)	Independent Monitoring Group
MDG	Millennium Development Goal
MFPED (Uganda)	Ministry of Finance, Planning and Economic Development
MoE	Ministry of Education
MoFED (Ethiopia)	Ministry of Finance and Economic Development
MoH	Ministry of Health
MoRD (Ethiopia)	Ministry of Rural Development
MoU	Memorandum of Understanding
MTEF	Medium-Term Expenditure Framework
OE (Mozambique)	State Budget
ODA	Official Development Assistance
OECD-DAC	Development Assistance Committee, Organisation for Economic Cooperation and Development
OED	Operations Evaluation Department (World Bank)
PAF	Performance Assessment Framework
PAF (Uganda)	Poverty Action Fund
PAPPA (Mozambique)	Programme Aid Partner Performance Assessment
PAP	Programme Aid Partner
PARPA (Mozambique)	Action Plan for the Reduction of Absolute Poverty
PEAP (Uganda)	Poverty Eradication Action Plan
PEFA	Public Expenditure and Financial Accountability program

PER	Public Expenditure Review
PES (Mozambique)	Economic and Social Plan (annual)
PFM	Public Financial Management
PMAU (Uganda)	Poverty Monitoring and Analysis Unit
PRBS	Poverty Reduction Budget Support
PRSC	Poverty Reduction Support Credit (World Bank)
PRGF	Poverty Reduction and Growth Facility (IMF)
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PSR (Uganda)	Poverty Status Report
ROSC	Review of Observance of Standards and Codes (IMF)
SDPRP (Ethiopia)	Sustainable Development and Poverty Reduction Programme
SPA	Strategic Partnership with Africa
SWAp	Sector-Wide Approach programme
TA	technical assistance
UNDP	United Nations' Development Programme
URT	United Republic of Tanzania

# Executive summary

This report describes and analyses the challenges posed by the monitoring and evaluation of Poverty Reduction Strategy Papers (PRSPs) and budget support programmes. It draws on recent studies and surveys, and on the experience of selected donor organisations and countries, making use of documents and interviews. There are four chapters that give an overall perspective on the issues, a Conclusion and an Annex containing details of arrangements and processes of change in five counties (Ethiopia, Mozambique, Tanzania and Uganda)

## Chapter 1: Introduction

The PRSP approach is the outcome of a long period of learning by the international community about how to support poverty-reduction effectively in the poorest countries. It responds to growing concerns about weak country ‘ownership’ of development policies and the negative institutional impacts of both free-standing project assistance and policy-based conditionality. The approach is best understood as a set of principles or aspirations and not as a ready-made and well-tested method. This applies to the PRSP experiment generally, and particularly to PRSP monitoring arrangements and the mechanism of the Annual Progress Report (APR), which are the main focus of the study.

The donor community has committed itself to making aid more effective by harmonising and aligning programmes around country policies and systems. General budget support (GBS) is not the only way of delivering on this commitment, but an increasing number of agencies see it as the best way, when country conditions are appropriate.

Several particular questions arise for the agencies that move in this direction: how to justify the expenditure to taxpayers and political leaders at home who are concerned about results, such as attainment of the Millennium Development Goals; how the fiduciary risks associated with this aid modality are being assessed and managed; how the performance-assessment mechanisms or conditionalities that are agreed for the programme are related to the country arrangements (including the PRSP annual progress review); and how the positive institutional impacts of GBS are to be evaluated in the longer term. These are the main questions addressed in this study.

## Chapter 2: The PRSP annual progress review

The annual progress review is the process that generates, in the typical case, an Annual Progress Report on the implementation of the PRSP. In principle, the APR serves three purposes:

- it is a source of policy learning for the government;
- it is a mechanism enabling citizens of the country to hold the government responsible for its commitments under the PRSP; and
- it provides a focus for donors who wish to rely more on the country’s own reporting systems.

Evaluations have suggested that most APRs are still weak as learning instruments, and not well articulated with more established reporting and policy-making mechanisms such as the national budget. Survey evidence suggests that APRs play a very limited role in providing accountability to citizens, although this is a reflection of the low demand for accountability arising in national political systems as well as of the quality of APRs. How much the limited impact of the APR matter depends on the degree to which the country’s other mechanisms for learning and accountability (e.g. the annual budget) are working well.

In African PRSP countries, the APR is not yet well established, and separate donor demands for information from government are not being greatly reduced. There appear to be two distinct reasons for this. On the one hand, donors are still insufficiently motivated to restrict their information demands. On the other

hand, PRSP annual review processes are not sufficiently robust to support more rigorous alignment and harmonisation efforts. It is for this reason that budget-support donors in a growing number of PRSP countries aim to agree supplementary performance-assessment arrangements among themselves and with government.

There are a number of reasons why donors have doubts about the robustness of APRs (and the same range of factors is relevant to their limited usefulness for learning and accountability). Deficiencies in the data-collection systems are important. But more important and more easily addressed is the way PRSP monitoring is typically set up, without the benefit of a well-worked Logical Framework or equivalent description of the actions needed to achieve objectives, and with a strong focus on the outcome and impact levels of result. It would be helpful if second-generation PRSPs were accompanied by an action-oriented Policy Matrix as well as the usual type of results monitoring matrix, as in the latest Ugandan PEAP.

### **Chapter 3: Risk- and performance-assessment in budget-support programmes**

Budget support to PRSPs is in its infancy, and donor approaches are developing fast, both at headquarters' offices and within certain countries. The DFID approach is beginning to be set out formally in guidance documents. The guidance places a strong emphasis on decisions by the country offices. Country offices are expected to make a balanced and formally-recorded assessment of both the risks and the developmental benefits that would flow from a budget-support agreement, and the review mechanisms that would suit the country circumstances. The European Commission has also developed a distinctive policy. This attempts to provide both reliable financial flows and a results orientation by disbursing funds in two distinct 'tranches' governed by sharply different criteria.

IMF PRGF programmes are a key reference point for budget-support donors. The IMF has made serious efforts to promote and comply with the spirit of the PRSP approach, but there remain questions about whether the relationships among the conditionalities of the Fund, the Bank and the other donors have changed enough. World Bank rules on their Development Policy Lending call for detailed assessments of country accountability systems and other 'analytic underpinnings'. Responsibility for undertaking these assessments has been formally transferred to the borrower country. The reality is that the different lenders and donors are still requiring countries to handle a wide range of distinct assessment tools. The harmonised approach proposed by the Public Expenditure and Financial Accountability (PEFA) program appears preferable.

While aid organisations still take separate approaches to risk-assessment, other dimensions of performance are increasingly dealt with in a coordinated way by budget-support groups at the country level. Policy action matrices and other Performance Assessment Frameworks (PAFs) are a common manifestation of these efforts. They are clearly a response to a donor perception that PRSPs are in need of greater 'operationalisation' and that APRs, in particular, need supplementing with additional review mechanisms. On the other hand, they pose the obvious danger that they will weaken whatever has been gained through the PRSP process in building better and more country-owned policies. They could easily become a vehicle for the type of conditionality that proved ineffective and unhelpful in the pre-PRSP era.

The challenge of reducing the gap between PAFs and APRs needs to be tackled from both sides. Fortunately, in several countries the current arrangements are being actively adjusted. This makes it more likely that the practices of both governments and donor groups will evolve in an interactive way, so that the PRSP principles are realised progressively over time. It seems unlikely and undesirable that PAFs will lose their focus on policy actions, or on what governments do, but it is desirable and feasible for PRSP monitoring to become more systematically action-oriented. The handling of governance issues in PRSPs and budget-support performance matrices remains an especially controversial issue.



## Chapter 4: Evaluating budget support

Donors providing budget support in a PRSP context need to know whether a country's strategies and systems are working as well as they can do to reduce poverty – hence the importance of monitoring. They also need to see evidence to support the commitments that have been made to budget support as an aid modality – which is a matter for evaluation.

A joint evaluation of general budget support programmes is currently taking place under the auspices of the OECD DAC in a number of countries. A single-country joint evaluation has been completed for Tanzania. At this moment, it is possible to report only on the conceptual framework that is being used; the findings of the initial exercise undertaken to assess its usefulness; and the main findings from the Tanzania evaluation.

The framework sets out the chain of causation that promoters of GBS believe will make it effective, under the right country conditions. It includes intermediate institutional transformations such as improved public-service systems and greater democratic accountability, as well as lower transaction costs and other efficiency gains. Initial application of the framework to Uganda suggested that, while the positive effects of GBS could be expected to materialise under the right circumstances, they would never be automatic. The Tanzania evaluation confirms that channelling aid funds through the budget can dramatically improve the pattern of public spending. But gains in efficiency, effectiveness and accountability are harder to realise, especially if there are not yet strong domestic political pressures in favour of these objectives.

## Chapter 5: Conclusions

The main conclusion of this survey of thinking and practice in progress reviews and performance-assessment is that it is 'unfinished business'. Neither APRs nor the supplementary monitoring mechanisms put in place by donor groups are yet effective for converting the PRSP principles into reality. But many of the actors involved are well aware of the challenges this situation poses. There are signs that progress will be made if they respond jointly to them with enough vigour and creativeness.

The annex of the report contains desk-based summaries of the APR and PAF mechanisms in Ethiopia, Mozambique, Tanzania and Uganda. The details include sample pages from the relevant Policy Matrices.



# 1 Introduction

## 1.1 PRSPs and budget support: the challenges of monitoring

Five years after its first adoption, the Poverty Reduction Strategy Paper (PRSP) approach remains central to international policy thinking about development assistance and debt relief for poor countries. International endorsement of the approach was reflected in the Monterrey consensus of 2002 and reaffirmed in the Rome Declaration of 2003. 40 countries now have a PRSP and a commitment to its implementation, and a second generation of strategies has emerged, in Bolivia, Burkina Faso, Nicaragua, and Tanzania. Uganda, the forerunner of the PRSP approach, has already developed its third strategy.

Budget support, the modality of development assistance most closely associated with the PRSP approach, has also gained ground in recent years. Bilateral as well as multilateral donors have been moving progressively from project to programme aid, and from import support to direct funding of the national budget. The United Kingdom, the Netherlands and several Nordic countries have committed significant proportions of their bilateral aid to budget support. Since the Cotonou Agreement and the declaration of the Commission and Council of Ministers in November 2000, the European Union has also committed itself to allocating an increasing proportion of its development co-operation in the form of budgetary aid.

The central place of PRSPs and wider adoption of budget-support modalities pose some significant challenges for the international donor community. How shall we know whether poverty-reduction strategies are being effectively implemented and having the desired results? How is budget support being delivered, and how are the risks and results associated with these programmes being assessed? What are the relationships between the review processes established to monitor PRSP implementation and the donor systems around budget-support agreements? To what extent do these arrangements provide robust and credible evidence that the approach is working?

This report summarises current thinking and practice on these questions, drawing particularly on the experience of the United Kingdom's DFID and other agencies that have been pioneers of the approach. It aims to provide a frank and informative overview of the achievements, difficulties and outstanding issues surrounding the monitoring and evaluation of PRSPs and the related budget-support programmes.

This opening chapter is divided into five sections. First, we provide a brief reminder on the origins of the PRSP approach in the international policy debates of the late 1990s. Then we outline the key characteristics of the approach. Thirdly, we introduce the main monitoring and evaluation challenges which the PRSP approach presents. The structure of the rest of report is then explained.

## 1.2 The PRSP approach

The PRSP approach, as treated in this report, incorporates a set of key principles – also reflected in contemporary initiatives such as the World Bank's Comprehensive Development Framework (CDF) – that sum up 20 years or more of learning about the conditions for effective poverty reduction in developing countries. While in many respects the approach remains experimental and unproven, it represents a genuine attempt to tackle some of the most difficult challenges facing the world's poorest countries.

This means that it would be a grave mistake to treat the PRSP initiative as a mere passing fashion. But this applies to the principles and not to the details of current practice. In very few countries, if any, does the PRSP approach represent a tried and tested method of meeting the challenge of poverty reduction. The actual reality of PRSPs is highly problematic in many respects.<sup>1</sup> But in many of the poorest countries, the PRSP principles express the only reasonably credible set of common aspirations after decades of disappointing performance by governments and donor agencies alike.

## *The background*

As is well known, the details of the PRSP idea were formulated during 1999 in the course of discussions about the forms of conditionality that should accompany the Enhanced HIPC Initiative. However, the PRSP initiative was also and more importantly a response to a profound crisis of confidence confronting the World Bank, the IMF and the rest of the international donor community towards the end of the 1990s.<sup>2</sup>

The crisis had several sources, both internal and external to the development organisations themselves. However, the long-term accumulation of negative experiences in poverty-focused development assistance was the most critical factor. Two dimensions of this experience were particularly influential:<sup>3</sup>

- *Accumulating evidence on the damaging institutional side-effects of aid programmes dominated by project finance.* Project evaluations over the 1980s and 1990s repeatedly drew attention to high recipient-side transaction costs, inefficient resource allocation, sustainability problems arising from lack of real ‘ownership’ by the recipient, and the undermining of national institutions by parallel project-management units. While some of the weaknesses could in principle have been overcome through better design, others such as the lack of ownership and the weakening of government systems appeared to be inherent in the project modality of assistance.

Progressively, this led to the search for new and better aid instruments. Initially, this took the form of Sector-Wide Approach Programmes (SWAp) and other ‘programmatic’ instruments designed to provide co-ordinated support to policies designed by the national authorities within a particular sector. However, towards the end of the 1990s the logic of restricting support to country policies and use of national systems to particular sectors was increasingly questioned.

- *Growing evidence on the ineffectiveness of policy conditionality.* The 1980s and early 1990s witnessed a sharp increase in the number of technical or economic conditions attached to World Bank and IMF structural adjustment programmes, and in the number of political conditions attached to bilateral donor programmes. Yet a large body of research called into question the effectiveness of conditionality.<sup>4</sup>

According to these studies, programmes were rarely properly implemented, and had little influence on broader policy trends, especially those relating to governance. This was partly because conditions were rarely backed by a credible threat of withholding funds, as donors faced institutional pressures to disburse and rarely responded to non-compliance in a co-ordinated fashion.<sup>5</sup> The result was that governments had a clear incentive to accept conditions as a means of accessing financing, whether or not they had either the conviction that the policies were appropriate, or any real intention of implementing them. Successful policy reforms were largely restricted to cases where the role of conditionality was limited to reinforcing domestic commitments, or where policies were locally ‘owned’ by government or other political constituencies within the country.

During the 1990s, therefore, there was increasing recognition of the importance of country ownership of policies and programmes, at the same time as greater awareness of the negative institutional implications of delivering aid in ways that by-pass national systems. This was the background to the PRSP initiative. It implied that the donor community should be doing more to build national policy ownership and domestic accountability. Rather than trying to force their preferences on unwilling partners, donors should work with governments to agree a mutually acceptable set of policies and programmes, which would stand a much greater chance of being properly implemented. As far as possible, aid should support national priorities, using national systems.

## *Key characteristics*

In September 1999, the Executive Boards of the World Bank and IMF formally endorsed a new approach which captured these emerging ideas about effective aid for poverty reduction. The approach visualised a partnership between donors and recipient governments built around a mutually-agreed agenda of reform,

with a new commitment to fostering national ownership and domestic accountability.

The PRSP lay at the heart of this new vision. A PRSP was to be a national plan of action for tackling poverty, produced by the recipient government in a process guided by five principles. The strategies should be country-driven and involve broad-based participation by national civil society. They should be results-oriented, focusing on outcomes which benefit poor people, and also comprehensive, in recognising the multi-dimensional nature of poverty including both its economic and social dimensions. They would be partnership-based, involving the co-ordinated participation of development partners such as multilateral, bilateral and non-governmental development organisations, and would adopt a long-term perspective on poverty reduction. These principles were essentially the same as those previously underpinning the World Bank's CDF.

Five years later, the PRSP process is now well established. It begins with the production of an 'Interim' PRSP, which sets out a country's existing poverty reduction policies and outlines the steps that will be taken towards producing a full strategy. The full PRSP is then drafted by the national government in consultation with civil society, the private sector and donors. Its content ideally includes some analysis of the country's poverty profile; a description of the participatory process used; an outline of macroeconomic, structural and social policies; and targets, indicators and systems for monitoring implementation. Agreement on the strategy is supposed to depend on national stakeholders only. However, a key step is the 'endorsement' of the document as a suitable basis for concessional lending and HIPC relief by a joint committee of the World Bank and IMF in Washington, DC.

The most important feature of the process for the purposes of this report is the role of the Annual Progress Report (APR). Each year following agreement on the PRSP, the government is expected to conduct a review of progress in implementing it, and publish an APR. The APR is considered to be the apex of a system for monitoring PRSP implementation. It is also meant to provide the evidence that will be used to draw lessons and improve the content of the PRSP on a regular (2-5 year) timetable.

The requirement to produce an APR is viewed by the Washington-based institutions and other donors as a crucial factor in the new, partnership-oriented vision of development assistance. It is meant to reinforce the domestic relationships of accountability for poverty-reduction efforts that will have been created, to a greater or lesser extent, during the consultations over the content of the strategy. It is also seen as critical to improving the aid relationship. The commitment to implementing national policies and making fullest possible use of national institutional arrangements can only be realised if there is both a credible national plan and a mechanism for monitoring its implementation.

The APR is a significant document for all donors that aim to align their assistance with national priorities and systems. However, it obviously has particular importance and potential where the preferred modality of support is direct funding of the national budget.

### **1.3 Budget support in a PRSP context**

The PRSP approach envisages a partnership between donors and a country around a mutually-agreed agenda for poverty reduction. Included in this partnership concept is an obligation on the part of the donors to provide predictable, long-term financial support to governments implementing a PRSP. The support is expected to be not only aligned with national policies but provided in a co-ordinated and harmonised fashion, so that it helps to build national institutions and enhance government accountability to citizens. Increasingly, direct budget support has come to be seen as the modality of aid delivery through which donors can most effectively discharge their responsibilities in this regard.

Direct budget support is defined as channelling donor funds to a recipient government using the government's own allocation, procurement and accounting systems. Two main types of direct budget support are widely recognised:

- *Sector budget support* is financial aid disbursed to the general budget but earmarked to a discrete

sector or sectors. This is different from Sector-Wide Approach (SWAp) financing, which typically contains a mix of project aid and common-basket modalities, the bulk of which is not disbursed through government systems.

- *General budget support*, on the other hand, is financial assistance provided as a contribution to the overall budget. Funds may be notionally ‘accounted for’ against certain sectors, but there is no formal limitation on where funds may actually be spent

This report is mainly concerned with general budget support, which poses most straightforwardly the challenges that concern us. For ease of reading, this term is also used throughout the report to include the balance of payments support provided by the IMF, regional development banks and some bilaterals. Balance of payments support is aimed at enabling low-income countries to rebuild their international reserves, stabilise their currencies, continue paying for imports and thereby restore conditions for strong economic growth. In the case of the IMF, this form of support is paid to the central bank rather than the government, and it does not necessarily provide funds for the budget. Nonetheless, in a PRSP context it has many of the same implications.

#### 1.4 Monitoring and evaluation challenges.

The PRSP approach presents a number of distinct challenges from the point of view of the monitoring and evaluation of development assistance. This is particularly true when assistance is provided as budget support. We distinguish three types of issue:

- The move away from project financing and policy conditionality, towards a partnership-based approach, can be difficult to reconcile with donor agencies’ commitments to their own parliaments and electorates. Agencies are typically committed to pursuing definite objectives expressed in terms of outcomes and results at country level, often those recognised internationally as the Millennium Development Goals (MDGs).
- If there is an adequate operational framework for PRSP monitoring, capped by a credible APR, this may not pose a serious problem. That is, the APR may provide sufficient information to meet donor requirements in accounting for budget support, and in a way that does not detract from national ownership and accountability to domestic stakeholders. But what happens if the APR and the associated review process are weak? What happens, indeed, if the PRSP itself is weakly linked to the budget and thus disconnected from one of the main determinants of actual policy action?<sup>6</sup>
- Providing support through the government budget, and relying on national accountability arrangements, generates a set of monitoring issues that is different from the set associated with separately-managed projects. On the one hand, there is a distinct set of issues to do with managing fiduciary risk. The fiduciary problems presented by general budget support are not necessarily greater than those associated with projects (especially when the fungibility of project money is taken into account). However, they are different. In particular, the relationship between risks and benefits is more complex. Does this require a fresh approach to risk reduction and management?

On the other hand, budget support implies a closer and probably more co-ordinated involvement of donors with national institutions, especially financial authorities and parliaments. In this context, the question that arises is: are there ways in which donors can help by putting in place performance-assessment arrangements that serve a dual purpose – that of satisfying their own reporting needs and that of strengthening the PRSP and its monitoring?

- Budget support in a PRSP context is viewed by its proponents not just a means of financing the achievement of the Millennium Development Goals. It is also built on the belief that sustained poverty reduction depends on the structure and capacity of governmental institutions, and that budget support is more effective than project financing in building institutions. But how true is this? That is the question currently being addressed in a number of jointly-conducted evaluations of general budget support.

