

Roles of Annual Progress Review in PRS Monitoring Process

- Case Studies in Africa -

March 2007

**Institute for International Cooperation
Japan International Cooperation Agency**

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Glossary

Term/Abbreviation	Description
APR	Annual Progress Report / Review: Report which developing countries are required to prepare within one year of PRSP* formulation. It evaluates the implementation progress of poverty reduction strategies and the policy measures/institutional reforms described in the PRSP, and revision is made depending on the economic conditions. It is also simply called a Progress Report.
CDF	Comprehensive Development Framework: A comprehensive approach to development that was announced in January 1999 by the World Bank. The basic ideas are: i) country ownership and the participation of other stakeholders; ii) strong partnership of all stakeholders; iii) strong focus on the process-oriented approach for achieving better development results; and iv) holistic approach respecting not only the macroeconomic aspects, but also the institutional, structural, and social aspects of the market economy.
CFAA	Country Financial Accountability Assessment: Tool for analyzing/evaluating the financial management capacity of developing countries by the World Bank.
CG	Consultative Group Meeting: Meeting of donors
CPAR	Country Procurement Assessment Review: Conducted by the World Bank. Tool for assessing and evaluating the soundness of the procurement system of the public sector, such as the legislative framework and organizational capacity.
CSO	Civil Society Organization
DAC	Development Assistance Committee: One of the three main OECD* committees. Established in 1961, it provides opportunities for donor countries to exchange information and coordinate aid efforts. A High Level Meeting is held once a year.
DANIDA	Danish International Development Agency
DBS	Direct Budget Support: Support provided to overall expenditures or the financial framework of the government. A policy dialogue is conducted between the government and the donors.
DFID	Department for International Development: Aid agency of UK government
DHS	Demographic Health Survey
E/N	Exchange of Notes: A kind of broad pact that is a specific form of agreement concluded among two or more states or international organizations. In the E/N that is exchanged for development assistance, the contents of the aid agreed to by the partner country is described as an agreement between governments.
EC	European Commission: The executive body of the European Union
EFA	Education for All: Development goals for universal education
ESAF	Enhanced Structural Adjustment Facility: IMF's financing mechanism introduced in 1987. It was renamed PRGF in a joint annual meeting of the IMF/WB in 1999.
EU	European Union
FDI	Foreign Direct Investment
F-PRSP	Full Poverty Reduction Strategy Paper: Final version of a PRSP*
GBS	General Budget Support: Aid modality based on financial provision, and not project-type assistance. Financial provision to a specific sector budget is called sector budget support, and that to the overall government budget is called general budget support. While structural adjustment loans aim at stabilizing international balance of payments, budget support is aimed at stabilizing the domestic balance within developing countries.
GIS	Geographical Information Systems: A system using GIS software, which can input various social data (such as the urban infrastructure, buildings/facilities, population, agricultural products, land, disaster areas, customers, current position, etc.) on a map as digitalized data. The system can process data as required, display multiple information, and provide visual analysis.
HIPCs	Heavily Indebted Poor Countries