## 1.5 Structure of this report.

This report examines how these monitoring and evaluation challenges are being addressed by donors working in partnership with national governments. It includes a particular focus on the approaches adopted by four major donors with extensive experience in this area – the World Bank, the IMF, the European Commission (EC) and the UK Department for International Development (DFID). It draws on academic research, donor policy documents, evidence of emerging best practice at country level, and selected interviews with key informants. The report is organised as follows:

- Chapter 2 examines the role of the PRSP Annual Progress Reports and the associated review processes in monitoring PRSP implementation and meeting the reporting needs of both national stakeholders and donors.
- Chapter 3 considers the delivery of budget support, with attention to two particular themes: how different donors handle fiduciary risk, especially the relationship between risk minimisation and other development objectives; and the arrangements that are being developed for joint performance assessment of budget-support programmes in countries with PRSPs.
- Chapter 4 examines early thinking on how to evaluate general budget support, which is currently being applied in a multi-country joint evaluation under the auspices of the OECD-DAC.
- Chapter 5 concludes.

In addition, an annex is provided, containing four case studies of PRSP and budget-support monitoring arrangements, covering Ethiopia, Mozambique, Tanzania and Uganda.





## 2 The PRSP annual progress review<sup>7</sup>

### 2.1 Introduction

The PRSP annual progress review was intended play a crucial role in monitoring progress made by countries towards implementing their PRSPs. The original concept was that governments would want to review progress in implementation on an annual basis, with a view to learning lessons and making minor adjustments. After three years, a more thorough review would be undertaken and the strategy would then be revised. Some countries have since expressed their preference for a five-year cycle.

Up to September 2004, more than 28 Annual Progress Reports (APRs) had been produced in a total of 18 countries. Burkina Faso, Uganda and Tanzania had each produced three APRs, while Albania, Mauritania, Mozambique, and Nicaragua had each produced two.<sup>8</sup> This chapter examines the potential and actual role played by Annual Progress Reports in PRSP monitoring, including the place they have in the thinking of budget-support donors.

The remainder of the chapter is in six sections. The second section examines the role and purpose of the annual progress review, including the available guidance on the subject from the World Bank and IMF. The third section reviews evidence on the typical content of APRs, while the next three consider the extent to which APRs are currently performing the functions they are expected to fulfil for three types of PRS stakeholder. We conclude by considering some of the challenges arising under each of these headings.

### 2.2 Role and purpose

#### *General principles*

Annual Progress Reports are intended as a monitoring tool that meets the different but related needs of the three main stakeholders in the PRSP process: the government, the citizens of the country or their organisations, and donor providing support in the framework of the PRSP:

- reviewing progress in implementation is a means by which *government* can itself learn lessons and improve its performance in poverty reduction;
- the report is intended to support enhanced government accountability, enabling *citizens* to hold the government responsible for its successes and failures;
- it is intended to meet donor requirements in accounting for their assistance to the country, particularly but not only in respect of HIPC relief and PRSP-related budget support.

For budget-support donors seeking to monitor results, these three roles of the APR are inter-connected. Such donors generally believe in strengthening lines of downward accountability between the government and the citizens of the country, which implies support for regular reporting to citizens on progress made towards reducing poverty. They are also generally seeking to reduce the transaction costs they impose on government. They therefore tend to be supportive of a process designed to meet all donor needs through a single report once a year, which would reduce – and ideally eliminate – the need for multiple review missions and separate information requests.

#### *Guidance from the World Bank and IMF*

The World Bank and IMF do not currently provide guidance to governments on the preparation of Annual Progress Reports. This is consistent with their approach to PRSP process and content, which is meant to encourage country ownership and innovation. They do, however, provide guidance to their own staffs on issues to be addressed when preparing Joint Staff Assessments (JSAs) on these reports. This guidance provides quite a clear indication about their expectations.

In terms of process, the guidance states that countries must produce such reports on an annual basis and that they should be integrated with existing government review processes and the national budget cycle. In terms of content, the report is expected to make use of a matrix of policy actions linked to the PRSP. The guidance recommends a streamlined format for the report, focusing on key results, implementation progress and appropriate revisions (to PRSP targets, indicators and policies, for example).

When assessing APRs, staffs are asked to address the following questions:

- “Does the progress report provide sufficient information and analysis regarding the achievements and shortfalls experienced to date with respect to the poverty targets, priority public actions, and the monitoring and evaluation systems set forth in the PRSP?”
- Does the progress report propose any important changes in the strategy and if so, are these changes appropriate in the light of implementation experience to date, changes in exogenous factors, and new data and analysis regarding poverty and its determinants?
- To what extent has the government used its annual progress report to inform and/or involve domestic stakeholders and partners regarding implementation and to build support for its strategy?”<sup>9</sup>

Governments typically expect the offices that manage their PRSP and PRS monitoring processes to pay attention to expectations in Washington, even when the Bank and Fund staffs are restrained in offering advice. This does not always work well, because it requires the PRSP managers to make informed guesses about the expectations. Ideas about good practices picked up at international training events and conferences, or from in-country technical assistance personnel, can be quite influential in this way. It is possible that these influences have done more to shape the form and content of APRs than the JSA guidance just summarised.

One feature of the international “best practice” thinking about monitoring systems that may have influenced country approaches is that it is technically very ambitious, given the severe institutional constraints in poor countries. Another is that it places quite a strong emphasis on monitoring results at the outcome level, reflecting the increased interest in “results based” public management in various developed countries over recent years.

### 2.3 What do APRs contain?

A recent review by the Operations Evaluation Department of the World Bank<sup>10</sup> finds that most countries are using Annual Progress Reports in at least some of the ways suggested by the JSA guidelines. Ten out of twelve reports reviewed were found to describe the status of poverty, developments in the macroeconomic framework, and the implementation of priority sector policies and performance. The majority also reported on progress in developing monitoring and evaluation systems.

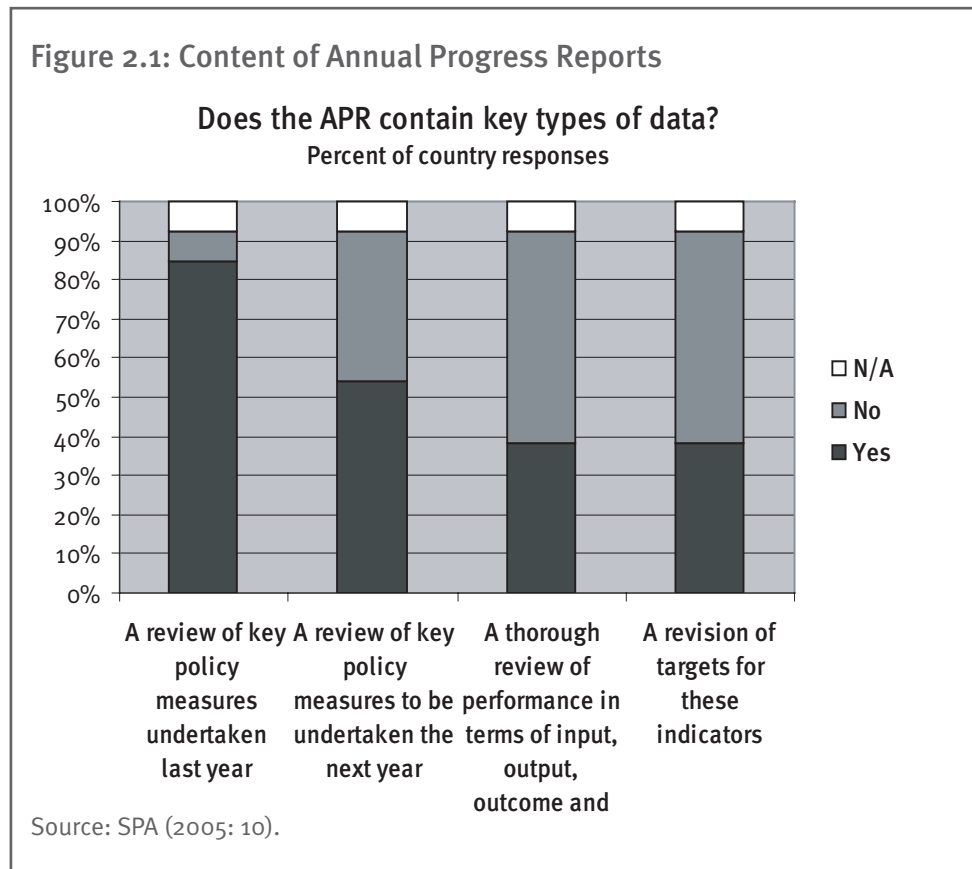
- All twelve countries reported their achievements in one or more priority sectors using quantitative indicators.
- Nine countries reported against either annual or medium-term targets. Burkina Faso, for example, created 31,870 water supply points in 2001 against a target of 31,000.
- Nine also reported on the country’s progress in fulfilling qualitative policy measures, but not always against a timeline. For instance, the 2003 Finance Law in Niger fulfils a 2002 PRSP target to adopt government accounting and budget nomenclature in accordance with international guidelines.

However, as IMF staff have recently pointed out, this is not sufficient. If the Annual Progress Report is to fulfil its expected role and purpose, it needs to move beyond providing a narrative report on progress achieved, and become a document with clear operational implications. This implies the inclusion of both a backward look to PRSP policies, targets and indicators, and a forward look to possible revisions of those policies, adjustments to targets and indicators, and to budget allocations for the forthcoming year.<sup>11</sup>

According to Bank and Fund staff, most reports produced to date have tended to be narratives rather than operational documents of this kind.<sup>12</sup> Additional evidence is provided by the series of surveys of aid alignment undertaken by the SPA's Budget Support Working Group.<sup>13</sup> The survey reports summarise information from joint country-donor assessments of various aspects of the PRS process, as well as individual donor views on various subjects, including the usefulness of APRs. The first year's survey reported that:

- In Malawi, the report was a list of policy measures which offered little potential as a basis for results-based reporting.
- In Mozambique, it was limited to a review of indicators even though other elements for assessing performance were to be found elsewhere, in parallel donor reporting instruments.
- Only in a small number of countries, such as Gambia and Uganda, did the Annual Progress Report appear to include all the basic elements of the forward and backward look suggested by the IMF staff.<sup>14</sup>

Figure 2.1 comes from the second survey and describes the content of the most recent APRs as of September 2004 in 13 African countries.



Nine countries responded to this part of the SPA survey in both 2003 and 2004. A comparison of the two sets of results suggests some changes in practice:

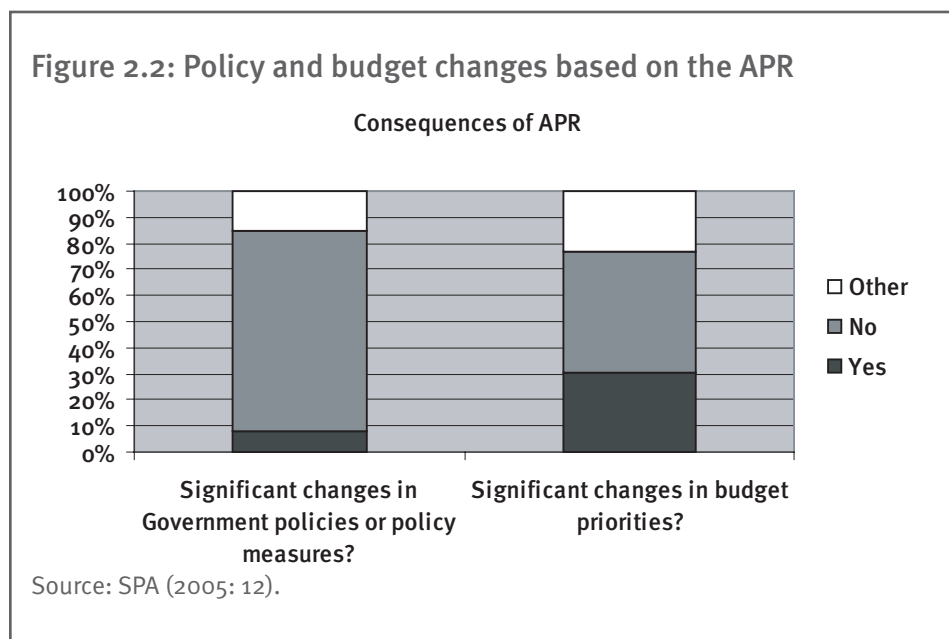
- “Countries that previously did not include a review of policy measures taken now do so.
- Countries have mostly changed their practice to include updates on new policy actions to be taken.
- There is considerably less inclination to include a thorough review of performance in terms of indicators.
- Although the trend is not clear cut, there is slightly more inclination to revise targets for following years”.<sup>15</sup>

This suggests some improvement. Survey respondents in some countries questioned whether a “thorough review of performance in terms of inputs, outputs, impacts and outcomes” is actually a practical and

desirable feature of an annual review process (in view of the proposed detailed reviews every three or five years). We are inclined to agree that it is impractical and undesirable. In that case, all of the changes seem to be in the right direction.

## 2.4 Are they a useful instrument for government?

In order to assess the usefulness of the APR for government the SPA survey asks whether the analysis contained in it has led to a change in government policy and/or to a reorientation in budget priorities. The large majority of responses in both years suggested no changes to the budget or to policies arising from APRs. Figure 2.2 summarises the results from the more recent survey.



Where annual progress reports have led to adjustments in the PRSP, they have tended to entail the introduction of more realistic targets and revisions to macroeconomic frameworks and growth projections. There are exceptions, however. One of Uganda's reports reviewed adverse trends in infant mortality and led to consideration of corrective action. In the last survey, only Uganda indicated that the APR had led to significant changes in government policy, while Burkina Faso, Ghana, Tanzania and Uganda noted significant changes in the budget as a result of the APR.

The reasons why APRs do not have a more substantial impact on policy are not easily uncovered without looking more closely at their content. We do that in sections 2.6 and 2.7, drawing on SPA donor assessments and other studies. But an obvious factor is that notable new evidence on outcomes, such as the Demographic and Health Survey data on infant mortality in Uganda, does not become available very often, and certainly not on an annual basis. This is also one of the reasons why a 'though review of ... outcomes and impacts' is an inappropriate objective for an APR, as commented in the last section.

The reasons why APRs influence budgets in only a minority of countries is that links between PRSPs and countries' budget processes have generally been weak. Strengthening this relationship is an important challenge. However, the nature of the challenge varies across countries.

In some countries, there are clear mechanisms for translating PRSP priorities into corresponding budget allocations (for example, a Medium Term Expenditure Framework which sets sectoral ceilings that have to be observed in the annual budget). In these cases, the APR is often not well-connected with the budget cycle, but this is more a question of timing than a problem of principle. In a larger number of countries, such mechanisms hardly exist, which is a major limitation on the impact of the PRS process. In these cases, the APR will have a more limited but potentially useful role. We discuss these two types of situation in turn.

Where the budget process is well established, there are some particular challenges to do with timing. Experience suggests that the APR needs to be prepared late enough in the year for the government to have had time to analyse data about last year's performance, including budget execution and sector results. On the other hand, it needs to appear early enough to influence the policy priorities and budget allocations for the forthcoming year. This is quite difficult to manage.

So far, it seems that few reports have managed to fit neatly into the national budget cycle in this way:

- Annual Progress Reports are often completed too late in the budget year to influence budget negotiations. At best, their influence has been confined to small contingency funds rather than overall priorities and allocations. This applies in Uganda, where a contingency fund is held back until the APR, and then used on priority actions. In Tanzania, a similar contingency is retained for use in responding to shocks and unexpected results highlighted in the report.
- Many reports have been timed to align with donor reporting cycles, rather than the national budget cycle. In almost all the case studies reviewed by World Bank OED,<sup>16</sup> plans for producing the Annual Progress Report respond to World Bank and IMF timetables, rather than domestic monitoring needs. This applied in a striking way in Malawi, where the government was keen to access HIPC relief and so produced its Annual Progress Report very early in the budget year and before many key government data-sets had become available for analysis.

The challenge of integrating the APR with the budget cycle has left some governments asking what value this report adds to the existing government reports on budget execution and sector performance which are used to shape the forthcoming budget. The value-added of the APR may, indeed, be unclear in countries which have a functioning and well-integrated planning and budget cycle – where budget out-turns are known and ministries account for their allocations partly on the basis of results. However, those countries are few, and in the majority of PRSP countries this is not the case.

Despite the lack of evidence that APRs have an influence on policies or budgets, there are suggestions that annual review processes are beginning to play a useful catalytic role. In some countries, they are drawing together disparate government reporting processes and helping to create the pre-conditions for linking plans and budgets. Recent field reports give the following examples:

- In Ethiopia and Kenya, governments are using the APR as a means of drawing together sector and sub-national processes into a single, national planning and budget process.
- In Vietnam, the report has brought together an unprecedented volume of data from across government in a single document for the first time. This is seen as an important step towards a more integrated national planning and budget process.
- In Malawi, the annual progress review helped joint sector working groups to re-engage with the PRS process; they saw it as an opportunity to re-open debate about PRSP policies, targets and indicators.
- In Malawi and other countries, however, some line ministries and departments avoid participating in the APR process precisely because it is seen as creating conditions for greater linkage between the poverty-reduction efforts and the budget. (They fear that they could end up with a reduced share of donor funding if there are fewer projects and more funding is governed by the national budget process.)

## 2.5 Promoting accountability to citizens

In the PRSP concept, the annual progress review is expected to be an open exercise involving not just government and donors but also other domestic stakeholders. The idea is that it will allow citizen groups to hold the government to its commitments under the PRSP. However, there is little evidence of its working in exactly this way. The SPA's 2003 survey of 12 African countries showed that:

- Only three governments engaged both parliament and civil society stakeholders (Uganda, Burkina Faso and Niger) in the APR process.

- Four presented the APR to civil society stakeholders only (Ethiopia, Malawi, Mozambique and Rwanda).
- Four governments presented it to neither group.

The 2004 survey (13 countries) indicates that only three countries presented their APR to parliament – Ghana, Mozambique and Uganda. Seven countries did not present the APR to parliament but did distribute it to other stakeholders: Madagascar, Malawi, Mali, Niger, Rwanda, Senegal, and Tanzania. Respondents generally indicated that donors were consulted first, followed by other stakeholders (and then parliament if appropriate). In some cases, donors and other stakeholders were consulted simultaneously, as in Uganda, Rwanda and Tanzania.

Weak engagement by parliaments and civil society organisations in the APR process can be explained in part by the general constraints that have affected participation in PRSP processes. They include resource and capacity shortages and – rather more importantly – weak traditions of transparency and accountability. There is hardly any culture of evidence-based policy making inside government in PRSP countries, and the political contest in parliament and during elections is not very much based on generalised performance standards. Because politics is mostly about personalities and patronage, not about issues, it is not the case (as implied by some of the current discourse about aid alignment) that there is a ready constituency for ‘holding the government to account’.

This fact has to be regarded as the main reason why PRS processes have not led to an upsurge of accountability to citizens. However, another factor appears to have been suggestions from some donors that providing accountability to citizens is not a primary purpose of the APR. For example:

- In Malawi, the government was keen to ensure the APR was the product of a fully participatory process but donors advised against this and in favour of a much lighter consultation. In the end, the government organised a large-scale consultation to respond to high demand for PRS reporting amongst civil society organisations such as the Malawi Economic Justice Network. However, DFID has indicated its main priority by funding a programme to build the capacity of parliamentary committees to engage in budget scrutiny.<sup>17</sup>
- In Ghana, there was some debate about whether the APR should be presented to parliament or Cabinet first, because it was produced by the National Development Planning Commission which includes several academics working for the government and is therefore semi-independent. In the end, the APR was a frank and open assessment which was sent to Cabinet first and has yet to be released to parliament. Donors have applied little pressure for public release of the report, even though they have included in PRSC<sup>18</sup> conditionality a requirement that parliament pass legislation in support of freedom of information and whistleblowers!<sup>19</sup>

There is, it appears, some lack of clarity among donors as to whether reporting back to domestic stakeholders is an important function of the APR, or about whether it is realistic to expect such reporting to be done on an annual basis. This leads directly to the question of whether it is seen as performing its third role, that of informing donors.

## 2.6 Meeting donor reporting requirements

If APRs function as hoped, donors will rely on them to meet their reporting needs and make fewer demands for information on government. However, the 2003 SPA survey did not encourage the belief that this point has been reached. A clear majority of budget support donors who were questioned regarded the APR as insufficient for meeting their reporting needs, although bilaterals and the EC were somewhat less likely than the Bank and Fund to take this view.<sup>20</sup>

The more recent survey confirmed that we are still a long way from the objective of the APR serving as a single information source for donors. An overwhelming majority of respondents continued to regard annual PRSP reviews and progress reports as insufficient for their information needs. In fact, the proportion

considering PRS reporting inadequate had risen from 57% in the 2003 survey, to 71%. This may be a response to the fact that APRs are tending to become less comprehensive in reviewing the data. It could alternatively, or as well, be due to higher or different expectations on the part of donor agencies.<sup>21</sup>

Donor reservations about APRs are reflected in continuing demands for additional information outside of that provided in the PRSP process. For example:

- Tanzania has to produce not only an Annual Progress Report but also annual and six-monthly reviews of its budget support programme, the Tanzania Assistance Strategy, the Public Expenditure Review, the Poverty and Human Development Report, and annual MDG reports for UNDP.
- Albania and other Balkan countries have to produce not only Annual Progress Reports but also multiple reports relating to EU accession and annual MDG reports for UNDP.

The 2003 SPA survey attempted a rough quantification of this problem. It counted the numbers of ‘lists of indicators’ that were requested by budget-support donors outside the PRS monitoring framework. This has not been repeated because both ‘lists’ and ‘outside the framework’ were considered ambiguous, generating some spurious differences across countries.

There do, however, seem to be some differences in country experience. This may reflect the fact that joint donor-government groups in some countries have put substantial efforts into a streamlining of reporting around the APR, whereas on others the effort has been weaker. If so, donors in some countries need to be taking more vigorous steps to align and harmonise with the PRSP reporting process. This would mean rationalising and harmonising their reporting requests, so that the government is able to meet them through a single instrument, the APR. It would also entail making the timing of such requests coincide with the national PRSP and budget cycle. These things will not happen automatically and without deliberate efforts, which is why bodies like the SPA and OECD-DAC working groups are active in monitoring and supporting improvements in practices at the country level.

In many countries, however, APRs are also widely considered to be insufficient instrument to align to. That is, the problems are not all to do with reluctance of donors to change their practices. APRs are often judged to be insufficient because the PRSP monitoring arrangements, on which they rely for data and data-analysis, are perceived to be weak – unreliable or dysfunctional.

Sometimes, the problem is the relatively straightforward one that the donors base their financing decisions on the country’s performance in meeting macro-economic targets agreed with the IMF. These may be in the APR but the APR is not the principal vehicle for their dissemination. Other times, the questions are more about the reliability and/or the timeliness of the data that are made available on the results indicators that are in the PRS monitoring matrix. Often, however, the worries expressed by staff of donor agencies which have made a strong commitment to aid alignment are not just about data collection. They are about something more fundamental in the set-up of the PRS monitoring. Usually, the problem is rooted in the content of the PRSP itself.

Box 2.1 illustrates the range of reasons cited by bilateral budget-support donors in Africa in explaining why they cannot base their financing decisions on the APR. The first quotation, from the Swiss respondent in Burkina Faso, is indicative of the more fundamental type of concern just mentioned. We develop this point in the next section.

A natural reaction by donors to the perceived inadequacy of the APR has been to take their own initiatives to build more robust arrangements for performance assessment. Such arrangements are invariably said to be within the framework of the PRSP, but in reality they almost always add substantially to its content. A particular case of this, and the one that is most relevant to the themes of this report, is the effort by groups of budget-support donors to get agreement on a policy matrix (or Performance Assessment Framework, PAF), which then provides the sole point of reference for disbursement conditionality and accountability.

In Box 2.1, the comments by the Netherlands representative in Ghana refer to an example of such an

arrangement, the Multi-Donor Budget Support policy matrix. It is worth noting that what the matrix is seen as adding to the Ghana PRS are benchmarks of policy actions executed. We review the content of PAFs more fully in Chapter 3. But we may note here that they tend to be much more action oriented than the PRSPs themselves. According to some opinions, PAFs are joint government-donor instrument for helping to ‘operationalise’ the PRSP. This gives us an important clue about what it would take for APRs to become more pivotal for donors.

**Box 2.1: Why the APR is not adequate for budget-support financing decisions**

Burkina Faso: “The PRSP has not been operationalised in the required way, by identifying the priority policies and actions to be taken, and it lacks an analytical link between the actions and the indicators for measuring the progress made towards the objectives of the PRSP. Also, late delivery of the monitoring indicators for the sectors that have them (budget management, health and education) made it impossible to integrate the results and their analysis into the progress report.” (Switzerland)

Ghana: “Financing decisions are not based on the information from the APR. They are based on the information distributed on the progress on the benchmarks in the MDBS-policy matrix. Although this matrix serves as a proxy for the GPRS, some of the benchmarks that have been defined are measured in terms of execution of a policy action that is not necessarily proposed in the GPRS” (Netherlands)

Ghana: “Annual Progress Report is improving but questions remain about quality of some data. Also, timelines on submitting draft and preparing final report do not leave sufficient time for Development Partners to fully analyze data and comment on validity. This situation is partly related to process timelines of World Bank. Annual WB/PRSC contributions are made on basis of performance as demonstrated in APR. PRSC needs to go to board in July which means that APR process can sometimes be hurried. However, the release of the Canadian payment is based on the participating donors’ consensus that a) we are satisfied with the IMF decision with respect to the PRGF programme which is releasing the base payment and b) we are satisfied that the GoG has met all the triggers as defined in the policy matrix for the performance payment.” (Canada)

Malawi: “PRS report was only on first half of 2002/03, and was not very informative. Much improved report covering full FY 2002/03 was presented in spring 2004. However, the new report was too late to be useful, and also the information on budget implementation was still insufficient.” (World Bank)

Malawi: “Malawi has only published one PRS APR (for 2002/03) to date and has yet to firmly establish the APR process. However, note that budget support financing decisions to date have NOT been linked to APRs, only to Malawi’s status with the IMF PRGF.” (UK)

Malawi: “Too late, too low quality. In addition, our budget support is not explicitly linked to PRS APR.” (Norway)

Mali: “Few commitments to systematically improving public financial management. Insufficient information on sector policy indicators.” (France)

Mali: “Report is late and not sufficiently precise for assessing real achievements.” (Sweden)

Rwanda: “The APR did not contain sufficient information on the macroeconomic situation, the budget or the education sector. We have used other government sources for all of this extra information. We do not expect it all to be adequately covered in the APR.” (UK)

Rwanda: “Detailed data regarding performance under the Rwanda’s PRGF arrangement with the Fund, not included in the PRS Annual Progress Report, are required for consideration by the IMF’s Executive Board.” (IMF)

Source: SPA (2005: 52).



## 2.7 What is the real problem with APRs?

If APRs do not meet donor needs adequately, they are unlikely to serve well the purposes of the government itself or civil society/parliament. The factors that prevent donors from basing their disbursement decisions on them are equally obstacles to their becoming a genuine source of policy learning or accountability. In this section, therefore, we refocus on the general properties of APRs and leave behind their particular functions for the different stakeholders.

As Box 2.1 confirms from the donor perspective, it would be wrong to see the limitations of APRs as being of only one type. However, we wish to argue that it is unwise to devote most attention to the deficiencies of data-collection systems in thinking about what is wrong with APRs. Data systems do need to be improved but this is a long-term task, and one that is likely to prove extremely challenging for both technical and ‘political economy’ (vested interest) reasons. The main focus, at this point, should be on the way APRs reflect the limitations of the PRSPs on which they are based, and in particular their failure (to a greater or lesser extent) to specify clearly the policy actions that will be undertaken in order to meet the government’s intermediate and final objectives in respect of poverty reduction. This argument draws freely on recent assessments of the institutional arrangements for monitoring in Tanzania and Uganda.<sup>22</sup>

PRSPs typically do not have the equivalent of a well-worked Logical Framework matrix. They usually have some form of ‘monitoring matrix’ and sometimes these are referred to as Log-Frames. But they seldom have the full scope of a Log-Frame – from inputs all the way to final outcomes and impacts, with a clear articulation of how the required effects will be produced in between and an effort to record assumptions and risk factors. Usually, they are heavily skewed to the outcome end of the results chain. Indicators are specified for the more easily measured impacts, outcomes and outputs, but not usually for financial inputs (because the PRS is not costed) and almost never for specific, time-bounded policy actions to be taken.

The nature of the PRSP’s monitoring matrix might seem a rather technical matter. However, this is the technical manifestation of the more profound fact that PRSP processes were fairly general ‘visioning’ exercises in most countries. The documents reflect a lack of clarity about the specific policy actions and intermediate results that are being pursued, and therefore there is uncertainty about which changes would be worth monitoring on a regular basis. Given these features of the parent planning process, it is hardly surprising that annual reviews of progress in implementation turn out to be rather insubstantial.<sup>23</sup>

PRSPs have been getting better, particularly where effective joint working groups have been operating at the sector level. It could be argued that an innovative sector policy, capable of being expressed in a well-worked Log-Frame, is a precondition for a sound PRSP.<sup>24</sup> It certainly helps a great deal. Thanks in part to better sector policy thinking, some ‘second generation’ and ‘third generation’ (Uganda) PRSPs are more sophisticated in the respects that concern us here. However, these improvements take time, and many weaknesses endure.

In some respects the typical set-up of PRS monitoring has added to the biases created by the content of the PRSP. International influences have played a part here. At the World Bank, it is still customary to refer to the monitoring of PRSs as ‘poverty monitoring’, as if to suggest that the impact end of the results chain were overwhelmingly important. The European Commission’s interest in pegging some of its budget support to results has resulted in new pressure to focus on outcome measurement. PRS monitoring offices typically had their origins in the poverty monitoring efforts launched in the early or late 1990s, and are institutionally quite separate from any arrangements for tracking implementation of cabinet decisions or ministerial work plans.

Given this background, it is surprising that APRs have been as good as they have been. At least in Tanzania and Uganda, the reports have made real efforts to report progress on as many links as possible in the chain from PRS inputs to final impacts. However, in both cases the attention to the input end of the chain could only be relatively descriptive and unsystematic, because for most sectors there was no formally recognised Logical Framework or similar statement of the intended actions and chains of causation.<sup>25</sup> Systematic treatment was reserved for the list of PRS Indicators agreed in the early days of the PRSP

process (under the influence of the HIPC initiative). Those were rates and ratios measuring or serving as proxies for impacts, outcomes and, in a few cases, standard sector inputs (numbers of teachers, etc.).

There is some dispute about whether the typical ‘PRS Indicators’ are sufficiently sensitive to capture year-on-year changes that are relevant to assessing the quality of policy. Enthusiasts of results-based budget support at the EC and elsewhere insist that they are. But it is certain that this is not the main thing that donors and other stakeholders want to know about on an annual basis in order to judge whether PRSP implementation is sufficiently on track to deserve continued support. They want to know what the government has done. Moreover, they will not be satisfied by an administrative description of relevant activities (workshops held, etc.). What is of interest is policy actions undertaken with a view to solving specific problems or removing definite obstacles preventing the realisation of PRS objectives.

Until this problem is addressed (and, to repeat, it is a problem in the typical PRSP, not just in the typical APR) it is hard to see PRS monitoring serving the purpose assigned to it in PRSP theory – that of facilitating the alignment of aid with country systems and country-owned policies. A very clear recognition of its importance is to be seen in the fact that the 2004 version of Uganda’s PRSP, the Poverty Eradication Action is accompanied by a Policy Matrix, listing actions to be taken by the government and other stakeholders, as well as a monitoring matrix of the previous type.

It is unclear at this point how much use will be made of the Policy Matrix in future annual reviews of the PEAP. The institutional arrangements for annual monitoring are in a state of flux following the launching of a new National Integrated Monitoring and Evaluation Strategy (NIMES) and other initiatives. However, it points a way forward that could usefully be followed in other countries when they undertake their next PRS revision.<sup>26</sup>

## 2.8 Conclusions

The purposes of the APR mechanism are similar to those of the PRSP initiative itself – to establish a better working relationship between donors, governments and other country stakeholders, so that poverty-reduction efforts are more effective. For the APR, this means becoming a useful operational tool which helps government to learn from experience in implementing strategies, while also extending the PRSP policy dialogue in productive ways with both citizen groups and external agencies. This chapter has suggested that there is some way to go before APRs in most PRSP countries function well in all of these ways.

The PRSP approach and associated mechanisms such as the Annual Progress Report have only been in existence for five years, so it is not surprising if they have yet to realise their full potential. However, on the basis of the experience we have reviewed, sharper thinking and more forceful efforts would clearly be justified in terms of both process and content.

In regard to process:

- APRs need to be linked more deliberately into the timetable of policy reviews and budget planning that applies in the country. Otherwise, they will not serve a real operational purpose for governments, but just add to the volume of donor-oriented document-production – the opposite of the intended result.
- There is a need for donors to give more consistent messages about their expectations regarding citizen participation in PRSP reviews. For better or worse, donors are actors in the political processes of countries; they are capable of either strengthening or undermining the bonds of accountability between governments and their citizens.
- From donors, greater efforts to implement the high-level commitments they have made on harmonisation and alignment of reporting requirements. This may involve recognising some trade-offs, at least in the short run, between the three functions that APRs are supposed to fulfil.

In managing the trade-offs, some of the following practices may be useful:<sup>27</sup>

- a ‘light-touch’ review process that engages openly with crucial stakeholders but does not seek to repeat extensive PRSP-type consultations;
- a strategic overview of key indicators (which could include relevant ‘intermediate’ MDG indicators) plus a forward plan of priorities for guiding key budget decisions;
- timed to fit with the annual budget cycle – late enough to accommodate reporting from sector ministries and treasury, but early enough to provide a guide to future resource allocations;
- with donors scheduling their reporting and disbursement to be consistent with the APR and national budget cycle.

In order for these process improvements to bite, the content of the APR would need to be somewhat different. Above all, it should include:

- an annualised policy matrix with clear read-across to any policy matrices currently agreed between budget-support donors and government.

In general, there may be a case for a more flexible approach to PRSP reviews. Instead of insisting on a single, comprehensive document linked to the PRSP and delivered at a certain point in each budget year, donors could demonstrate willingness to accept some combination of other instruments that meets, or can be adapted to meet, the same needs. These could include existing sector reviews, parliamentary or budget reports, delivered separately or simultaneously, and either more or less frequently than once a year. There would be a particularly strong case for moving in that direction if the alternative documents were better adapted than the typical APR format to the purpose of tracking ‘progress in implementation’ – that is, if they had a stronger and better-structured focus on the execution of agreed policy actions.<sup>28</sup>



## 3 Risk and performance assessment in budget-support programmes

### 3.1 Introduction

Under a variety of older names – import support, programme aid, etc. – budget support is an aid modality with a long history. However, the use of budget financing to support PRSP processes – with their distinctive aspirations to be country-driven, partnership-based, results-oriented, comprehensive, etc. – is both innovative and recent. It is not surprising, therefore, that methods of identifying risks and monitoring performance in such programmes are still in formation, and that a uniform approach has not yet emerged.

The current situation may be described as follows. On the one hand, a small number of donors have begun to draw on early experiences to define corporate policies for risk management and performance assessment when providing budget support in a PRSP context. On the other hand, much larger number of donors have only recently begun to experiment with limited use of budget support. For the most part, they are working jointly to meet performance-assessment challenges in practical ways as they emerge at country level.

This chapter begins by discussing some of the emerging corporate approaches to risk- and performance-assessment for budget support. The discussion draws on documents and interviews reflecting the latest thinking of the UK DFID, the European Commission (EC), the IMF and the World Bank. We then go on to examine the country-level experience of budget-support donor groups. We pay particular attention to the joint performance-assessment schemes that have emerged to supplement the PRSP APRs. We then address the question posed at the end of the last chapter, about the consistency of these efforts with the PRSP principles.

### 3.2 The DFID approach to budget support

In UK DFID, the shift from Balance of Payments Support to what came to be known first as direct budget support and then as Poverty-Reduction Budget Support (PRBS) is considered to have started around 2000. It was closely linked to the consolidation of DFID's thinking on how to respond to the PRSP initiative towards the end of 2000.<sup>29</sup>

An important enabling factor in the changes made by DFID was a shift in the approach of the UK's National Audit Office, which permitted 'value for money' in British development assistance to be assessed indirectly, making use of the recipient government's systems. The key step was a legal decision that the jurisdiction of the UK Treasury and the NAO does not extend into the affairs of recipient governments. Instead, DFID is expected to demonstrate that individual budget-support operations are likely to represent an effective use of aid. This in turn is judged by whether it is reasonable to expect:

- that the resources transferred will be used for the intended purposes;
- that they will be properly accounted for; and
- that the expenditure will represent value for money.<sup>30</sup>

To an important degree, the UK approach was developed at a country level, particularly in Uganda.<sup>31</sup> The first policy document relating to PRBS was published as late as March 2002 and was specifically focused on fiduciary risk assessment.<sup>32</sup> It was only in May 2004 that an overarching DFID policy paper on PRBS was published.<sup>33</sup> This was followed in the middle months of 2004 with more detailed implementation guidelines including a 'Briefing on Managing Fiduciary Risk', a 'How to Note' and a more general discussion paper on conditionality.<sup>34</sup> These documents define a distinct approach, including criteria, pre-conditions and monitoring requirements. But practice has led policy in all of these areas. The most recent development has been the publication of a new Policy Paper on conditionality in March 2005.<sup>35</sup> This paper sets out a

commitment to move away from policy-based conditions, focusing instead on poverty and human rights commitments and fiduciary risk issues. How this will be implemented in a GBS context remains to be seen.

A major concern of DFID policy on budget support has been the management of fiduciary risk. However, the approach that has emerged is not based on setting minimum standards. High levels of assessed fiduciary risk do not preclude a country from receiving budget support. Instead, the policy is that the risks should be evaluated and a judgement should be made that balances risks against potential developmental benefits. The benefits to be considered may include all or some of the intermediate and final outcomes identified in the GBS Evaluation Framework, summarised in Chapter 4 below.

The intermediate benefits largely involve institutional improvements and capacity enhancement in government systems. It is also assumed that the inputs of a budget-support programme will include technical assistance to widen staffing bottlenecks and strengthen systems in public financial management. It is therefore not at all the case that the budget-support approach has been adopted by DFID as an alternative to capacity building.

The 'How to Note' sets out four operational steps:<sup>36</sup>

1. *An evaluation of the public financial management and accountability (PFMA) systems and associated risks.* This is expected to include an assessment of the risk of corruption based on a sound understanding of the governance and institutional context. Eight good practice principles and 15 related benchmarks are set out to ensure adequate information is obtained.<sup>37</sup>
2. *An assessment of whether the partner government has a credible programme to improve its PFMA performance.* This calls for judgements about the direction of change and about whether reforms are likely to be implemented.<sup>38</sup>
3. *A judgement on whether the potential developmental benefits justify the risk.* This challenging and innovative part of the policy is not yet fully developed. Further guidance on the assessment of developmental benefits was expected towards the end of 2004. A formal recording of the fiduciary risk assessment as part of DFID's decision-making process. The recommended structure for an assessment report includes a rating system with a scale of A-C for the 15 benchmarks.<sup>39</sup>

The high degree of autonomy enjoyed by DFID country offices means that substantial variation in approach according to local circumstances is both permitted and approved. This variation applies both to the decision to adopt GBS as a major element of a Country Assistance Plan, and to the pre-conditions for disbursement, agreeing criteria of performance, and so on. In practice, this means that DFID country staff are free to work out positions jointly on these issues with other like-minded donors and government representatives. Once again, practice has led policy: DFID thinking has been strongly influenced by the emerging practice of the budget-support groups in countries such as Ethiopia, Mozambique, Tanzania and Uganda.

The general experience of budget-support groups is discussed later in this chapter. More detail on the countries just mentioned is in the Annex.

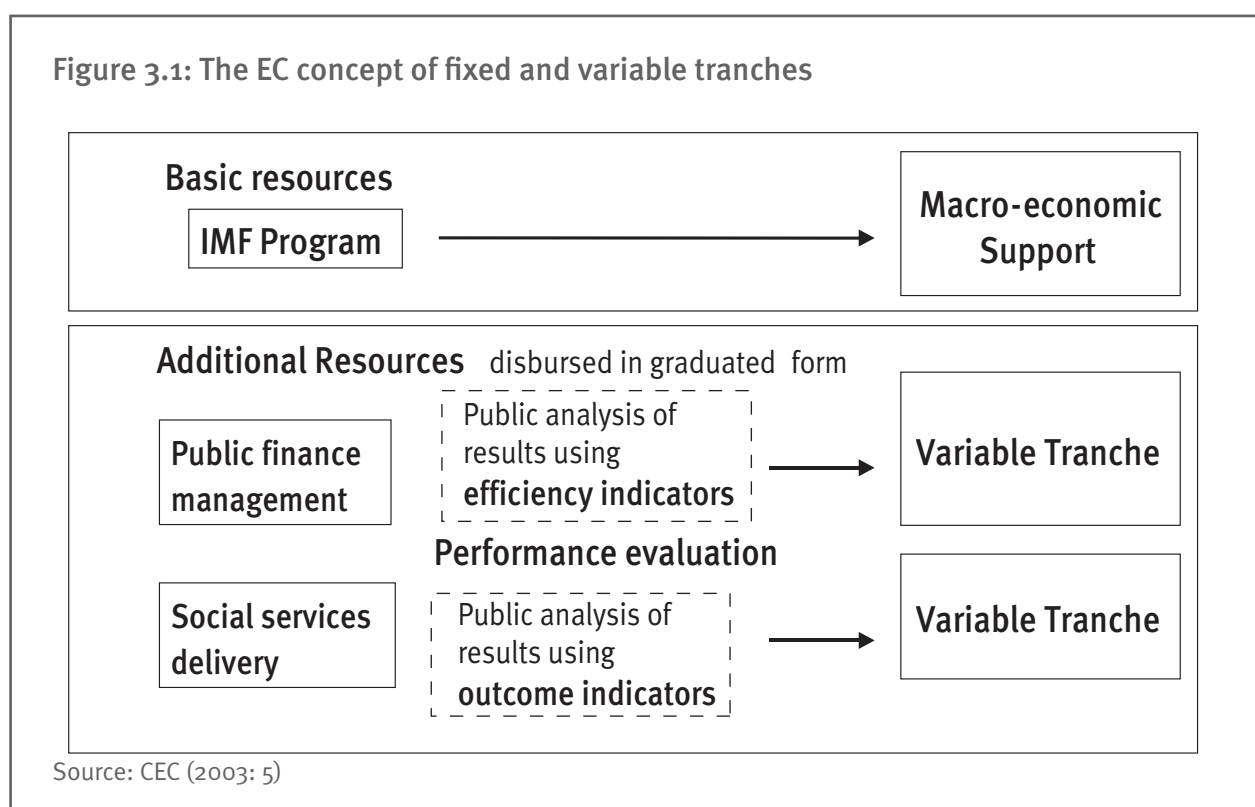
DFID staff who are closely involved in these programmes are typically worried about predictability of funding (they favour moving towards multi-year arrangements with rolling commitments); and about the level of transaction costs in large budget-support groups (particularly where financial contributions are small and donors special concerns or 'pet topics' are numerous). There are also some residual concerns about attributability (we know that the results obtained by the 'British pound' cannot be distinguished from the results of the general efforts in the country; but our politicians do not always find this easy to accept).