Term/Abbreviation	Description
HIPC Initiative	HIPC* Initiative: Debt reduction plan proposed by the IMF/WB and agreed by various governments in 1996. It is a comprehensive scheme to ease bilateral debt and the debt burden to international institutions for HIPCs that fulfill certain conditions. For improving and expanding this initiative, a debt-relief measure called the Enhanced HIPC Initiative was launched at the Köln Summit in 1999.
IDA	International Development Association: Established in 1960 as a part of the World Bank Group, which provides long-term concessional loans to developing countries with the aim to contribute to their development.
IEO	Independent Evaluation Office: An institution that provides objective, independent and systematic evaluation of issues related to the IMF. Established in July 2001, it is obliged to report on its operations to the IMF Executive Board.
IMF	International Monetary Fund: Established in 1945, and started its financial operations in 1947 with the aim to secure a stable international financial system, including the promotion of international monetary cooperation, promotion of the expansion and balanced growth of international trade, and stable currency exchange rate. As of August 2004, there are 184 member countries.
I-PRSP	Interim Poverty Reduction Strategy Paper: Interim Poverty Reduction Strategy Paper
JICA	Japan International Cooperation Agency
JSA	Joint Staff Assessment: A PRSP evaluation report compiled jointly by IMF/WB staff, which, along with the PRSP and I-PRSP, is submitted to their Executive Boards.
LDC	Least Development Country
M&E	Monitoring and Evaluation
MDGs	Millennium Development Goals: A framework that integrates development goals adopted in key international conferences and summits in the 1990s and the United Nations Millennium Declaration in 2000.
MOU	Memorandum of Understanding
MTEF	Medium Term Expenditure Framework: Financial/funding plan for the fiscal year and the succeeding three to five years. In PRSP partner countries this framework is compiled based on the PRSP.
NEPAD	The New Partnership for Africa's Development: An Africa-led development vision of the New Africa Initiative (NAI), was adopted at the July 2001 summit conference of the Organization of African Unity (OAU), and was renamed NEPAD in October 2001. NEPAD is led by African countries, aiming for the reconstruction of the African continent based on shared responsibility and mutual respect among African countries.
NIMES	National Integrated Monitoring & Evaluation Strategy: Monitoring strategy paper of Uganda
Non-project Grant Aid	One of Japan's grant aid schemes. It is a financial assistance to support the import of essential products by developing countries for the purpose of their implementation of economic structural adjustment plans.
NPM	New Public Management: Administrative reform method that is aimed at promoting effective administrative operations through the introduction of the principle of market competition and the management systems of private business into the public sector. It has been used by Western countries since the mid-1980s. Its characteristics include the introduction of market mechanisms, results-oriented evaluation, and the separation of policy planning from policy implementation.
NSGRP	National Strategy for Growth and Reduction of Poverty: Official title of Tanzania's PRSP II
ODA	Official Development Assistance
ODI	Overseas Development Institute (in UK)
OECD	Organization for Economic Cooperation and Development

Term/Abbreviation	Description
OED	Operations Evaluation Department: This is an independent evaluation unit within the World Bank. OED studies the results of the World Bank's development operations, analyzes the effectiveness of projects, programs, and their processes, learns from its experience in relief operations, and presents suggestions based on national and sector-level evaluations to the Board of Executive Directors.
PAF	Poverty Action Fund (Uganda)
PEAP	Poverty Eradication Action Plan (Uganda)
PEDP	Primary Education Development Plan (Tanzania)
PEFA	Public Expenditure and Financial Accountability: Launched in 2001 as a multi-donor initiative which integrates assessment/evaluation tools.
PER	Public Expenditure Review: A part of the public expenditure management (PEM) which includes analysis/evaluation of the distribution and management of government expenditures. Although it usually targets all sectors of the government, it sometimes targets only one sector. This used to be conducted by the WB in the past. Recently, there have been cases where this was done by a partner government or jointly with the support of the World Bank.
PETS	Public Expenditure Tracking Survey
PPF	Policy Framework Paper: Three-year economic adjustment goals and implementation plans that are compiled by the recipient government in order to receive IMF's* structural adjustment loans and enhanced structural adjustment loans targeting the least developed countries.
PIU	Project Implementation Unit
PMMP	Poverty Monitoring Master Plan (Tanzania)
PPA	Participatory Poverty Assessment
PRGF	Poverty Reduction and Growth Facility: IMF's loan system established in place of ESAF* in 1999. It targets the least developed countries, and is more intensively focused on poverty reduction and country growth. Not only HIPC's, but also PRGF partner countries are obliged to formulate a PRSP* as a requirement.
PRSC	Poverty Reduction Support Credit: The World Bank's concessional loan scheme established in 2001 to help PRSP* implementation by supporting policy measures/institutional reform of the countries eligible for IDA aid.
PRSP *PRS	Poverty Reduction Strategy Paper: In the World Bank/IMF's annual meeting in September 1999, the formulation of this paper was called for as a precondition for application to the HIPC Initiative* and loans from the International Development Association (IDA*). It covers economic/administrative/social policy measures formulated under the leadership of the developing countries and with the participation of a wide range of stakeholders including the civil society, donors, etc. It is also a plan covering about three years with the aim of promoting growth and reducing poverty.
PSIA	Poverty and Social Impact Analysis: This is an approach proposed by the World Bank*. It systematically measures the effects of the reform of policy measures targeting the poor and socially vulnerable persons.
PSR	Poverty Status Report
REPOA	Research on Poverty Alleviation (Tanzania)
SAL	Structural Adjustment Loan: This is a form of loan introduced by the World Bank in 1980. It supports economic structural reforms in the developing countries.
SBS	Sector Budget Support: A support targeting overall programs within the SP expenditure framework, from the expenditures of the government financial/accounting system. Multiple donors pool their funds so that they can indicate common/individual requirements.
SIDA	Swedish International Development Cooperation Agency
SP	Sector Program: See SWAp*
SPA	Strategic Partnership with Africa: This is a framework formulated in 1987 under the World Bank initiative to assist the structural adjustment efforts of low-income Sub-Saharan Africa countries suffering from debt accumulation. It originally started as the Special Program of Assistance for Africa, and the current name has been used since phase 5 in 2000, offering opportunities to discuss a wide range of aid modalities including budget support.