### 3.3 The European Commission approach to budget support<sup>40</sup>

The EC's approach to budget support has slightly different antecedents than DFID's. The first policy guidelines were set out in February 2000.<sup>41</sup> These were subsequently translated into operational guidelines in the March 2002 'Guide to the programming and implementation of budget support for third countries'.<sup>42</sup> The operational guidelines were then further clarified by the 2003 paper 'Variable Tranches in General Budget Support: Implementation Guidelines and Evaluation'.<sup>43</sup> In March of 2004 a further update was published in the form of a Note to the European Development Fund committee.<sup>44</sup>

Eligibility conditions for EC budget support were established under the Cotonou Agreement (Article 61 (2) and Article 67(4)). They are concerned with the sufficiency of public expenditure management and procurement institutions, and a sound framework of macroeconomic and sectoral policies. Progressively, innovative features have been added to this structure. These new features are designed to articulate the Commission's results-oriented approach to performance assessment, while providing a floor on the predictability of financial flows.

The central innovation is the combination of two types of GBS disbursement – fixed and variable tranches – with different rules associated with each. The fixed tranche is disbursed on an 'all or nothing' basis, while the levels of additional disbursement from the variable tranches' two components are released in a graduated manner depending on the achievement of targets and indicators.



There are no general rules on the proportions of each share. These are guided by the relative importance of incentives for improved outcomes provided by the variable tranche and need for predictability provided by the fixed one.<sup>45</sup> In 2002, something in the region of 70-75% of variable-tranche funds was disbursed. There is currently a study under way to examine more recent patterns, due to be finalised in November 2004.

The assessment frameworks for the two tranches are obviously required to be different. For the fixed tranche, the basis is the PRGF framework and the IMF assessment associated with that. There are also some fiduciary requirements around the nature and trajectory of public financial management (PFM)

reforms and achievements. There is no minimum standard. However, for PFM there is a greater level of specification than for other components of the indicator system. The process conditions include an in-depth diagnosis of the PFM situation leading to a plan of action by the government and regular monitoring with other donors. The approach was initially focused on the Commission's own 'Compliance Test'; however, more recently there has been a shift towards using the common assessment tools being designed by PEFA (discussed below).

There are two levels of conditionality in the EC approach – general and specific. For all tranches, the general conditions just described have to be met. The specific conditions and level of disbursements of the variable tranche are, however, linked to results achieved in relation to a set of agreed PFM and poverty reduction or social sector indicators. The amount of funds released is based on a weighting of the indicators, with performance on each indicator being allocated a score of 0, 0.5 or 1.

Agreement is reached between the EC and government on what performance indicators are to be used, and for which disbursement periods, at the time of the preparation of the financing proposal. Agreements normally cover three years. Although indicators are selected on a case-by-case basis, the Commission believes in a focus on outcomes, with the idea that this leaves policy space for the government to define its own policy actions with which to meet the targets. Wherever possible, the aim is to use the framework of the PRSP and associated APRs and to work towards a single framework of conditions or indicators with other donors providing policy-related budget support.<sup>46</sup>

Several future challenges are identified by Commission officials. They include finding ways of choosing targets and indicators that help to focus government's attention on results, while not undermining national ownership or punishing government for external shocks, which by definition they cannot control. There is also a concern to adopt performance measures that are plausible in a context of weak statistical capacity.

The review currently being undertaken will determine the future direction of the EC's distinctive approach to budget-support performance assessment. One option identified is a greater degree of 'fixing' of the fixed tranche – that is, moving towards a guaranteed disbursement, using the kind of minimal criteria by which countries qualify for debt relief. It is recognised that efforts are required to sensitise European parliamentarians to the benefits and implications of the whole approach.

### **3.4 The IMF approach (Balance of Payments Support)**

The IMF's low-income lending facility, the Enhanced Structural Adjustment Facility (ESAF) was replaced by the Poverty Reduction and Growth Facility (PRGF) in 1999. The causation of this shift was closely entwined with the PRSP initiative. There have been a series of evaluations and reviews, starting with the 2002 review of progress with the PRGF.<sup>47</sup> Recent discussion has focused on the 2004 evaluation of PRSP/PRGF relationship by the Fund's Independent Evaluation Office. This generally endorsed the PRS process and the Fund's role in it but outlined proposals for enhancing implementation.

PRGF financing is restricted to Balance of Payments Support, which does not permit it to provide funding for individual development projects. However, the PRGF is intended to support objectives of medium-term growth and poverty reduction contained in the PRSP. Within this framework, agreements are reached on a number of measure to be included as conditionality under the three- year PRGF-supported programme. These take the form of prior actions, quantitative and structural performance criteria, and benchmarks. They are generally reviewed on an approximately six-monthly basis. Disbursements under the PRGF-supported programme are conditional upon the performance assessments made during these reviews.

A substantial degree of discretion is devolved to Area Departments, allowing them to request waivers from the Executive Board for missed performance criteria and benchmarks. Should a programme go 'off track', negotiations continue aimed at resuming programme support. There is the option of moving the country to a staff-monitored plan of actions designed to build the conditions for a resumption the PRGF-supported programme.



IMF programme design and conditionality are structured around seven ‘key features’ with 24 sub-points, which make up a set out a framework of indicators and monitoring.<sup>48</sup> The main focus in practice is on Features 5 and 6 – structural conditions and public resource management/accountability. The streamlining of IMF conditions under Feature 5 has had some significant success, including an emphasis on a smaller number of core conditions.<sup>49</sup> There are, however, ongoing concerns about the extent to which this has transferred conditionalities to World Bank, rather than reducing the total number. A World Bank review of this issue is due to be completed in February/March 2005.

Fiduciary-risk management issues are encompassed in Key Feature 7. This involves a ‘Safeguards Assessment’, which also makes up part of the World Bank’s PFM assessment.<sup>50</sup> The other part of the resource management and accountability monitoring includes two PFM evaluation tools. The first is not specific to PRGFs but is the IMF’s general, voluntary ‘Fiscal Review of Observance of Standards and Codes’ or ROSC. The three main categories of review include: transparency standards, financial sector standards; and market-integrity standards for the corporate sector.<sup>51</sup> The second is the public-expenditure tracking exercise specific to HIPC-eligible borrowers which now involves 28 countries. A joint review is currently being undertaken to examine how the World Bank and IMF tools relate to each other.<sup>52</sup>

Central challenges perceived by IMF staff include their dependence on the World Bank, and the weakness of some PRSPs as a basis for their programming. There are also concerns to make the implementation of the new approach more even across countries.

### 3.5 The World Bank’s approach (Development Policy Lending)

A gradual shift in the World Bank’s approach to budget support has recently been formalised with the establishment of a new set of rules governing Development Policy Lending (DPL). This category replaces all previous adjustment-lending types, and eliminates the often confusing distinctions between them (i.e. SALs, SECALs, SNALs, RILs, PSALs). The new rules came into force in September 2004 with the issuing new sections of the Operational Manual on Development Lending.<sup>53</sup>

The shift confirms the Bank’s move away from short-term balance of payments stabilisation towards medium-term processes of institutional and structural development, and a focus on results. While the DPL rules are mandatory, they are also minimalist. They are complemented by a range of internal ‘good practice guides’, which aim to support Bank Staff in implementing the policy.

World Bank eligibility criteria for countries receiving DPL are largely the same as previously. The overall envelope is determined under IDA through a Country Policy and Institutional Assessment (CPIA) rating. Generally, all DPL is established under Board endorsement as multi-year umbrella programmes, under which a series of annual ‘operations’ are set out. The Bank staff need to explicitly justify their programming on the basis of an appropriate set of what are called ‘analytic underpinnings’.

While not all DPL may be considered GBS, a substantial proportion corresponds to the definition. The instrument or DPL ‘brand’ that is most relevant, as it applies to low-income/IDA lending, is the Poverty Reduction Support Credit (PRSC). The World Bank/IDA approach is increasingly based on the use of a PRSP or other national strategy document that can substitute for the traditional Letter of Development Policy.

This ideal framework includes an operational PRS, a national budget cycle and accompanying operational matrix from which the PRSC and in fact the whole Country Assistance Strategy (CAS) can be derived. While an allocation to the CAS is guaranteed, which of the financing scenarios that a country receives (high, low or base) depends on performance. The disbursements of the PRSC are likewise determined by performance assessments. It is worth noting, however, that interruptions have been rare, so that PRSCs have provided one of the most stable sources of budget finance.

The foundational criteria and indicators for PRSC disbursement are usually based on an IMF PRGF programme. The main ‘due diligence’ requirements are the Country Financial Accountability Assessment

(CFAA), the Country Procurement Accountability Assessment (CPAA) and a Public Expenditure Review (PER).<sup>54</sup> However, the responsibility to implement, monitor and evaluate a PRSC programme has formally shifted towards the borrower. The Bank staff's role is to assess and monitor the adequacy of the country's monitoring arrangements and review progress and validate the reviews. The 'Good Practices in DLP' note sets out a summary of how to go about designing conditions and benchmarks.<sup>55</sup>

The main challenge perceived by World Bank staff is that of harmonisation between the bilateral donors within budget-support groups. We discuss this issue in the remaining sections of the chapter. Box 3.1 describes the most important initiative on the harmonisation of fiduciary risk assessment.

### **Box 3.1: Towards a harmonised approach to fiduciary risk**

As we have seen, different donors have developed distinctive approaches to assessing fiduciary risk in the provision of budget support. While their mechanisms have been interlinked (for example, most donors expect recipients to be 'on track' with the IMF), they cannot be described as harmonised. From the point of view of the recipient, there is a bewildering array of assessment tools, with confusingly different names.

It was in order to bring this problem under control that the Public Expenditure and Financial Accountability (PEFA) Program was started in 2001. Housed in the World Bank office in Washington, DC, PEFA is a joint venture with the aim of developing a single 'harmonised' set of fiduciary risk assessment tools. A set of 28 indicators is currently being tested, and a draft of the proposed Performance Measurement Framework for public financial management has been issued for public consultation (PEFA, 2003, 2004).

While the initial level of commitment to the programme from key donors was limited, the level of 'buy in' appears to be increasing. The European Commission has sidelined the development of its own 'Compliance Test' and the up-coming joint review by the World Bank and IMF is expected to consider links to PEFA.

The main interface between PEFA and the donor community at large is the OECD DAC's Joint Venture on Public Financial Management. On current plans, the programme will conclude at the end of 2005. For further details, see <http://www.pefa.org>

## **3.6 Budget-support groups**

At country level, joint budget-support groups are increasingly providing a forum for co-ordination and common donor approaches to performance assessment. In view of the limitations of the PRSP APR procedures pointed out in Chapter 2, and the diversity of donor approaches described above, the degree to which these groups provide a genuine harmonisation is a major issue. In particular, it needs to be established whether the approach to assessing the performance of the joint programmes is full consistent with the aspirations of country policy ownership and government-led partnership.

The most recent study of budget-support groups was conducted by the European Commission.<sup>56</sup> It focused mainly on eight African countries receiving budget support – Benin, Burkina Faso, Ghana, Malawi, Mozambique, Rwanda, Tanzania and Uganda. Of these countries, six had in place a joint donor group guided by a formal co-ordination agreement, while Malawi and Uganda were in the process of developing one. In other countries, such as Ethiopia and Madagascar, co-ordination mechanisms of this kind were found to be nascent but still largely informal.

### ***Size and scale of finance***

On average, eight different donors participate in budget-support donor groups in these countries. More than ten donors are involved in Mozambique, Uganda and Tanzania, while only four agencies are involved in Benin and Malawi. The EC is the only donor participating in all groups, with bilateral donors such as Denmark, the Netherlands, Sweden and the UK each participating in six out of the eight groups. The World Bank is involved in five countries. The IMF is never formally a member of these groups, but is

often perceived to be an active participant by the members of the group. Groups in Ghana, Burkina Faso, Mozambique and Uganda are also open to donors that are not providing budget support, but generally with observer status.

On average, the annual disbursements by donors involved in these groups represent around 15-20% of total government expenditure in the respective countries.<sup>57</sup> In the following three countries, budget support groups account for a relatively higher share of total government expenditure:

- Malawi (planned): 50% of total government spending planned in 2003-2004 – not all was disbursed;
- Mozambique: 22% of recurrent spending, excluding World Bank loans;
- Uganda: around 30% of total government spending.

### ***Disbursement methods and predictability***

In half of the countries, disbursement by all the budget support donors is planned to take place through a common account, and in all cases money is disbursed directly into a Treasury account. Uganda is the only country where some financial earmarking of general budget support remains, through the Poverty Action Fund. Predictability of commitments and disbursements of budget support remains a major challenge, and most groups have adopted measures aimed at improving performance in this area. They include:

- multi-year commitments (4 countries);
- providing information on next year's commitments in time to be included in budget preparation (7 countries);
- securing disbursements for year N+1 in year N (4 countries); and
- co-ordinating disbursements with the government's budgetary requirements (5 countries).

No country has in place a clear mechanism for resolving disputes and preventing situations of high volatility or the 'switching on and off' of budget support by all donors at once. Partnership agreements and associated dialogue with government are generally understood to be the main channels for addressing conflicts of this kind, reducing tensions and avoiding disruption of disbursements.

## **3.7 How is performance assessed?**

Experience to date with conducting reviews of PRSP progress remains rather limited in most countries. Most budget support groups plan to conduct two or more annual reviews, in addition to smaller scale 'mini-reviews' which take place on a quarterly basis. These reviews are planned to fit with the timing of the government's PRSP APR in all countries except Uganda, but such plans have yet to be tried and tested in practice in most cases. As part of the review, the government is required to submit a number of documents to donors (for example, on public financial management, budget execution and sector reviews, as well as the APR itself), including some which are produced specifically for this purpose. Donors are also required to provide some information to government, for example on their commitments and disbursements.

Five out of the eight joint budget support donor groups featured in the EC study have developed a shared performance-assessment matrix. This matrix or Performance Assessment Framework (PAF) consists of a consolidated list of conditionalities and indicators against which the government is required to report. It is not always the case that all of a donor's disbursement conditions are in the PAF. Individual donors have Memoranda of Understanding which may include additional conditions. However, there is a trend and some peer pressure towards consolidation.

In principle, such instruments provide a framework for support to the PRSP. However, the links between the PAF and the monitoring matrix appended to the PRSP are often unclear. A major reason for this is that the donors wish to link their disbursements to the completion of policy actions in support of the PRSP, and the PRSP itself has no matrix of policy actions, but only a rather generalised commitment to promote a particular set of desirable results. There is quite a lot of variety, both in the degree to which the PAF can

claim to be derived from the PRSP and in the extent of donor harmonisation around a single instrument. Based on the CEC study and other sources, we may observe:

- The budget-support matrix is considered to be fully derived from the PRSP matrix only in the case of Mozambique. This is possibly because Mozambique's PARPA (Action Plan for the Reduction of Absolute Poverty) is more action-oriented than the typical PRSP. A major effort has also been made by the joint donor group in Mozambique to edit the full PAF down to a reduced matrix of just 31 priority actions.<sup>58</sup>
- In Ethiopia, considerable effort has been invested in 'merging' the PRSP monitoring matrix and the policy conditions of the budget-support donors. However, this has led to a very long delay in the scheduling of the country's second annual progress review.
- In Benin, Burkina Faso and Rwanda, the policy of the budget-support group is that conditions and indicators should be derived from the PRSP and the matrix of policy actions reported on by the APR, together with the agreed public financial management action plans and sector reviews. However, each donor defines its own individual performance assessment matrix.
- In six of the eight countries in the CEC survey, the World Bank has a PRSC policy matrix or is in the process of developing one. These are Benin, Burkina Faso, Ghana, Malawi (an Economic Support Credit, rather than a PRSC), Rwanda and Uganda.
- In Mozambique and Tanzania, the World Bank draws the 'prior actions' of the PRSC from the common budget-support matrix, so a separate PRSC matrix does not now exist. In Ghana and Malawi, the World Bank matrix will be additional to the budget-support matrix but in Ghana there are plans to merge the two in 2005. In Uganda, the PRSC matrix is the one around which other budget support donors coordinate.

Box 3.2 provides further country examples. The Annex include details on the PAF for Mozambique, Tanzania and Uganda, including sample pages from their PAF matrices.

IMF PRGF reviews also play a role in performance assessment by budget-support donors. Joint donor groups in five countries explicitly state that IMF reviews will serve as the basis for assessment of the macroeconomic situation, even though the IMF is not a formal signatory of the partnership framework. In other countries, the same approach is taken but not formally codified.

### Box 3.2: Budget-support frameworks and PRS APRs in Africa

In Ghana, the Performance Assessment Framework policy matrix is derived from the PRSP policy matrix but streamlines it and includes additional information from sectors and sub-national government. The PRSC matrix is also derived from the PRSP matrix but addresses politically sensitive cross-cutting issues such as public financial management, transparency, corruption and decentralisation. The government prefers these to be excluded from the PRS policy matrix reported on in the APR, making it difficult to reconcile the three processes over time.

In Ethiopia, the budget support group is developing a policy matrix which is derived from the PRSP policy matrix but much more detailed. It contains more than 100 indicators in an attempt to meet the reporting requirements of all donors. A deliberate decision was taken to exclude political governance indicators as these have been the subject of difficult debates between donors and government. The government now wants to merge this budget support matrix into the main PRSP matrix, but some feel that this would skew the PRSP process heavily towards meeting the reporting needs of a small number of donors rather than Ethiopian citizens or non-budget support donors.

In Tanzania, the government reports to donors using the Poverty Reduction Budget Support performance assessment framework, which now incorporates the formerly separate World Bank PRSC policy matrix. Moves are also under way for the government to report using a single annual progress report. The risk, as in Ethiopia, is that the report will focus exclusively on donor reporting needs at the expense of the broader policy framework contained in the PRSP, thereby undermining country ownership.

In Malawi, there are two main mechanisms for donor reporting: The budget support group is developing a Performance Assessment Framework intended to meet reporting needs in a streamlined way. The Bank approved a structural adjustment credit with links back to the PRGF and a strong focus on macroeconomic and fiduciary conditions. Neither is derived from or linked to the annual progress report, which suffers from the extremely weak prioritisation of the PRSP itself and has few links to budget allocations. DFID and other donors have attempted to avoid overloading the PRSP and annual progress report with their own reporting requirements in the hope that government would take the lead in shaping it, but this has yet to happen so consideration is now being given to a package of technical assistance to bring this about. There is commitment to develop the annual progress report as a tool for evidence-based planning and budgeting at the official level but at political level there is little commitment to force sector line-ministries to bring their funds on budget and engage in discussion of national priorities. Donors are reinforcing this problem by maintaining large parts of their portfolio off-budget.

Source: Driscoll with Evans (2004).

Although PRSPs invariably include a commitment to the principles of sound macro-economic management that PRGFs promote, it is not so clear that the formal linkage of budget-support conditions to the PRGF is helpful to the idea of government leadership and country policy ownership. As IMF staff themselves complain, it can be unhelpful to the predictability of financial flows, by increasing the likelihood of simultaneous non-disbursement (which raises the political stakes and inhibits the Fund from taking a purely technical view on a country's performance).

One of the notable characteristics of the budget-support PAFs is that they are large. The total number of indicators (including conditionalities, benchmarks, prior actions and monitoring indicators) contained in the matrices varies between countries, as shown in Table 3.1. In only in two cases (both of which involve only a few donors) is the number small, although a large number of donors have been able to agree on a Reduced Matrix in Mozambique.

**Table 3.1: Number of indicators in budget-support performance matrices**

Country	Number
Malawi	19
Ghana	27
Mozambique	61 (Reduced Matrix: 31)
Tanzania	100 +
Uganda	100 +

Source: CEC (2004b)

Plans to include the full matrices for Uganda and Tanzania in the Annex to this report were abandoned in view of the implications for the total length of the document. Instead, sample pages are reproduced, to give a flavour of the content.

Of the different types of indicator included in the matrices, policy actions (that is things that the government and its partners are expected to do – e.g., ‘Draft amendments to the Land Act and present them to parliament’) are much more prominent than results indicators (e.g., ‘number of reported cholera cases’). On the other hand, all the matrices include some (more or less developed) analysis of outcomes, and provide targets to be achieved for at least some of the indicators. Efforts are being made to simplify the reporting requirements generated by PAFs. However, this is not straightforward, not only because of the scale of the exercise but also on account of the underlying weaknesses in national monitoring systems noted in relation to PRSP APRs.

Budget-support PAFs are clearly here to stay. In most countries, it is not likely that PRSP APRs will soon become sufficiently robust and specific that budget-support donors can reasonably be expected to rely on them alone. Therefore, the question about how they evolve, and particularly the effect they have on the way the totality of aid behaves in relation to the PRSP is quite an important question. A key challenge is to ensure either that PAFs are derived from the PRSP in some real sense, or (if the problem is that the PRSP is too vague about policy actions) that they are used in such a way that they help to strengthen the action content of the PRSP over time.

Currently, there are several barriers to this:

- In some countries, budget-support policy matrices are simply providing opportunities for donors to rewrite PRSP priorities to meet their own needs. This undermines any country ownership that the PRSP may enjoy.
- Donors continue to demand highly detailed reporting, including against specific sector or outcome targets and indicators, and are often unwilling to create a prioritised list that would reduce the reporting burden for government.
- Donors are not a homogeneous group, and they often form alliances to promote specific instruments, sectors or cross-cutting issues, making joint working towards a single policy matrix difficult for them and government to co-ordinate.
- As we discussed in Chapter 2, only a small minority of PRSPs have a Policy Matrix, or an equivalent list of priority actions that are logically linked to the outcomes that the strategy is meant to achieve.
- Governments are often particularly unwilling to have sensitive political issues such as public financial management, corruption and transparency included in a public report, yet these are often crucially important for budget support donors and the Bank and Fund. This is discussed in our final section below.

The challenge of reducing the gap between budget-support PAFs and the annual monitoring of PRSPs is unlikely to be met if it is not attacked from both sides. On the one hand, more strenuous efforts are going

to be needed from donors. Those that still do not believe in the ‘country ownership’ objective need to be reminded of the large body of evidence and experience showing that externally-imposed policies tend to fail. The result should be that conditionalities are not multiplied without good reason. At the same time, emphasis should be placed on desirable policy measures that benefit from real commitment on the government side, either because they are in the PRSP or because they have the backing of the President or an important section of government (e.g., simplifying the issuing of business licences in Tanzania). These seem to be the conditions under which PAF reviews serve to stimulate policy action in countries like Mozambique, Tanzania and Uganda.

On the other hand, governments and the donors who are providing technical assistance to PRSP management and monitoring offices (e.g., UNDP) are going to have to do something about the thinness of the action content in PRS monitoring. Aiming to develop something comparable to Uganda’s PEAP<sub>3</sub> Policy Matrix would be a sound medium-term objective in most cases. It is certainly unrealistic to assume that budget-support donors will unilaterally give up their interest in policy,<sup>59</sup> so the gap will be most effectively closed if the PRSP becomes more of an action plan, preferably with a full Logical-Framework structure. This is, of course, extremely desirable in its own right, as well as extremely challenging.

### 3.8 Political governance conditionality

In addition to the problems just listed, donors involved in joint budget support groups often have very different approaches to political governance concerns. For some donors, including several Nordic countries, such concerns are viewed as central to decisions about commitments and disbursements of budget support. These donors tend to favour the inclusion of political governance indicators in the performance assessment matrix of the budget support group. Others, such as the EC and DFID, prefer such concerns to be addressed through a separate process of longer-term dialogue:

- For DFID, this dialogue takes place in the context of longer-term partnership agreements or memoranda of understanding with governments that outline underlying principles that should not be breached by either side.
- For the EC, dialogue on political governance concerns is handled through the Cotonou agreement and led by the Council of Ministers. Although they could decide to withhold budget support as part of a package of sanctions, this has yet to happen in practice.

Settlements of this kind vary between countries. In Ethiopia, for example, recent efforts to develop a common performance assessment matrix were dogged by disagreements between donors over the appropriate place for political governance concerns. In the end, it was decided that they would be addressed through a separate governance matrix and not the main budget support matrix. Political conditionality is mentioned as a general overall clause in Benin and Rwanda; but in Uganda, it features in specific bilateral agreements and also in a separate Governance Matrix. It is unclear whether the new PEAP Policy Matrix will help to deal with this issue.

Lack of clarity about the status of political governance concerns can cause serious problems for predictable commitment and disbursement of budget support. In Mozambique, for example, commitments have been delayed due to donor concerns about political issues not contained in the performance assessment matrix. This has led donors to take steps to outline underlying political governance principles more explicitly in future.

Negotiating political governance concerns through a separate process of dialogue recognises the difficulty of capturing complex concepts such as human rights in the form of concrete targets and indicators. It also provides some protection for governments against knee-jerk decisions by donors to switch off budget support, by encouraging them to engage in dialogue first. Some argue that it enhances government ownership by recognising that political governance concerns are a matter of national sovereignty in which donors should not interfere. Separation does not, however, offer governments a cast-iron guarantee of predictability, because in practice decisions about budget support remain subject to political pressures from domestic taxpayers. Governance matrices and partnership agreements cannot plan for every possible

political governance scenario or force donors to react in a certain way.

### 3.9 Conclusions

This chapter has surveyed two topics: the emerging corporate policies on budget support of four donor organisations, and the country-level experience with budget-support donor groups. Both topics help understanding of the broader subject of this report – reviews and assessment of performance in poverty-reduction strategies and budget-support programmes.

The survey of corporate approaches covered both the assessment of fiduciary risk and performance-assessment in the broader sense. Approaches to risk are variable across the four donors considered, and there is a tendency to rely on different instruments of assessment, which cannot be regarded as good in view of international commitments to harmonise aid-delivery mechanisms and reduce transaction costs for recipients. The harmonised approach to fiduciary-risk assessment that is being piloted by PEFA is attractive in this context.

Two other distinctive features of the donors' approaches are worth highlighting. One is DFID's insistence that fiduciary risk-assessment should not be separated from judgements about the developmental benefits (mainly, in the form of institutional strengthening) that can be generated by making use of government public-financial management and accounting systems. If those systems are initially considered somewhat untrustworthy, a decision should be made and formally recorded that balances the associated risks against the developmental dis-benefits from continuing to by-pass them.

The other is the European Commission's innovation of delivering budget support in distinct tranches ('slices'), governed by different principles. Fixed tranches are delivered on the basis of increasingly light conditionality, with a view to providing predictable funding that seems important for improvements in the making and implementation of public policies in poor countries. Variable tranches are designed to focus recipient governments' attention on the improvement of policy outcomes relating to poverty, leaving more room for in-country debate about how exactly to achieve them. There is a need to evaluate carefully how this works in practice. However, it claims to be a solution to two widely-recognised and extremely difficult problems – the potentially extreme volatility of budget support, and the danger of donors' squeezing out creative policy thinking by being over-directive.

The IMF and World Bank thinking about their particular instruments has not been stagnating, and this is an important part of the context for budget-support policies of bilateral and other multilateral agencies. However, the DFID and EC approaches are more directly relevant to the thinking of a national donor such as Japan.

Even more important is a good understanding of what has been happening in the several countries where budget-support donors are evolving a local set of procedures and understandings, usually in close partnership with the government. We have paid particular attention to the Performance Assessment Frameworks and other monitoring mechanisms of the budget-support agreements.

While these are almost certainly a necessary response to the continuing weakness of the PRSP-monitoring mechanisms centring on the Annual Progress Reports, they face the challenge of supplementing the PRSP-related systems in ways that strengthen them, and do not undermine them. There are several different variants, as discussed in the Annex of the report as well as in this chapter.

Signs of PAFs' distracting attention from the regular government mechanisms in a damaging way are present in some cases. On the other hand, strenuous efforts are being made (especially in Ethiopia, Mozambique, Tanzania and Uganda) to avoid making this a permanent feature, and to create synergies – for example, where the first-generation PAF helps to strengthen the second-generation PRSP, enabling reporting to become more streamlined and country-led.

A successful effort to reduce the gap between PAF reviews and PRSP annual progress reviews will call for a



two-sided convergence. PAFs need to become even more sensitive than they are at present to promoting policy measures that not only are useful and important but also benefit from real political commitment in the country. On the other hand, PRSPs and APRs need to become more action-oriented.

Governance improvements have so far proven one of the most difficult dimensions of progress to monitor in a harmonised way. Criteria of performance tend to vary between donors, and they are also the weakest element in PRSP-monitoring frameworks. Again, there are interim solutions to this problem, such as the construction of Governance Matrices that are jointly monitored by the group of donors, but not subject to the normal agreement with government. The objective should be to obtain a progressive convergence of view, where parallel arrangements become less necessary over time.



## 4 Evaluating budget support

### 4.1 Introduction

The last two chapters have reviewed current thinking on two aspects of the monitoring of poverty-reduction efforts – the contribution of PRSP Annual Progress Reports, and the risk- and performance-assessment frameworks associated with budget support in a PRSP context. There is, in addition, a distinct set of concerns regarding the possibility of evaluating budget-support programmes.

This is a comparatively new field of thinking. In October 2001, DFID's Evaluation Department (EvD) decided to examine the feasibility of undertaking a joint evaluation, with other donors and national partners, of general budget support as an aid modality. The purpose of the evaluation would be to assess whether general budget support is an appropriate, efficient, effective, and sustainable mechanism for poverty reduction. The first phase of work consisted of an 'evaluability study', and the preparation of an evaluation framework, the results of which have been published.<sup>60</sup> The second phase is now under way, consisting of a multi-country joint evaluation under the auspices of the OECD DAC, and a separate joint evaluation in Tanzania.

The evaluation results from the DAC exercise are not available at the time of writing, although those from the separate Tanzania evaluation are (Daima Associates and ODI, 2004). Therefore, we limit ourselves to outlining the evaluation framework and making a few observations based on its initial testing and on the Tanzania experience.

The evaluation framework is based on the claims made about GBS as an aid modality, and its suitability, effectiveness and sustainability as a means of channelling international support to poverty reduction. The initial testing drew mostly on the Uganda experience, and to a lesser extent on that of Mozambique, while the case of the Indian state of Andhra Pradesh (AP) was taken as an instance of GBS in a low-aid-dependency setting.

### 4.2 The conceptual framework

The hypothesis is that in comparison with a situation where equivalent resources are transferred through projects, GBS has 1) a more empowering effect on governments, 2) a more positive transformative effect upon governance, 3) a more pronounced impact in enhancing the capability of government to reduce poverty, and 4) by implication, a greater impact upon poverty reduction.

More particularly, the framework expresses the hypothesis that GBS has the following advantages compared to other forms of aid:

- (A) *Reduced transaction costs*: Countries with a large number of projects and multiple donors each with their own reporting and accounting requirements face high transaction costs in the delivery of aid. In contrast, GBS can be managed and monitored through a single multi-donor process, allowing senior government officials to devote time to policy making, instead of dealing with a large number of individual project missions.
- (B) *Increased allocative efficiency in public spending*: A multitude of projects, donors with different priorities and a residual tendency to tie procurement to their own suppliers, have combined to make the allocation of government expenditures inefficient, particularly but not only when aid flows are 'off budget'. With GBS, by contrast, the policy dialogue shifts from particular expenditure items towards improving the overall direction and consistency of budget allocations.
- (C) *Greater predictability of aid flows*: Problems in fulfilling project and programme disbursement conditions and implementation requirements have made the timing of aid flows unpredictable. GBS, in contrast, is delivered in one (or a few) instalments and is also conceived as involving longer-term

commitments from donors to a Government, which can help to improve the predictability of foreign assistance.

- (D) *Increased effectiveness of the state and public administration:* Projects have built up extensive project management structures, by-passing to a considerable extent the problems in Government systems and thereby contributing to their weakness. Conditionality, on the other hand, has proven ineffective in promoting sustained reform, particularly in core Government functions. GBS, in contrast, aims to use Government systems and work with national stakeholders to strengthen them.
- (E) *Stronger domestic accountability:* With existing aid arrangements, Government's accountability has tended to be towards donors, and less towards its own citizens. This has undermined democratic accountability to political and civil society. As GBS focuses on government's own accountability channels, it may be expected also to improve transparency and accountability to the country's parliamentary institutions and electorate.

The framework suggests that improvements in these areas, if achieved, would be highly likely to enhance government's capacity to reduce poverty. That is, they would be liable to produce intermediate outcomes such as efficient public investments, high-quality basic services or effective regulation that, from theory and research, we know to be critical to poverty reduction. The focus is therefore on the credibility of the links from the package of GBS inputs (a greater proportion of budget funding; a changed form of policy dialogue; and a refocusing of technical-assistance and capacity-building efforts) to the expected immediate results and medium-term institutional effects.

It is not assumed that the claimed effects of budget support would happen under all circumstances. On the contrary, the framework has all of the elements of a Logical-Framework matrix, including full consideration of the factors external to the programme that have to be assumed in order for the main chain of results to be likely. Very important 'external' factors are the political desire of the country's rulers to 'sit in the driver's seat' or assume full ownership of the country's policies, and an increasing demand for accountability from parliament and other domestic stakeholders. There is a high risk of GBS not delivering the expected institutional benefits if these factors are not present.

### 4.3 Initial testing of the Framework

The evaluability study undertook a preliminary exercise to establish the plausibility of the above framework. This was based interviews with both governments and donors in the three countries (Uganda, Mozambique, India). Five sets of questions were investigated:

- To what extent does the conceptual framework capture the *intentions* of the instigators and managers of budget support in the case-study countries?
- To what extent are *inputs* and *activities* in place?
- Are there any indications of the *immediate* results?
- How far are the *medium-term institutional effects* discernable? Are some of these effects more prominent than others?
- To what extent are external factors creating *risks or opportunities* for the budget support process?

Similar questions were asked in the full evaluation in Tanzania. In the following section, we outline the main results, focusing principally on Uganda and Tanzania.

### 4.4 Findings

#### *To what extent were the inputs in place?*

GBS inputs and activities were all in place in Uganda, with a substantial shift in the balance of DFID and donor funding generally to GBS, new forms and forums for dialogue benefiting from strong Government

steering and a consequential reorientation of technical assistance. The same was true in Tanzania.

### ***Immediate results: government empowered?***

The expected immediate results were most perceptible in Uganda, and rather less so in Tanzania because of the continued importance of projectised and off-budget funding. They did include greater Government control over externally-funded activities and resources, with a relative strengthening of the Ministry of Finance, the Cabinet and Parliament, as drivers of public resource allocation. A key change in Uganda was in the way line ministries relate to MFPED, as the guardian of the budget process, on the one hand, and to donors on the other. In Tanzania, a large increase in the volume of public spending on PRS priorities, notably primary-school enrolments, was enabled by the expansion of the budget-support programme.

‘Co-ordinated behaviour by donors around the PRSP/partnership agenda’ is the other immediate result claimed for GBS. This was found to be complicated in the case of Uganda, and significantly positive in Tanzania.

### ***Evidence of medium-term institutional transformation?***

The medium-term institutional effects were mixed in both Uganda and Tanzania:

- (A) *Transaction costs* might have increased in Uganda, as donors became bedded-in to new ways on interacting with each other and with Government. However, there were at least reasonable prospects of a reduction in the medium term, especially if deliberate attention was given to improving meeting styles and methods, and if donors delegated powers to each other. The Tanzania evaluation offers a similar, rather ambiguous conclusion on transaction costs.
- (B) *Allocative efficiency* had probably improved significantly in Uganda, in three ways. Budget allocations reflected Government priorities more closely (with some remaining doubts about whether the overall allocation of resources is significantly more pro-poor); the chances of gross misallocations had been reduced, especially as compared with the heyday of projects (with some remaining doubts about the size of the discretionary element in the budget); and processes had been created that would, in due course, encourage learning from experience about what does and does not produce results. In contrast, the lack of any clear evidence of increased efficiency in public spending, as opposed to its volume and overall direction, was a major disappointment in the Tanzania evaluation. This was put down to a continuing lack of a real ‘challenge function’ in the budget process.
- (C) *Predictability of funding* – a key objective – was not considered to have increased in the Uganda case. The fact that GBS is both high-profile aid and highly flexible from the donor’s perspective makes it in some ways more of a challenge to deliver predictability within this modality. In the case of Uganda, the major uncertainties surrounding the national and regional political situation compound the problem. The predictability of GBS in Tanzania has been relatively good, partly because of the high level of political stability achieved under Mkapa, at least on the mainland.
- (D) On *increasing state effectiveness*, there were grounds for both optimism and caution in the Ugandan experience. Striking changes were observed in the way sectors and multi-sectoral stakeholder groups were being encouraged to make and improve policies within the MTEF process. GBS also seemed to have some benefits in terms of the vigour with which cross-cutting sector governance issues were being addressed (e.g. procurement). Improvements in outcomes for poor people were further off, but some of the preconditions had been created. There was less clear evidence of this sort of improvement in the Tanzania case, partly because the budget process was not yet serving to put real pressure on line ministries and districts to enhance performance.
- (E) Up-beat but cautious finding applied to *effects on democratic accountability* in Uganda (in 2002/3). This was a matter of relative improvement, as the evidence on aid dependency generally is pessimistic about domestic accountability. However, in Uganda incremental improvements in

the role of Parliament, public audit functions and the media were occurring. The absolute weight of Government accountability to donors had probably increased as a result of GBS; but there were reasons for thinking that this was not a zero-sum game – external and domestic accountability might be able to improve together. In Tanzania (in 2004), there were few signs of this happening, because the domestic constituency for increased accountability was still extremely weak.

### ***Risks and preconditions***

The risks connected with GBS were obviously large, helping to explain why many informants considered the whole process extremely fragile, even in Uganda. Regarding the high-level political risks, there were different donor views on how serious they are and what is the appropriate range of responses. This reflected not just different judgements about the situation but also lack of consensus on the rules of the game. Lower-grade risks were also numerous and important, but a good case could be made for seeing these as internal to the management of budget support.

In Tanzania, the evaluation suggests the risk that domestic political development will not generate a sufficient growth in demand for accountability for the GBS programme to generate strongly positive institutional changes. That is, it will improve the volume and possibly the quality of public spending in the medium term, but will not assist in a sustained improvement in the efficiency and effectiveness of state action. Substantial improvements in poverty outcomes are therefore possible but by no means certain in the longer run.

## **4.5 Conclusions**

In Uganda, initial testing of the evaluation framework suggested two things. Firstly, the framework did capture in a coherent way the objectives that the government, DFID and other donors were pursuing. It also proved a useful tool for identifying and explaining the pattern of change. Most of the suggested linkages remained plausible, and thus were candidates for more thoroughgoing evaluation. This was not to say that they were yet fully functioning, and predictability remained a particular challenge.

Secondly, the Uganda experience showed that few, if any, of the postulated positive effects of budget support are automatic. Incentives were changing in the right direction, and agents could be expected to respond to incentives, but complementary measures were surely needed.

The evaluation of the Poverty Reduction Budget Support programme in Tanzania has also suggested that the evaluation framework is a useful tool. It poses the right questions and directs attention to an appropriate range of issues, including the ‘external’ factors and risks that may prevent the results chain from working as predicted. The evaluation findings are quite strongly positive about the more immediate effects on public spending and its management, but much less confident about the expected intermediate institutional changes (including growth in domestic accountability and the efficiency of public services).

A full programme of evaluations, using the conceptual framework is now under way. It remains to be seen what conclusions will be reached about the relevance, efficiency, effectiveness and impact of GBS programmes in a range of country contexts.

## 5 Conclusions

This report was commissioned as a synthesis of current learning and thinking about Annual Progress Reports and related instruments for monitoring the implementation of Poverty Reduction Strategies. There was particular interest in the rationale for providing general budget support to countries with PRSPs; the additional challenges of risk assessment and performance assessment that this implies; and the relationship between PRSP monitoring and performance-assessment in budget support.

We have tackled these issues in four parts. Chapter 1 provided a restatement of the background to the PRSP initiative and the principles that are at stake for the international development community. The specific challenges in the field of monitoring and evaluation posed by PRSP processes and support to them in the form of budget financing were also set out. In Chapter 2 the role and purpose of PRSP APRs was explained, and their actual character and usefulness was assessed by these criteria. It was apparent that there are currently problems both with the willingness of donors to harmonise and simplify their reporting requirements around this instrument, and with the robustness of the instrument itself. We have suggested that ‘robustness’ does not just refer to problems of data quality, but is also about the lack of a planning approach of the Log-Frame type and a way of monitoring systematically the required policy actions.

This provided reasons for examining, in Chapter 3, how budget-support donors have defined the monitoring requirements of their programmes. This discussion centred on two topics. One is the relationship between fiduciary-risk assessment and other dimensions of performance and performance-assessment in the thinking of four selected agencies. The other is the dilemmas and challenges that have been confronted by donor groups in the PRSP countries where budget support has developed furthest. In Chapter 4, we outlined why it is thought that there are important developmental benefits from general budget support even in some countries where fiduciary and other risks are considered to be quite high. Conclusions have been drawn at the end of each chapter.

What is suggested by the survey as a whole is that PRSP review processes are ‘unfinished business’ and that the same is true of budget-support monitoring and evaluation. In almost no case has the initial round of efforts been consistent with the aspirations expressed in the PRSP principles. The APRs have had serious limitations in regard to all three of their intended purposes, while the budget-support donors have responded in ways that – despite the best of intentions – can undermine country-led mechanisms that exist. However, that is not surprising in view of the scale of the transformation in the relationship between donors and countries that is being attempted.

What is encouraging, in this sense, is that there is evidence of movement. Problems that have been identified in the initial rounds of reviewing of first-generation PRSPs are beginning to be addressed in second-generation processes. Donor groups are learning all the time. There are good reasons to expect that the synergies between budget-support Performance-Assessment Frameworks and PRSP APRs will progressively increase, and the conflicts between them reduce, over the coming years.





# Annex: Annual reviews and performance assessment in Ethiopia, Mozambique, Tanzania and Uganda

## Introduction

This annex provides further detail on four countries in Africa where PRSPs are being supported by a substantial programme of multi-donor budget support. For each country, we provide some background, some essential facts about the PRSP's annual progress review and Annual Progress Report, and details of the performance-assessment approach of the budget-support group.

The limitations of these country case studies need to be borne in mind. They are the result of short desk studies and are largely a synthesis of the main descriptive documents from the countries. They do not make use of the same range of sources as the main text of the report, and they do not benefit from field investigations. They are not meant to be evaluative. Some additional qualifications have been introduced in the light of the comments of JICA field staff in the countries. However, it has not been possible to make the thorough check for errors and omissions that would be possible in a study based on fieldwork.