Term/Abbreviation	Description
SWAp	Sector Wide Approaches: Development approach by which a developing country formulates and implements sector-wide policy measures, a framework for medium-term sector development plans, budget support plans that are aligned with the national budget, their action plans, and implementation plans based on partnerships with the donors. It is sometimes called SP*.
TA	Technical Assistance
TAS	Tanzania Assistance Strategy
UNDP	United Nations Development Programme
UNECA	UN Economic Commission for Africa
UNICEF	United Nations Children's Fund

Note: Terms marked with an asterisk (*) are explained in the description column.

Source: International Development Journal (2004) *Kokusai-kyoryoku-yogo-shu (Glossary of international cooperation) ver. 3*
 JICA Institute for International Cooperation (2004) *Enjo-no-choryu-ga-wakaru-hon (A book for understanding aid trends)*

Website of the World Bank: <http://www.worldbank.org>

Website of the ADB: <http://www.adb.org>

Website of the AfDB: <http://www.afdb.org>

Website of the IMF: <http://www.imf.org>

Website of the UNDP: <http://www.undp.org/>

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Foreword

Since the formulation of the concept of the Poverty Reduction Strategy (PRS¹) was agreed in the Joint Annual Meeting of the Board of Governors of the World Bank and the International Monetary Fund (IMF) in September 1999, PRS has come to be acknowledged as dynamic process rather than strategy paper. And it functions as a common base of the donors and the recipient countries, especially African low-income countries which obtain most of their revenues from foreign aid.

As the PRS was initially established mainly as a three-year poverty reduction plan, some developing countries that started the formulation of a PRS in the early days have already started preparation for, or completed the formulation of, their second PRS. Those countries have summarized the problems found in implementation of the first PRS and are making efforts to solve them in the second PRS. One of the major challenges in this process is to find out how the results of the Annual Progress Review/Report (APR) can be incorporated in the budgeting process.

As indicated in the Paris Declaration, the SPA and OECD/DAC have come to focus on a single direction towards enhanced aid effectiveness, through separate but complementary efforts. In PRSP countries, attempts are being made to monitor the progress of the PRS process, which includes re-defining the roles of the APR, and more fundamental efforts for adjusting the mutual relationships among the related monitoring mechanisms or the overall coordination efforts of the partner country. Through these efforts, further attempts are also being made to improve the capacity of the partner countries to formulate policies and execute them in order to produce greater aid effectiveness. Under such circumstances, we should actively and productively engage in the PRS monitoring process as well as in its formulation process to improve aid effectiveness.

The following are the three main tasks that are considered to be required for JICA or the Japanese government to productively engage in the monitoring process of PRS.

Firstly, it is necessary to structure important process indicators and achievement indicators in advance when the Japanese government provides financial aid to support the operation of a PRS in a particular partner country. These indicators should be simple and not exhaustive. Above all, based on the PRS principles of ownership and transparency, it is basically necessary to select indicators that can be obtained according to the monitoring and evaluation framework of the PRS of the country. In other words, the selection of evaluation indicators that are independent of the framework of the PRS should be avoided as much as possible.

According to the first task, adopting an Annual Progress Review or Report, which is compiled annually as one of the PRS monitoring documents is the most desirable means of judging the achievement of the targets for the indicators. Considering the contents of the current Annual Progress Reviews/Reports, however, it is necessary to discuss methods and decide to what extent and how this information should be utilized, which is the second task.