## Ethiopia

### 1 *Background to budget support*

There are two sets of factors influencing donors to move towards Direct Budget Support (DBS) of the Poverty Reduction Strategy (PRS) in Ethiopia. The first set concerns the perceived need to increase the volume of official development assistance (ODA) to Ethiopia as soon as circumstances in the country permit. The second set has to do with a growing preference for the budget-support modality.

External financing for Ethiopia peaked in the mid 1990s when the new regime received international support for its Emergency Recovery Programme, but it levelled off afterwards to about US\$ 700 million per annum, largely on account of the donor response to the war with Eritrea. The flow of foreign development assistance fell in FY 2002/03 to only US\$ 684.05 million, a reduction of 22% on the FY 2001/02 level of USD 881.19 million (excluding emergency assistance).<sup>61</sup> This was in part the result of the severe drought in 2002/03, which resulted in the redirection of large funds to emergency relief activities. Aid per capita was already low by the standards of the region.

The GoE adopted an interim Poverty Reduction Strategy Paper (PRSP) in order to qualify for multilateral support under the IMF's Poverty Reduction and Growth Facility (PRGF) in 2001.<sup>62</sup> As required under that agreement the following year the Government published its first full poverty reduction strategy, entitled the Sustainable Development and Poverty Reduction Programme (SDPRP) in July 2002. This has since become the main instrument for coordinating and harmonising international support (DBS and other channels) as well as the basic framework for developing and assessing the government's own poverty-reduction goals. The four building blocks of the SDPRP are 1) Agricultural development-led industrialisation (ADLI) and food security, 2) Justice system and civil service reform, 3) Governance, decentralisation and empowerment and 4) Capacity building.

The SDPRP received almost immediate attention and support from the donor community. At the Consultative Group meeting of the Development Assistance Group (DAG) and the GoE in December 2002 donors pledged a total of US\$ 3.6 billion over the three year period 2003- 2005. However, absorbing the additional revenue and using it effectively towards poverty reduction will prove a challenge for the GoE as identified in the joint Country Financial Accountability Assessment (CFAA) and Country Procurement Assessment Review (CPAR) completed in 2003.

A second set of factors explains why DBS is favoured over other mechanisms. There are four general channels that the GoE uses to facilitate foreign cooperation: 1) General Budget Support (GBS) in which a

loan or grant is made to be incorporated into the central budget without restriction on where the money can be spent, 2) budget support in which a loan or grant is earmarked to a specific sector or sub-sector within the budget, 3) disbursement of funds to special accounts in which a ministry or executing agency can have access to the funding, and 4) development cooperation provided in kind, including direct procurement and technical assistance. Channels 1) and 2) fall into the category of general and programme DBS, channels 3) and 4) into the category of project financing.

To a large extent the increasing share of channels 1) and 2) in total ODA reflects a donor-led initiative headed by some key multilateral and bilateral members of the DAG. The IDA for example announced in 2003 that it would be disbursing its first tranche of the new Poverty Reduction Support Credit operation (PRSC-I) amounting to US\$ 120 million. In 2003 the African Development Bank also extended US\$ 20 million of credit in the form of DBS and the EU supplied a grant of US\$ 39.1 million. One bilateral donor agency, DFID, offered a grant of US\$ 15.5 million for GBS.<sup>63</sup> The total value of DBS in 2003 was US\$ 194.6 million.

As Table 1 shows, DBS is projected to rise considerably by FY 2005 when the total value will be US\$ \$387.63 million. Whilst multilateral institutions will still account for over 70% of this sum, a number of new bilateral donors will also begin to provide DBS. Reflecting developments in donor aid-strategy at a regional level, on-going harmonisation on conditionalities and aid delivery strategies amongst members of the DAG is further helping to consolidate this trend. The GoE has also expressed a clear preference for more DBS.

**Table 1: Ethiopia: DBS estimated contributions in FY 2005 (Million US\$)\***

	Source	Amount	Share (%)
Multilaterals	IDA	150.00	38.7
	ADF	88.83	22.9
	EU	24.76	9.5
<b>Total Multilaterals</b>			71.1%
Bilaterals	DFID	55.03	14.2
	CIDA	19.08	4.9
	SIDA	13.22	3.4
	Ireland	13.19	3.4
	Germany	11.62	3.0
<b>Total Bilaterals</b>		112.13	28.9%
<b>TOTAL DBS:</b>		387.63	100.0%

Source: DAG (2003).

\* July 2004 US\$ 1 = EURO 0.81804; GB£ 0.54519.

In addition to the general arguments in favour of this disbursement mechanism, two particular advantages of DBS stand out in the Ethiopian context. Firstly, DBS indirectly increases the funds available for federal-regional or regional-woreda transfers, and thereby promotes and supports decentralisation which is a key priority identified in the SDPRP. Secondly, by reducing variability in donor disbursements, the shift to DBS should reduce the considerable variability in Ethiopia's capital budget. ODA averaged 44% of federal spending during the 1996-1999 period but only 31% was actually captured in the budget.<sup>64</sup> Given that the share of foreign assistance in the federal budget will grow substantially if Ethiopia is to meet its ambitious poverty-reduction spending and GDP growth targets under the SDPRP, the Ministry of Finance and Economic

Development (MoFED) must effectively address this problem. Many of the necessary institutions required existed only in a very rudimentary form as of late 2002, but since then considerable progress has been made towards satisfying new demands. The following two sections outline the reformed structures.

## 2 *The PRSP annual progress review*

The Consultative Group Meeting held in December 2002 led to an agreement between the DAG and the GoE that existing monitoring and evaluation structures should be revitalised and modified in order to enable mutual accountability and better policy dialogue. The basic model, which is discussed in more detail below and outlined in Table 2, comprises of a High-Level Government Donor Forum (HLF), an Annual SDPRP Progress Report, subsidiary joint groups covering sectors and process and a permanent secretariat.<sup>65</sup> The main principle guiding the development and coordination of these four components at this stage is to promote stronger vertical links (between the HLF and subsidiary groups), and stronger horizontal links (between subsidiary groups) than has been evident in the past.

The HLF is in principle a quarterly forum led by MoFED at Ministerial level and co-chaired by the DAG to facilitate on-going monitoring and evaluation. In practice, meetings have been half-yearly on average. Each donor country sends a single representative to each meeting, and there is ad hoc participation by other federal ministries. The aims of the forum are said to be: to take an overall view and enable on-going government-donor dialogue on 1) implementation and monitoring of the SDPRP and 2) progress with harmonisation, as well as 3) to facilitate general discussion of high-level policy issues. At these meetings donors have the opportunity to fix items on the agenda for discussion and raise specific problems with monitoring and implementation. The MoFED has two weeks between finalisation of the agenda and each meeting to coordinate the work of relevant ministries in order to prepare and have background documents ready for the HLF. Improving the capacity at various levels of the GoE to facilitate effective SDPRP implementation, M&E and reporting to a higher level, is the subject of some donor conditionalities discussed in the next section.

**Table 2: Elements of the annual progress review in Ethiopia**

Item	Description	Timing	Responsibility
High-level Government Donor Forum (HLF) (Formerly MoFED-DAG meetings)	Regular high-level discussion of SDPRP implementation, progress on harmonisation and other outstanding policy issues	Quarterly	MoFED Co-chair DAG
Annual SDPRP Progress Report (APR) and Consultative Group Meeting	Provides comprehensive picture of progress to donors and wider society. Facilitates feed-back into design of SPDRP	Annual (October-November)	MoFED
Subsidiary Groups	Oversee sector, process development programme under SPDRP and harmonisation effecting sector or process. Report to HLF.	Monthly or quarterly depending on the group	Relevant Ministry e.g. MoH, MoE, MoRD, MoFED
Permanent Secretariat	Coordination, management and logistics	Permanent	Multilateral Cooperation Department, MoFED

In theory, a Consultative Group Conference is held annually at which MoFED presents the Annual SDPRP Progress Report (APR), providing a comprehensive picture of progress in implementation to Government, donors and wider society. In practice, these meetings have been subject to lengthy postponements. After the first APR session in December 2003, the second was postponed several times and had not taken place by the end of 2004. In the case of the first meeting, the document was not available in sufficient

time for discussion in the subsidiary sector groups.

In principle, there are two key ways in which the APR impacts directly on DBS. Firstly, after consideration of this report donors reach a judgement on DBS commitments for the next financial year. In December 2003, it was agreed that the APR should generally come three to four months after the end of the fiscal year (October-November) as this would allow fiscal results from the previous FY to inform the review of the report but also ensure that indicative commitments by donors are received in time for the MEFF process. As already noted, this has not happened.

Secondly, the APR is intended to be a critical point in the annual cycle at which all parties, including donors, should take stock of the SDPRP process and development efforts. It provides an opportunity to feed lessons back into the SDPRP process with a view to making it into an ever more effective instrument. Clearly success or not in this area will determine the extent to which donors are able to align their aid-objectives with those of the SDPRP and therefore the extent to which they are willing to support it through DBS. Donors' role in the design of the SDPRP policy matrix is discussed in more detail in the next section.

Joint sector steering committees between specific ministries and their development partners have already been in operation for number of years. The Education Steering Committee (Ministry of Education and DAG), the Central Joint Committee of Health Sector Development Programme (Ministry of Health and DAG) and the Food Security Steering Committee (Ministry of Rural Development) are three which meet quarterly. One process-focused group, the Public Finance Management Committee (MoFED and DAG) is also already active and meets monthly. Under the new arrangements these committees will form part of the subsidiary group architecture which oversees sector- or process-specific SDPRP development programmes and donor harmonisation initiatives and formally reports back to the HLF. The HLF has identified gaps in terms of the sectoral and process issues covered by existing structures at this level, such as capacity building, roads, water, agriculture and DBS. These gaps will be filled over time.

The Multilateral Cooperation Department of MoFED acts as the Permanent Secretariat, with the task of managing the logistical arrangements and ensuring effective communication between the three other components of the APR structure. The DAG-CG has agreed to co-fund the additional staffing and operational costs of the Secretariat.

### **3 *Risk- and performance-assessment for budget support***

The donor community has proceeded with support of the SDPRP, and increasingly so through general and programme DBS, as an act of faith that the necessary M&E as well as feedback mechanisms will be developed over time. It is recognised that capacity-building activities are essential for the APR to work properly.

The GoE is presently subject to a small number of explicit conditionalities which cover the future disbursement of DBS funds, but in order to make the whole process more accountable on both sides, these are expected to increase in number and depth over time. The conditions presently in force can be loosely divided into those that deal with the implementation of the SDPRP and those that impact on the content of the SDPRP. However, DBS conditionality is likely to change considerably in the future as a result of the on-going harmonisation initiative. The results of the 2003 joint SPA and OECD/DAC study on aid-harmonisation in Ethiopia, which were to be released in late 2004, will certainly have implications for this process. Furthermore, whilst a number of multilateral and bilateral donors are definitely in the process of negotiating a Memorandum of Understanding (MoU) with the GoE covering the disbursement of DBS, the details of such agreements are not public knowledge at the time of writing.<sup>66</sup>

The Joint Partner Review of the APR 2002/03 points out that although the SDPRP sets out a sensible framework for M&E the DAG would like to see the Government accelerating its implementation. Following completion of the joint Country Financial Accountability Assessment (CFAA) and Country Procurement

Assessment Review (CPAR) in 2003, the IDA has put a number of specific conditionalities covering management and reporting on DBS disbursement under PRSC-I (FY2003), PRSC-II (FY2004) and PRSC-III (FY2005). The CFAA action plan focuses on improving the planning and budget cycle and improving financial management processes and information systems. Some of the recommendations have become prior actions for the PRSC, for example, issuance and compliance with a financial calendar, introduction of a new chart of accounts in four regions (both PRSC-I) and reduction in audits backlog for the federal account to one year (PRSC-II). The CPAR recommendations are being implemented under the Public Sector Reform Programme. Specified prior actions include adoption of circular devolving procurement responsibilities from MoFED (PRSC-I) and enactment of a procurement proclamation (PRSC-II).<sup>67</sup>

At a more general level, the extent to which donors are able to align their aid with the priorities of the SDPRP will determine the flows of DBS that they are willing to extend at the expense of the more traditional mechanism of project financing. Therefore whilst there is no formal conditionality covering revision to the SDPRP policy matrix at the moment, feedback from the donor community regarding the content of the SDPRP, its targets and its indicators has been an important aspect of the dialogue between the DAG and the GoE until now. Prior to the first APR last year for example, the GoE produced a revised SDPRP policy matrix to reflect the concerns of the DAG that the earlier version omitted areas of political governance such as democratic elections, human rights, freedom of expression and gender rights. The revised SDPRP policy matrix (reproduced in full in Annex 1) is now classified into four thematic groups; 1) Enhanced rapid economic growth, 2) Improved human development, 3) Democratisation and governance and 4) Improved public sector institutional performance. There are also fourteen sub-thematic areas which are designed to correspond closely to the policy areas addressed in the IDA's PRSC-I policy matrix.

## **4 Conclusion**

This case study has outlined the main elements of the process for monitoring implementation of the Ethiopian poverty reduction strategy. The structure of the APR provides, in principle, several opportunities for donor-government consultation (e.g. the HLF, the APR, subsidiary groups). It also allows donors to coordinate around common structures and events as part of the major harmonisation agenda that the DAG committed to at the December 2002 Consultative Group Meeting. The next step for the GoE is to continue to improve capacity at all levels of the government (federal, regional and woreda) to implement the SDPRP and to manage increased DBS aid flows effectively. Donors on the other hand need to continue work amongst themselves and with the GoE in order to increase the transparency of the DBS triggers and to align their disbursement with government processes.

## **Mozambique**

### **1 Background to budget support**

The Mozambique PRSP is also called the Action Plan for the Reduction of Absolute Poverty (PARPA). The current PARPA for the period of 2001-2005 sets out the strategic vision for reducing poverty, and the main objectives and key actions to be implemented, all of which will guide the preparation of the Government's medium-term and annual budgets, programs, and policies.

In Mozambique the poverty reduction strategy is managed through the public planning system, which is based on the Five Year Government Programme, currently referring to the period 2000-2004, which is accompanied by two main sets of instruments, namely:

- Medium term planning instruments. This group, apart from PRSP, includes the sectoral and provincial strategic plans and the medium term expenditure framework (MTEF);
- Annual operational instruments, such as the Economic and Social Plan (PES) and the State Budget (OE).

The PRSP/PARPA was developed through a participatory process. The key objective is the reduction of absolute poverty and the following fundamental action areas are identified: a) education, b) health, c) agriculture and rural development, d) infrastructure, e) good governance, f) macroeconomic and financial management. One of the key challenges in achieving sustainable improvements in poverty indicators derives from still rising numbers of HIV infections (about 13 percent of the adult population is HIV positive). Aside from its direct impact on poverty related indicators, this will also have dire consequences for the productive labour force and hence growth. Other key constraints to the implementation of the PARPA reform programs include increasing disparity between a booming mega-projects sector and a small and medium enterprise sector which the business environment does not adequately support, corruption particularly in the financial sector, and a weak banking sector.<sup>68</sup>

General budget support in Mozambique consists of a programme of non-earmarked financial support to the government's public expenditure programme involving multiple donors and multi-year indicative commitments. The overall objective of budget support is to contribute to the achievement of the government's economic and social programme and to poverty reduction (through policies set out in the PARPA).

Donor co-ordination in the provision of budget support and other forms of programme aid in Mozambique commenced in the mid-1990's and was formalised in 2000 with the establishment of the Joint Donor Programme (JDP) for Macro-Financial Support. The number of donor agencies contributing to this programme has grown rapidly from an original 6 agencies in 2000 to 15 agencies in 2004.<sup>69</sup>

The group of 15 Programme Aid Partners (PAPs), also known as the G15, signed a new Memorandum of Understanding (MoU) with the GoM at the end of the 2004 Joint Review (April 2004). This sets out in great detail the procedural arrangements for budgetary and balance of payments support. The main rationale for the new agreement was to further clarify the roles and responsibilities of both government and donor agencies and to build a more effective partnership-based approach to supporting the government's poverty reduction strategy. GoM and PAPs will focus their dialogue particularly on the GoM's Performance Assessment Framework (PAF), which is a multi-annual matrix of priority targets and indicators based on the PARPA, updated on an annual basis through the PES process and agreed through cross-governmental dialogue.

Financial disbursements under the programme were US\$ 156 million in 2002 (or 27% of all ODA to Mozambique), and US\$160 million in 2003 - with further pledges of US\$167 million for 2004.<sup>70</sup> World Bank budget support is delivered in the form of the Poverty Reduction Support Credit (PRSC-1). This was first introduced in 2004 with a loan in the amount of US\$ 60 million per year. Through the PRSC-1 Program, the Bank is part of the PAPs providing budget support against progress in implementing actions and indicators identified in the PAF and agreed with all development partners within the framework of the Joint Review.

It is an explicit objective of the Government of Mozambique (GoM) to reduce aid dependence in the medium-term by enhanced efforts to mobilise domestic fiscal resources. Budget support disbursements represented 34.7% of the annual budget of the GoM in 2003. Including other aid modalities, Official Development Assistance (ODA) funded 48% of the official state budget.<sup>71</sup> The ODA share of budget expenditure has already been reduced from 70% in 1995/96 to 48% now, with the intention that this ratio will be progressively reduced to around 25% from 2010 onwards – as tax receipts and other sources of domestic revenue increase and public expenditure levels fall as a proportion of increasing national income.

## **2      *The PRSP annual progress review***

To monitor progress in Mozambique's strategies to reduce poverty, a number of processes and structures are in place (summarised in Table 1), the most important of which is the annual Poverty Reduction Strategy (PRS) Progress Report, issued by the Ministry of Finance and Planning.

**Table 1: Elements of the annual progress review in Mozambique**

Item	Description	Timing	Responsibility
PRS Progress Report	Assessment of progress of government policies and outputs.	Annual	Government
Public Expenditure Review	Stakeholder consultations to review public financial management and budgeting issues.	Annual	PER Working Group
Reviews on Programme Aid	Annual, mid-term and follow-up reviews to assess progress in actions and indicators outlined in the PAF matrix, PES, OE.	Annual: April Mid-year: August Follow-up: June and December	Government and PAPs
Balanço do PES	Reflects performance against PES targets and indicators, including those identified as PAF priority targets	Annual and mid-year	Government
Budget Execution Reports	Provide quarterly updates on budget expenditures.	Quarterly	Government
Sectoral Reviews	Stakeholder consultations to review implementation of health and education development strategies.	Annual	Government
Programme Aid Partner Performance Assessment (PAPPA)	Assessment of performance against commitments to provide their programme aid	Annual	PAPs

On the resources side, the government produces quarterly Budget Execution Reports. These reports provide an update on revenues, including domestic tax and non-tax revenues and donor financing and a record of releases of the national budget to individual sectors. Also important for public expenditure issues is the annual Public Expenditure Review (PER), not to be confused with the Joint Review of the budget support programme. This annual consultation is open to a wide range of stakeholders including government and donors, and investigates public expenditure trends and management issues. A working group made up of government, donors, the UN, civil society and academia supports the PER, setting the analytical agenda and informing the discussion at the PER. Discussions focus on the fiscal situation of government, the allocation of the budget and the extent to which priority sectors are favoured in the allocations and other budget efficiency factors.

At the sectoral level, reviews are undertaken annually in the health and education sectors. These workshops are open to government, donors and civil society and seek to assess progress in the implementation of the health and education development strategies.

### **3 Risk- and performance-assessment for budget support**

To provide accountability to donors for the use of donor budget support, more specific monitoring and evaluation mechanisms are in place. As mentioned above, these processes are governed by the MoU, which lays out the requirements for the government-donor partnership, in particular a Performance Assessment Framework (PAF). The PAF aims to describe the common poverty reduction goals of the government of Mozambique and the PRSP/PARPA donors, detailing the policies to achieve these goals and the indicators with which to monitor progress in those policies.

The PAF sets out a matrix of agreed actions and timelines, ranging from short term to medium term actions to reduce poverty in the framework of Programme Aid. The matrix is structured around the key PARPA objectives to: reduce income poverty; improve poverty monitoring and evaluation; achieve macroeconomic stability; improve public service delivery; minimise resource leakage and strengthen accountability; and

ensure environmental sustainability. In 2004, a reduced PAF, limited to 31 priority actions was agreed by the government and donors (see sample page below).

According to the MoU there will be two joint GoM-PAP reviews of Programme Aid: the annual review, following the production of the Balanço do PES document (BdPES), and a mid-year review prior to submission of the PES and OE to Parliament. The annual review will be focused on coming to a joint view on performance, which in turn serves as the basis for commitments. The mid-year review will be focused on dialogue on forward planning and budgeting and agreement on the PAF.

In the annual review, GoM and PAPs will assess performance against the PES, PAF and OE in the preceding year and in the current year up to the point of review, based on the information in the Balanço do PES and Budget Execution Report, and other available information. Moreover, the GoM and PAPs will come to a joint view on performance in the preceding year by the end of the review. The most important factor in defining performance will be results as measured against indicators and targets committed to in the PAF. This will be seen in the wider context of a holistic analysis of performance against the PES and OE. It will focus on trends and the direction of change. It will take into account the extent to which performance difficulties are being addressed, as shown in the PES, PAF and OE commitments for the current year.

In the mid-year review GoM and PAPs will discuss performance in the current year until the moment of the review, based on the last budget execution report, the half year PES-report and other available information. They will discuss GoM plans for the following year on the basis of the PARPA (when relevant), CFMP and headline information on the PES and OE. They will agree the PAF outlined for the following year, based on a GoM proposal of priorities identified, through cross-governmental dialogue, during the PES process. GoM and PAPs will also discuss PAP commitments for improving aid effectiveness. In case data were not provided in time for assessment of variable portions of the PAP response mechanism at the annual review, GoM and PAPs will make an assessment of performance against specified selected indicators for variable portions of PAP response mechanisms.

Always on the basis of the MoU, there will be a follow up meeting twice a year (in June and December) to discuss progress on issues raised during the reviews.

Budget Working Group (BWG) meetings will take place four times a year, always in combination with a review (April and August) or a follow-up meeting to a review (June and December). At these BWG meetings GoM and PAPs will discuss budget execution up to the end of the previous quarter, based on budget execution reports. PAPs and GoM will agree on the detailed disbursement schedule at the December meeting.

On the donor side, it has been recognized that PAPs behaviour may strongly influence observed GoM performance. Hence, a key requirement of the MoU is an annual report by PAPs on their performance against commitments to provide their programme aid (direct budget support and balance of payments support) more effectively, predictably and with increased transparency of terms and conditions, amongst other objectives. The report is called Programme Aid Partner Performance Assessment (PAPPA) and it will be examined during the annual reviews. Progress will be measured in particular in the (1) alignment with Mozambican instruments, processes and systems of financial management; (2) predictability of donor flows; (3) transparency of conditions and funding; (4) harmonisation by eliminating bilateral requirements; (5) reduction of transaction costs for the GoM; (6) enhancement of the capacity of the GoM to meet its commitments. The Programme Aid Partners Performance Assessment will include an overview on the cooperation portfolio of the PAPs in Mozambique, the aid modalities applied and changes to be expected in the spirit of this MoU. In particular, on-budget and off-budget will be made transparent. In order to enhance credibility the annual report will be commissioned to an independent provider.

The Government of Mozambique was previously obliged to meet a number of different and sometimes inconsistent set of performance indicators for donors including the IMF's PRGF (structural performance criteria, structural benchmarks and prior actions), EC indicators, HIPC benchmarks, the PARPA matrix and an update on actions against the Joint Donor Review Aide Memoire. The period 2003/04 has seen



a concerted effort to seek to both harmonise and simplify conditionality, with a focus on a core set of policy actions and output indicators which are considered fundamental to deliver on the intended results of the Government's poverty reduction strategy. The PAPs, including the World Bank and its PRSC, are committed to using the PAF as *the single conditionality framework* for budget support and using government monitoring information as the basis for their assessment of performance.

A critical function of the above elements of the APR in Mozambique is to provide accountability to donors for their Programme Aid contributions and as a result to ensure their continued financial support. As outlined in the MoU, the PAPs have agreed to assess the performance of the government and the budgeting process on the basis of the PES, PAF and OE. At the annual and mid-term reviews, the donors endeavour to reach a consensus view on the progress made by the Government. Disbursements of budget support are therefore dependent on the outcomes of these reviews, in particular on the conclusions of the donors regarding government's progress against the PAF actions and indicators. PAPs may choose between making a single response based on the joint view of performance or a split response,<sup>72</sup> with one part (fixed portion) being based on the joint view of performance and the other part (variable portion) being linked to specific, transparent commitments drawn from the PAF and agreed with GoM.

Despite the advanced level of coordination mechanisms in Mozambique, an assessment carried out by the SPA noted a number of areas in which further strengthening is required, particularly in reducing the burden of the Joint Review process on key Government staff, avoiding a diffusion of donor effort over too wide a range of sectors and issues and the need to use the Joint Review process to also enhance government accountability to domestic stakeholders.

Moreover, a number of major donors utilize parallel channels and disburse substantial amounts of assistance outside of government systems. Over half of aid to Mozambique is off-budget, including traditional projects and funds channelled directly to line ministries both at the central and at provincial levels. This practice undermines government systems, it reinforces a pattern of accountability to donors rather than to the central Government, and it allows donors to steer the composition, the distribution, and pace of expansion of public service delivery.

The joint review process also raises questions about the role of the IMF/WB Joint Staff Assessment of Mozambique's PRS annual report, given that the current ongoing work within the Ministry of Planning and Finance to enhance the quality of the annual Economic and Social Plan (PES) will mean that this document will in future be used as a de facto annual report on progress in the implementation of the PARPA. Both processes would ideally be completely integrated (or at least coincide) since they involve the same government officials presenting and reviewing a very similar range of performance-related indicators.

#### **4 Conclusion**

This case study has described the the elements that make up the Annual Progress Review process for monitoring and evaluating progress in the implementation of the Mozambique poverty reduction strategy. A key element in the process is the PAF which also provides the basis for donor GBS conditionalities. The structure of the APR provides several opportunities for donor-government consultation and allows donors to coordinate around common structures and events. Mozambique also hosts a valuable structure for monitoring and evaluating donors in terms of their relationships with each other and with government.

Table 2: Sample page from Reduced Matrix of Priority Actions, Mozambique

Programa Governo – PARPA			Prioridades		Metas (200-)												
Objectivos Estratégicos	Áreas	Sub-áreas	Objectivos	Acções	Indicadores (R = resultado; P = processo)	2003 planif	2003 real	2004	2005	2006							
Criação de um ambiente favorável à acção do sector privado	Reformas legais ad-hoc	Sistema Financeiro	Reforço da capacidade de supervisão do Banco Moçambique	Revisão da Lei do Trabalho e Submissão à Assembleia da Lei de Trabalho Revista (●) Aprovar os Regulamentos sobre licenciamento de actividades comerciais e industriais Aprovar os Regulamentos de inspecção de actividades comerciais e industriais	✓	✓	✓	✓	✓	✓							
			Políticas macro-económicas e financeiras	Realizar peritagem financeira ao BIM e BAU e implementar conclusões da peritagem, incluindo procedimentos legais, quando aplicáveis. Implementar o IAS no sector bancário (diagnósticos, planos de acção, implementação) (●) Assistência técnica para o BdM	BIM	BIM	BAU	✓	✓	✓	✓	✓					
	Reforma do Sistema de Administração financeira do Estado	Elevação da eficiência e eficácia da gestão das disponibilidades financeiras do Estado	Execução orçamental consistente com a afectação prioritária dos recursos às áreas do PARPA (●)	Implementar orçamentação por programas	Implementar a Conta Única do Tesouro Física	✓	✓	✓	DPPFs + MPF, MINED	Extensão	15-3						
												Implementar o e-Sistafe (●)	14-3	14-4	14-7	15	
																	Criação da Autoridade Tributária em 2006 (●)
	Procurament	Adopção de um sistema transparente	Aprovar Projecto Diploma legal sobre regime de empreitadas de obras públicas bens e serviços (●)	✓	✓	✓	✓	✓	✓								
	Planeamento e Monitoria	Harmonização dos instrumentos de médio e curto prazo	Descentralização	Garantir a integração entre PES, PARPA e CFMP Adaptar o Balanço do PES para ser o principal instrumento de Monitoria do PARPA (●)	Introdução da Planificação Distrital (●)	21	21	37	53	67							
											Reforma Sector Público	Aprovação da Regulamentação da Lei de Órgãos Locais do Estado; Implementar a Lei	✓	✓	✓	✓	✓
	Boa Governação, Legalidade e Justiça (Combate a corrupção)	Racionalização de estruturas e processos	Combate à corrupção	Realizar uma pesquisa sobre Boa Governação, corrupção e prestação de serviços (●) Implementar um Plano de Acção	Realizar análise funcional e elaborar planos de reestruturação Implementar planos de reestruturação na Saúde, Educação Agrícola, MAE e MPF (●)	✓	✓	✓	✓	✓	✓						
												Reforma da Justiça	Elevação da eficiência na provisão de serviços pelo sistema judicial	Introduzir um sistema de planeamento, orçamentação e monitoria que priorize a provisão de serviços (coerente com o Plano Estratégico Integrado, o PES e o OE) (●) Implementar um sistema de controlo interno do desempenho (Procuradorias, Tribunais)	✓	✓	✓
Simplificação e maior celeridade no processamento																	

(●) Acções propostas como triggers para o Apoio Directo ao Orçamento de Estado

## Tanzania

### 1 *Background to budget support*

Tanzania first developed a PRSP in 2000, based on the articulation of the country's poverty reduction objectives and strategies in its Vision 2025 and National Poverty Eradication Strategy. A revised PRSP is to be finalised in 2004. Priority areas include primary health, basic education, water, rural roads, agriculture (in particular extension services), justice and HIV/AIDS. There is also a serious concern with equity whereby large numbers of people are failing to benefit from the economic growth and income generation processes. In terms of sectoral allocations, the government has prioritised the social sectors, with particular focus on the primary services within these sectors.

To support the poverty reduction process in financial terms, alongside the development of the PRSP in 2000, a Poverty Reduction Budget Support (PRBS) facility was also created. The PRBS instrument is a single account which holds all donor budget support funds. Direct budget support is the preferred aid modality for the government of Tanzania. As outlined in the Partnership Framework Memorandum which governs the procedures for budget support, direct budget support strengthens national ownership of the development process.<sup>73</sup> The number of donors contributing to this instrument has increased over time and currently a total of eleven bilateral donors,<sup>74</sup> plus the EU and the World Bank and now the African Development Bank channel budget support through the PRBS.

In 2003/04,<sup>75</sup> a total of TShs. 1.2bn was allocated to Tanzania in donor aid. Of this, approx. 34% (TShs. 405m) was pledged in the form of general budget support by the PRBS donors. In addition, a further 17% was pledged in the form of budget support earmarked to specific sectors.<sup>76</sup> Some individual donors have been making concerted efforts to increase the proportion of general budget support in their total aid budget for Tanzania. For example, budget support accounts for 75% of the DFID-Tanzania aid budget. However, even with these efforts, general budget support still accounts for a relatively small proportion of total aid flows to Tanzania. Moreover, despite the large number of donors involved, the majority of budget support aid is actually accounted for by just three donors (DFID, EU and World Bank).<sup>77</sup>

World Bank budget support is delivered in the form of the Poverty Reduction Support Credit (PRSC). When the PRSC was first introduced in 2000, it was delivered through a separate mechanism to the PRBS. However, in 2002, the PRSC was merged with the PRBS framework, representing significant progress in aligning the different sources of budget support to Tanzania.

In the delivery of budget support, donors give up the direct control over resource allocations and uses that is associated with project support, and thus there is need for a whole range of supportive structures to ensure that aid through budget support meets the accountability requirements of donors and is used in line with donor conditionalities. The following section outlines these structures in Tanzania in terms of monitoring and evaluation, accountability requirements and conditionalities.

### 2 *The PRSP annual progress review*

To monitor progress in Tanzania's strategies to reduce poverty, a number of processes and structures are in place and collectively these can be taken to make up the annual progress review (summarised in Table 1 below). First, to provide an overall assessment of government actions and poverty reduction outputs, an annual Poverty Reduction Strategy (PRS) Progress Report is issued, supported by information provided in an annual Poverty and Human Development Report. These reports are essential for monitoring progress in the achievement of poverty reduction in the country.

On the resources side, the government produces quarterly Budget Execution Reports. These reports provide an update on revenues, including domestic tax and non-tax revenues and donor financing and a record of releases of the national budget to individual sectors. Also important for public expenditure issues is the annual Public Expenditure Review (PER). This annual consultation is open to a wide range of stakeholders

including government and donors, and investigates public expenditure trends and management issues. A working group made up of government, donors, the UN, civil society and academia supports the PER, setting the analytical agenda and informing the discussion at the PER. Discussions focus on the fiscal situation of government, the allocation of the budget and the extent to which priority sectors are favoured in the allocations and other budget efficiency factors.<sup>78</sup>

At the sectoral level, reviews are undertaken annually in the health and education sectors. These workshops are open to government, donors and civil society and seek to assess progress in the implementation of the health and education development strategies.

Interestingly, Tanzania also has in place specific processes for monitoring the relationships between donors and government. In particular, there is an Independent Monitoring Group (IMG) which seeks to monitor donor compliance with agreed actions and assesses aid effectiveness indicators on an annual basis.<sup>79</sup>

**Table 1: Elements of the annual progress review in Tanzania**

Item	Description	Timing	Responsibility
PRS Progress Report	Assessment of progress of government policies and outputs.	Annual	Government
Poverty and Human Development Report	Provides analysis and overview of main poverty indicators for the country.	Annual	Government
Performance Assessment Framework – Reviews	Annual and mid-term reviews to assess progress in actions and indicators outlined in the PAF matrix.	Annual, November Mid-year, March	Government
Public Expenditure Review	Stakeholder consultations to review public financial management and budgeting issues.	Annual	PER Working Group
Budget Execution Reports	Provide quarterly updates on budget expenditures.	Quarterly	Government
Sectoral Reviews	Stakeholder consultations to review implementation of health and education development strategies.	Annual	Government
PRSC Process	World Bank pre-appraisal, appraisal and negotiation missions regarding the PRSC loan.		World Bank
Independent Monitoring Group	Assessment of donor relationships with government by independent group of development experts.	About every two years	IMG

### **3 Risk- and performance-assessment for budget support**

To provide accountability to donors for the use of donor budget support, more specific monitoring and evaluation mechanisms are in place. As mentioned above, these processes are governed by the Partnership Framework Memorandum, which lays out the requirements for the government-donor partnership, in particular a Poverty Assessment Framework (PAF). The PAF aims to describe the common poverty reduction goals of the Tanzanian government and the PRBS/PRSC donors, detailing the policies to achieve these goals and the indicators with which to monitor progress in those policies.

In practice however, it appears that the alignment of the PAF with the PRSP is yet to be fully achieved. While the PAF is based on the key objectives of the PRSP, it is argued that the actions outlined in detail are not fully in line with the PRSP. In fact, the PF explicitly mentions the intention to harmonise the PAF with the PRSP by 2005. This issue is being addressed in the revision of the PRSP in 2004. In total, the PAF contains over 60 separate actions covering issues of public financial management, macroeconomic management and public service development and 60 outcome and impact indicators.

The PAF sets out a matrix of agreed actions and timelines, ranging from short term to medium term actions to reduce poverty. The matrix is structured around the key PRS objectives to: reduce income poverty; improve poverty monitoring and evaluation; achieve macroeconomic stability; improve public service delivery; minimise resource leakage and strengthen accountability; and ensure environmental sustainability. Under the goal of reducing income poverty, required actions include the preparation of a private sector development strategy, the finalisation of an Agricultural Sector Development Programme and the preparation of a strategic plan for implementing the Land Act and the Village Land Act. Successful publication of the PRS Progress and Poverty and Human Development Reports on a regular basis are some of the actions required to achieve the goal of improved monitoring and evaluation. The macroeconomic indicators included are based on the targets agreed with the IMF programme. To improve the effectiveness of public services, the matrix specifies actions for improving the allocation of budgets in line with PRS objectives, for improved budget management and reporting, and for pay reform. Under the objective of minimising leakage and improving accountability, actions include the approval of the Public Financial Management Reform Programme and the preparation of regular reports on progress in implementing anti-corruption action plans. For the final goal of environmental sustainability, the actions focus on the completion of an institutional framework for environmental management.

Performance in the PAF is assessed during annual (November) and mid-year (March) reviews. Progress in actions laid out in the PAF matrix, together with the information provided in the annual PRS Progress Report, form the basis for these joint government-donor reviews. However, despite channelling its budget support loan through the PRBS, the World Bank continues to hold separate PRSC missions (pre-appraisal, appraisal and negotiation missions) and these are not yet aligned with those of the PAF.<sup>80</sup>

At the annual and mid-term reviews, the donors endeavour to reach a consensus view on the progress made by government. Disbursements of budget support are therefore dependent on the outcomes of these reviews, in particular on the conclusions of the donors regarding government's progress against the PAF actions and indicators.

Each donor has its own bilateral funding agreement with the Government of Tanzania (GOT), outlining the specific procedures that will be followed for the disbursement of aid from the donor in question. However, these agreements are not supposed to include any conditionality actions/indicators that are not included in the PAF.

With regard to the precise triggers for disbursement by donors, the picture is not very clear. As noted by the SPA study on budget support, the actions in the PAF do not have a clear status of conditionality. Each donor is left to select their own actions or groups of actions that they regard as important for triggering release of their budget support contributions. Thus the conditions for disbursement are not yet very transparent for most PRBS donors. In practice, it appears that the consensus view developed during the annual and mid-term reviews determines whether or not, and when, donors disburse.<sup>81</sup> The World Bank's PRSC is more straightforward than most, whereby specific prior actions required to trigger disbursement are highlighted in bold in the PAF matrix. In future years, the EU intends to split its conditionalities. In 2005/06, the EU plans to disburse one tranche of fixed budget support and a second variable tranche, conditional on progress against a selected number of public finance indicators.<sup>82</sup>

#### **4 Conclusion**

This case study has outlined the elements that make up the Annual Progress Review process for monitoring and evaluating progress in the implementation of the Tanzanian poverty reduction strategy. A key element in the process is the PAF which also provides the basis for donor GBS conditionalities. The structure of the APR provides several opportunities for donor-government consultation (e.g. annual and mid-term PRBS/PRSC reviews, PER etc.) and allows donors to coordinate around common structures and events. Tanzania also hosts a valuable structure for monitoring and evaluating donors in terms of their relationships with each other and with government. The next step for Tanzania is for the PRBS/PRSC donors to add further transparency to the triggers for budget support disbursements. Donor budget support disbursements

continue to vary greatly from pledges and the timing of pledges needs to be in line with the national budgeting process.

Table 2: Sample page from Performance Assessment Framework for PRBS/PRSC, Tanzania

ACTIONS AND OUTPUT TARGETS					
PRS FRAMEWORK	PAF ACTIONS (actions completed by March 2003)	PAF ACTIONS (actions completed by Nov 2003/prior actions by March 2004)	STATUS AS AT MARCH 2004	INDICATIVE PAF ACTIONS (actions completed by Nov 2004/prior actions by March 2005)	MEDIUM TERM OUTCOMES
<b>4.3 Improved performance of the public sector</b>					
Pay enhancement in line with the approved budget for FY03.  Revised pay reform strategy adopted.	Pay enhancement in line with the approved budget for FY04.	Completed. June 2003. Wages and salaries have increased between 6 and 10% with the minimum wage rising from 35 000 in 1999 to 55 000 (57%).	Completed. Annual operating plans and action plans for 5 ministries and 8 independent departments are finalised, based on self-assessment and service delivery surveys. Self-assessments have been completed for all MDAs and 29 SDSs have also been completed. The remaining 5 are in draft form and will soon be finalised.  Completed. Reports for all 11 MDAs are available	Approved updated annual plans and performance budgets for all MDAs taking into account results of service delivery surveys (SDSs).  SDSs completed for remaining MDAs with results of SDSs disseminated to the public  Performance monitoring system rolled out and functioning in all MDAs.	Improved public service capacity.  Improved client's awareness and satisfaction.  Improved performance of the public service.
			The performance monitoring system has been rolled out in 19 MDAs, and is installed and functional in 3 independent departments and 1 ministry (TACAIDS, Ethics, Electoral Commission and PO – PSM). Software has been developed and training carried out in MDAs to ensure the quality of information generated.		

## Uganda

### 1 *Background to budget support*

Uganda developed its first national poverty reduction strategy, entitled the Poverty Eradication Action Plan (PEAP), in 1997. This has since been revised in 2000 and again in 2004 (a final draft of the latest version is currently being prepared). The PEAP is structured around key priorities for the country, namely macroeconomic management, growth and income promotion, security and good governance, and human development. The development of the PEAP enabled Uganda to become a recipient of debt relief through both HIPC initiatives, in 1998 and in 2001, a recipient of the World Bank's Poverty Reduction Support Credit (PRSC). The PRSC provide a general source of donor funding to the recipient government budget to support the achievement of a country's PRSP, in the case of Uganda, the PEAP. In addition to the PRSC, a number of other donors provide support to Uganda's budget rather than channelling funds through the more traditional form of project aid.

Over time, the proportion of donor aid to Uganda in the form of budget support has grown. While in the 1990s, budget support accounted for just 26% of total aid inflows, in 2003/04, this share had increased to 58%.<sup>83</sup> This is due both to existing budget support donors channelling an increasing proportion of their total aid through budget support rather than through projects, and to an increasing number of donors switching to the budget support mechanism. For example, DFID provides both project aid and budget support to Uganda but has the intention to increase the proportion of general budget support to over 75% by 2005/06.<sup>84</sup> In total, thirteen donors currently provide budget support of some form to the Ugandan budget.

There are three ways in which budget support is given to the Ugandan budget. First, the budget support can be earmarked to a specific sector or sub-sector within the budget (e.g. primary education). This is the narrowest definition of budget support. Less narrow, but still restricted, is budget support earmarked to the Poverty Action Fund (PAF). The PAF is a virtual fund within the government budget which includes only those areas of expenditure which directly contribute to the reduction of poverty (e.g. primary health care, primary education). The third type is general, un-earmarked budget support and is the type most favoured by the Ugandan government.<sup>85</sup> Table 1 gives the breakdown of budget support for the financial year (FY) of 2002/03. For the sake of simplicity, from hereon, the term general budget support (GBS) will be used to refer to all three types of budget support, unless otherwise specified.

In the delivery of budget support, donors give up the direct control over resource allocations and uses that is associated with project support, and thus there is need for a whole range of supportive structures to ensure that aid through budget support meets the accountability requirements of donors and is used in line with donor conditionalities. The following section outlines these structures in Uganda in terms of monitoring and evaluation, accountability requirements and conditionalities.

**Table 1: Breakdown of budget-support funding to Uganda, FY 2002/03 (US\$m)**

	General, un-earmarked	PAF-earmarked	Sector-earmarked	Total
Budget Support (US\$m)	224.3	106	150.38	480.5*

Source: MFPED (2003b).

\* Total taken directly from source data, does not correspond exactly to the breakdown due to rounding issues.

### 2 *The PRSP annual progress review*

To monitor progress in the implementation of Uganda's PEAP, a number of structures are in place. This

collection of activities makes up what can be termed the Annual Progress Review for Uganda. The activities have at least two functions. The first, to provide accountability to the public on the success or otherwise of government strategies to reduce poverty and the second, to provide accountability to the donors whose aid contributes to the implementation of PEAP activities. The elements of the APR are laid out in a number of documents, including in a set of formal partnership principles between the government and donors. Table 2 summarises these elements.

**Table 2: Elements of the annual progress review in Uganda**

Item	Description	Timing	Responsibility
Poverty Status Report (PSR)	Bi-annual detailed assessment of progress in PEAP implementation	Bi-Annual	PMAU, MFPED
Background to the Budget	Annual document supporting the budget, provides annual progress report on the PEAP in the years when PSR is not prepared.	Annual, June	MFPED
Budget Performance Reports	Provides 6-monthly update on revenues (domestic and budget support) and expenditures (releases to Line Ministries).	Semi-Annual	MFPED
National Budget Workshop	Stakeholder workshop hosted by MFPED to launch the annual budget process.	Annual, October/November	MFPED
Public Expenditure Review	Stakeholder consultation to review public expenditure issues and the macroeconomic framework for the medium term.	Annual, May	MFPED
Consultative Group Meeting	High-level donor-government meeting to discuss broad reform issues.	Annual, December	Government and Donor Group
PRSC Process	World Bank led process to monitor progress in targets and undertakings outlined in the PRSC matrix.	Annual Mission	World Bank and Government
Sector Reviews	Stakeholder reviews to assess progress in undertakings at a sectoral level.	Annual (Health and Education) Semi-Annual (Water; and Justice, Law & Order)	Line Ministries and Donors

Under the responsibility of the government, a Poverty Status Report is produced every two years by the Poverty Monitoring and Analysis Unit (PMAU) in the Ministry of Finance, Planning & Economic Development (MFPED). This is a full assessment of progress made over the two-year period in each element of the PEAP. In the interim years, an annual update on progress in the PEAP is provided in a document supporting the budget, entitled the Background to the Budget. These documents fulfil requirements of the HIPC donors to demonstrate progress in the implementation of the PRSP (a pre-requisite for HIPC-eligibility).

On the resources side, the MFPED produces a regular update on budget performance in the semi-annual and annual Budget Performance Reports (BPRs). These BPRs provide an update on revenues, including domestic tax and non-tax revenues and GBS funding. The BPRs also record progress in releases of the national budget resources (i.e. domestic plus GBS) to sectors and some progress on physical performance in key sectors (e.g. key health sector process indicators, education sector indicators etc.).



A key event in the annual budgeting cycle in Uganda is the Public Expenditure Review (PER), held in May of each year. The purpose of this review is to bring together donors, government, and other stakeholders, to discuss public expenditure issues. For example, presentations from sectors often focus on assessing the efficiency and effectiveness with which public (including GBS) resources have been allocated and utilised. The MFPED also presents the indicative macroeconomic framework and MTEF for the medium term, giving donors an opportunity to comment on the budget allocations for the forthcoming period. An earlier opportunity to discuss budget priorities and allocations is provided at the national budget workshop held annually in October/November to launch the annual budget process.

A further forum for donor-government consultations is provided by the Consultative Group (CG) meeting which normally takes place in December. The CG is a high-level forum whose role is to review progress in major areas, such as the revision of the PEAP and other broad reforms.

In addition to these review structures, donors also monitor progress in PEAP implementation at a more detailed level and the key framework at this level is provided by the PRSC process, led by the World Bank. The PRSC provided by the World Bank, aims to support the implementation of the PEAP and the credit is given as GBS to the Ugandan budget. To monitor progress in the utilisation of this credit, a number of reform actions that are tracked by the Bank are outlined in a table known as the PRSC matrix.

The PRSC policy matrix is structured around the four key ‘pillars’ of the PEAP which are economic growth and structural transformation; strengthening good governance and security; increasing the ability of the poor to raise their incomes; and improving the quality of life of the poor. Under the first pillar, undertakings pertaining to good public expenditure management are outlined. For example, the deviation between government budgeted resources and actual outturns has to fall to 5% in 2004. Under the second pillar of governance and security, there are targets to reduce the number of employees outside the official payroll and concerning pay reform issues. Also included in this section are targets relating to financial reporting (e.g. specifying the submission of financial statements, establishment of audit committees etc.). To contribute to the goal of improving incomes, targets under pillar 3 pertain to agricultural and environment objectives (e.g. increased adoption of improved technology). For pillar 4 the targets are taken from undertakings agreed upon in joint donor-government reviews on the sectors of health, education, and water and sanitation (e.g. establish a working group for sanitation; draft a strategic plan for higher education; conduct value-for-money study in water sector).<sup>86</sup>

The World Bank undertakes a review mission of the PRSC on an annual basis. Over the years, the other GBS donors have come on board, adopting the PRSC matrix as the mechanism for tracking progress in the utilisation of budget resources (and hence all GBS resources) rather than pursuing their own individual monitoring matrices. This has reduced the burden on government officials, reducing the number of time-consuming donor review missions that require extensive government input.

At the sectoral level, monitoring progress in the delivery of the key social services of health and education is now done through a joint government-donor consultative process, mentioned above. For example, the health sector holds an annual Joint Review Mission, inviting government, donors, NGOs and other stakeholders to consult and review the progress of the sector over the preceding period, to agree on targets for the forthcoming period and to agree on broad areas of priority for the sector. On a monthly basis, donors and the Ministry of Health meet to discuss policy issues for the sector on a regular basis. Similar structures are in place for the education sector. These joint consultative reviews also take place in the Water & Sanitation, and the Justice, Law & Order sectors on a bi-annual, rather than annual basis.<sup>87</sup> Key undertakings for these sectors, agreed on and monitored at the reviews, feed into the PRSC matrix. Thus the PRSC is streamlined with other review processes such that rather than monitoring progress in separate targets, the PRSC relies on progress identified by the joint reviews.

### **3 Risk- and performance-assessment for budget support**

Clearly, monitoring the progress in the implementation of the PEAP through the various mechanisms

outlined above is essential for the Government and people of Uganda to assess whether or not resources are being used efficiently and effectively and are achieving the desired results, and of ultimate concern, a reduction in poverty. The structures also have another related and crucial role, and that is to provide accountability to donors for the GBS provided to the government budget. In order to ensure the continued disbursement of donor funds, certain conditions have to be met by government.

For all donors providing GBS to Uganda, the PRSC matrix has become the central tool which outlines the conditions attached to the release of donor funding. Rather than each donor coming to the table with individual targets and conditions, all donors now endorse the PRSC matrix as a joint document and agree to disburse funds conditional on progress in targets outlined in this matrix. Until recently, this was not the case for all donors. For example, the African Development Bank (ADB) continued to operate its own conditionalities through its structural adjustment loans. Recently the ADB has come on board and now uses the PRSC matrix as the basis for its conditionalities for new ADB support loans (Poverty Reduction Support loans). Similarly, while the EU now adopts the PRSC matrix, some older loans that were approved a long time ago (e.g. STABEX) but only now coming into effect, operate on different conditionalities.

Donors disburse funding at different times and one of the problems is in determining the precise triggers for disbursement. While at the broad level, the PRSC describes the conditionalities attached to GBS in Uganda, the actual trigger points differ for each donor. Most donors disburse in two tranches per year and donors giving sector specific budget support often disburse after successful completion of the joint government-donor review consultations. For the World Bank PRSC loan, there is a subset of PRSC targets, labelled prior actions (highlighted in bold in the PRSC matrix), which need to be fulfilled before the next PRSC is approved by the World Bank Board. Of course, all eventualities cannot be captured in the one PRSC matrix and thus there may be other issues which influence the trigger point for GBS, and in general these relate to political and governance issues. At the moment, governance issues are covered in a separate matrix but with the development of the revised PEAP, there is now a very comprehensive PEAP matrix which covers all aspects of the PEAP including governance.<sup>88</sup>

#### **4**      *Conclusion*

This case study has outlined the elements that make up the Annual Progress Review process for monitoring and evaluating progress in the implementation of the Ugandan poverty reduction strategy, the PEAP. A key element in the process is the PRSC which also provides the basis for donor GBS conditionalities. The structure of the APR provides several opportunities for donor-government consultation (e.g. sectoral reviews, PER, CG) and allows donors to coordinate around common structures and events. The next step for Uganda is for GBS donors to add further transparency to the triggers for GBS disbursements and to align better with the government processes. Donor budget support disbursements continue to vary greatly from pledges and the timing of pledges needs to be in line with the national budgeting process.

Table 3: Sample page from PRSC Policy Matrix, Uganda

Implementation of Government's Poverty Eradication Action Plan (PEAP) & Progress Indicators – (Actions in bold are prior conditions for disbursement of the PRSC.)						
Results & Monitoring			Policy Actions			
Outcomes & Outputs	Progress Indicator	Target; Base; & Year	Data Source	By PRSC4 (03/04)	By PRSC5 (04/05)	By PRSC6 (05/06)
<b>PEAP/PRSP PILLAR I: Creating a Framework for Economic Growth and Structural Transformation</b>						
1. Efficient and Equitable use of Public Resources	PEAP Priority areas as % of budget	50% in FY04/05	MoFPED; MTEF	In the annual public expenditure review, GoU has agreed with donors on MTEF for 2003/04–2005/06 and has executed the 2003/04 budget through the four quarters consistent with the agreed allocations.	In the public expenditure review, Government has agreed with donors on the medium-term expenditure framework (MTEF) for 2004/05–2006/07, and has executed the 2004/05 budget consistent with budget allocations.	Government has agreed with donors on the 2005/06–2007/08 MTEF, and has executed the 2005/06 budget consistent with the agreed allocations.
1.1 Comprehensiveness of MTEF facilitates coherent budget management.	# of sectors with output/ outcome targets	Base: 3 in 03/04 5 in 04/05 6 in 05/06	BFPs	The JLO and Agriculture sectors articulate outcomes and output measures and targets in 2004/05-2006/07 BFP. Defense to state outcomes and outputs arising from the Defense Review.	Accountability and Defense incorporate output measures and targets in 2005/06-2007/08 BFP. JLO, and Agriculture develop outcome measures and targets.	
	Budget/ outcome deviation	Base: 10% - 2003; 5% - 2004.	BPR	MoFPED will commission the study on resource flow problems and propose a remedial action plan.	Agreed Plan for timely release of resources to sectors and districts implemented.	
	# of sectors w/ wage bill integrated in BFP/MTEF	3 2004 6 2005 9 2006	MTEF, BPR	MoFPED, MOPS and sector ministries implement an action plan to integrate wage bill/staffing in three sector expenditure plans.	Introduce wage integration in three additional 2007/08 sector expenditure plans.	Introduce wage integration in three further 2006/07-2008/09 sector plans.
	Share of ODA through MTEF	Base- 03: 55% 2004: 60% 2005: 65% 2006: 75%		MoFPED has implemented the plan and issued additional guidelines for integration of donor resources in the 2004/05-2006/07 MTEF.	Project proposals are aligned with priorities identified during the 2003/04 PEAP revision	MoFPED has identified and put in place any necessary revisions to the initial plan. Projects are aligned with priorities for fiscal 2004/05
1.2 Strengthened local ownership of decentralized public service delivery	% of non-conventional grants allocations	Base/Target to be determined	BPR, BITB	MoFPED and MoLG implement the Fiscal Decentralization Strategy in pilot districts in 2003/04.	Review the pilot in 2004/05 and resolve issues arising before MoFPED and MoLG implement the strategy in all districts.	Review the full implementation in 2005/06 and resolve issues arising.

Table 4: Sample page from PEAP3 Policy Matrix, Uganda

PILLAR TWO: ENHANCING PRODUCTION, COMPETITIVENESS AND INCOMES			
2. Increased and more efficient private sector production of goods and services, consistent with environmental and natural resource use sustainability	The following challenges need to be addressed to support increased private sector production in agriculture, fisheries, forestry, industry, mining, tourism, commerce and services consistent with environmental and natural resource use sustainability.		
2.1 Increased and more efficient agricultural production	<p><i>Agriculture:</i> Improving access by farmers to technology, advisory and financial services.</p> <p>Strengthening meteorological services to support farmers' decision making.</p> <p>Strengthening policies for helping the livestock sector</p> <p>Strengthening teaching about agriculture in the education system</p> <p>Strengthening policies for marketing of agricultural produce and agro-processing (and industry in general)</p>	<ul style="list-style-type: none"> <li>Enact and implement provisions of National Agriculture Research System (NARS) Bill, which will improve effectiveness of agricultural research, through establishment of a National Agricultural Research Council, reorganisation of NARO following a functional analysis, a network of public research institutes, and a competitive grants system.</li> <li>Extend NAADs to further districts/sub-counties if successful and cost effective. Strengthen linkages with NARS. See below for financial services.</li> <li>Harmonise activities under Strategic Exports Programme with PMA (and MTCS) programmes.</li> <li>– Data collection and forecasting techniques strengthened in order to improve accuracy of weather forecasts.</li> </ul> <p>Prepare livestock development policy indicating how best Government can help the livestock sector, including help for disease control and addressing the needs of pastoralist..</p> <p>Finalize and implement policy to strengthen agricultural education in schools.</p> <ul style="list-style-type: none"> <li>Cabinet approves the Marketing and Agro-processing Bill (MAP) and Warehouse Receipts Bill.</li> <li>MAP provides for GOU provision of market information to producers and strengthening of GOU's capacity in international trade policy, particularly in trade negotiations and in conjunction with its membership of EAC.</li> <li>Government strengthens role of District Commercial Officer.</li> <li>Cooperatives strengthened through revisions to Cooperatives Act, preparing of a regulatory framework, and promotion of Area Marketing Cooperative Enterprises.</li> <li>– Review potential efficiency gains/cost savings through rationalization of institutions with marketing responsibilities, particularly Uganda Investment Authority, Uganda Export Promotion Board, Ministry of Foreign Affairs and Uganda's overseas missions, and through establishment of business parks.</li> </ul>	<p>MAAIF NARO NAADs Secret.</p> <p>MWLE</p> <p>MAAIF</p> <p>MOES</p> <p>MAAIF MTTI MOFA</p> <p>MAAIF MPS</p>
	realising efficiency gains through institutional reorganization consistent with decentralization of the provision of services to local governments.	MAAIF reorganized consistent with recommendations of 2000 functional review. Main functions limited to policy advice, regulation and technical assistance to local governments	

## Endnotes

- 1 Booth (2003), IEO (2004), OED (2004).
- 2 For a detailed account, see Christiansen with Hovland (2003).
- 3 Adapted from Lawson et al. (2003).
- 4 Full references are provided in Naschold with Booth (2002).
- 5 Ibid.
- 6 As is the case in several African countries (Booth, 2003).
- 7 This chapter draws freely on Driscoll with Evans (2004). Unless otherwise indicated, this is the source of cited reports and examples.
- 8 World Bank website as at 30/09/04.
- 9 World Bank/IMF (2002).
- 10 OED (2004).
- 11 IMF (2003, 2004).
- 12 World Bank/IMF (2003).
- 13 SPA (2004, 2005).
- 14 SPA (2004).
- 15 SPA (2005: 10).
- 16 OED (2004).
- 17 Interview # 5, Ruth Driscoll.
- 18 PRSCs are discussed below.
- 19 Interview # 4, Ruth Driscoll.
- 20 SPA (2004: 39-41).
- 21 SPA (2005: 50)
- 22 Booth (2004), Booth and Nsabagasani (2004).
- 23 These limitations were expected at the start of the PRSP process, and it is not surprising that they have not vanished: Booth and Lucas (2002); Lucas (2004).
- 24 This is well argued by JICA's Poverty Monitoring Adviser in Tanzania, Tamahi Yamauchi (David Booth, interview of Oct 2004).
- 25 Booth (2004: 20) .
- 26 Booth and Nsabagasani (2004) contains a full discussion.
- 27 This is based closely on Driscoll with Evans (2004: 15).
- 28 In Mozambique, it has been agreed that the government's report to parliament on its annualised Economic and Social Plan will be accepted as the PRSP (PARPA) APR (Harding and Gerster, 2004: 19). That experience seems to support this analysis insofar as both the PARPA and the ESP are relatively action-oriented.
- 29 DFID (2001).
- 30 DFID (2002: 5). The NAO's first report on DFID after the change of approach 'Performance Management – Helping to Reduce World Poverty' is available at its website (NAO, 2002).
- 31 Piron (2004).
- 32 DFID (2002).
- 33 DFID (2004d).
- 34 DFID (2004a, 2004b, 2004c).
- 35 DFID (2005)
- 36 DFID (2004b: 3).
- 37 Ibid: 20-25, Annex 1.
- 38 Ibid: 26-34, Annex 2.
- 39 Ibid: 15-16, Table 3.
- 40 Note that what is discussed here only covers a particular part of the EU's funds. Specifically this approach only applies to the disbursement of budget support from the European Development Fund which is available to the Africa, Caribbean and Pacific (ACP) Group of countries. The approach described does not include funds disbursed from the general EU budget nor those by member states bilateral assistance.
- 41 These were set out in CEC (2000).
- 42 CEC (2002).
- 43 CEC (2003).
- 44 CEC (2004a).
- 45 CEC (2003: 6).
- 46 Also see CEC (2004a: 11).
- 47 IMF (2002a).
- 48 See IMF (2002a: p.48-9, 2002b).
- 49 Ibid: 34, Box 2, p.34.

- 50 [http://www.imf.org/cgi-shl/create\\_x.pl?asmt](http://www.imf.org/cgi-shl/create_x.pl?asmt)
- 51 <http://www.imf.org/external/standards/scnew.htm>
- 52 World Bank/IMF (2004).
- 53 World Bank (2004a, 2004b) which are based on World Bank (2004c).
- 54 World Bank (2003)
- 55 Ibid: 6.
- 56 CEC (2004).
- 57 It should be noted that these figures vary substantially from one year to another and between planned and actual disbursements. Moreover, comparison between countries may be rendered difficult by the different ways of accounting for project support provided by donors.
- 58 Harding and Gerster (2004b).
- 59 Some donors, such as the European Commission, may argue in favour of a reduced PAF which is restricted to fiduciary safeguards and outcome indicators. They may suggest that a 'light' PAF of this type is the best way to encourage the development of country-owned policies. However, such an approach makes rather large assumptions about the degree of real overlap between the interests of donors and those of the politicians who run PRSP countries. Budget-support groups would be unwise, as well as unlikely, to adopt this approach in our view.
- 60 Lawson et al. (2003); Lawson and Booth (2004).
- 61 MoFED (2003)
- 62 A loan of SDR 87 million (US\$ 112 million) was agreed to support the government's economic program 2000/01 – 2002/03. IMF (2001).
- 63 All 2003 figures come from World Bank (2004d). Note that there is some discrepancy with MoFED (2003) on the value of EU and DFID DBS disbursements for 2003. Since the IDA document is more recent its figures are considered to be more accurate.
- 64 EC (2003).
- 65 [aidharmonisation.org](http://aidharmonisation.org) (2004) contains further details.
- 66 DFID (2003a) for example refers to an overarching MoU as well as the linking of DBS to important undertakings in the SDPRP but says the triggers to which disbursement is linked are likely to include progress on key governance and financial issues as well as targets in key poverty focused sectors. This implies that precise specification of the triggers awaits planned coordination with other donor partners.
- 67 World Bank (2004d).
- 68 World Bank (2004e).
- 69 The participating external partners are Belgium, Denmark, the European Commission, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Sweden, Switzerland, the United Kingdom and the World Bank. Observing external partners include Canada, Japan, Spain, the United States, the United Nations, the International Monetary Fund, and the African Development Bank. Further details are provided in IDA (2004).
- 70 Harding and Gerster (2004).
- 71 Ibid.
- 72 Among the PAPs, European Commission, Sweden and Switzerland have chosen a split response.
- 73 URT (2002a).
- 74 Canada, Denmark, DFID, Finland, Germany, Ireland, Japan, Netherlands, Norway, Sweden, Switzerland.
- 75 The Tanzanian financial year runs from July-June.
- 76 URT (2002b) Quarterly Budget Execution Report: Fiscal Quarter 1, July-September, 2003. Ministry of Finance, Dar es Salaam.
- 77 DFID (n.d.).
- 78 Frantz (2004).
- 79 DFID (2003b).
- 80 SPA (2004).
- 81 Frantz (2004).
- 82 Ibid.
- 83 MFPED (2004a).
- 84 DFID (2003c).
- 85 MFPED (2003a).
- 86 For further details, see Williamson (2003).
- 87 Health and Education joint-reviews used to take place bi-annually and have recently changed to being annual events. Beynon (2003).
- 88 MFPED (2004b).

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