In many cases, the financial aid donors tend to rate the contents of APRs as not providing enough information. In order to discuss how to solve this problem and how to provide aid for solving this, a detailed assessment of the conditions of each country is required first. In addition to the problem of the APR contents, there are problems in the timetable for conducting the reviews. As the PRS was originally conceived as a strategy to achieve development targets over a period of three to five years, it would be self-

¹ To place importance on the strategy itself and its process, this paper uses the term “Poverty Reduction Strategy (PRS),” rather than the term “Poverty Reduction Strategy Paper (PRSP),” which indicates a document.

contradictory if the progress of PRS activities is evaluated every year according to a specific indicator. However, it is inevitable that the achievement of PRS targets should be closely linked to the PRS country's financial administration. Accordingly, annual reviews are also inevitable if the PRS country has a public financial management cycle that consists of policy implementation through budget allocations in the previous year, confirmation of the outcome of the policy implementation, and reflection of the results in the budget allocation for the following year. This is because, in some cases, the goals of the PRS will not be achieved unless progress in the PRS process is confirmed and reported annually. Not only in Japan, but also in the donor countries in Europe and the European Union, which are actively engaged in budget support, theoretical clarification concerning what type of indicators should be adopted to indicate progress every year and what type of monitoring framework those indicators should be based on has not been established yet. We need to examine the points related to this question first. For example, it is necessary to clarify to what extent the basic ideas are identified and shared and what has not yet been agreed should be made clear.

The third task is to ensure clarification of the points concerning the relationship between improvement of the predictability of aid and the achievement of the PRS targets. As the PRS is a strategy to be completed over three to five years, improving the predictability of aid over the period is a significant factor in the achievement of the PRS targets. Consequently, it is necessary to clarify our standpoint towards the first and second tasks. Therefore, in addition to the first and second tasks, the theoretical background to the relationship between the improvement of aid predictability and the success of the PRS should be recognized, practically, the relationship between improvement of the predictability of aid and the achievement of the PRS targets will only be defined through the policy dialogue between PRS countries and donors.

Recognizing the issues mentioned above and considering the practical limitations of Japan's ODA, this study has been established in order to summarize the issues concerning PRS monitoring that have been discussed in the international community, as well as to provide a basis for contributing to more productive discussions. This study mainly considered the second and third tasks among the three tasks mentioned above. Regarding the first task of adopting indicators that Japan should focus on mainly when providing financial aid, this study only reviewed the basic concepts without deeper discussion since this theme is beyond the scope of what could be discussed as JICA's aid activities.

Chapter 1 introduces the characteristics including the expected roles and the current conditions of the APR. Chapter 2 explains the trends underlying the PRSP and how the current PRS is functioning in order to reconfirm the significance of PRS monitoring. Chapter 3 discusses the current situation concerning the existence and utilization of monitoring tools and mechanisms and assesses the challenges while basically reviewing the case of Tanzania.

Based on these chapters, Chapter 4 summarizes the relationship between the three factors, the PRS process, the APR, and monitoring mechanisms, discusses the characteristics of monitoring mechanisms and the possibility of mutually complementary relationships, and presents some directions that future APR could take. The final chapter provides a summary account of what measures JICA will be able to take in the future.

The discussion meetings, led by Jiro Otsuka, JICA senior advisor, were held 13 times, with the participation of 13 task force members and observers from the related sections of the Ministry of Foreign Affairs. The task force consisted of JICA staff and external experts who had been engaged in the PRS process mainly in Tanzania. In addition, experts in JICA offices in the Africa region and experts dispatched by JICA were requested to participate as task members, but the discussions with them were mainly held by

exchanging e-mail.

This paper targets those who are engaged in the implementation of PRS programs in the PRS countries, mainly in the Africa region, including local staff related to JICA such as office staff, experts, JOCV volunteers and project formulating advisors and local ODA task force members. However, most of the contents can be applied to regions other than Africa. Questions such as how the funds of the government are allocated, and if they will be applied to JICA programs should also be raised with JICA staff in Japan who are engaged in technical cooperation programs with the PRS partner countries. The department for Africa compiled public finances management guidelines in December 2005. These guidelines help to further understand this paper.

JICA has taken up poverty reduction as one of its development objectives in JICA's own study reports such as "*Hinkon Sakugen ni Kansuru Kisokenkyu (Basic Studies of Poverty Reduction)*" (April 2001), "*PRSP-purosesu-jirei-kenkyu (Case studies of the PRSP process)*" (December 2004), in which it has discussed how Japan should engage in the PRS formulation process in each developing country. In "*Tojokoku-ni-okeru-zaiseikanri-to-enjo (Financial management and aid in developing countries)*" (February 2003), JICA pointed out that it was becoming clear that PRS is a means of managing all public funds and use them effectively. In the study, JICA also insisted that the PRS should establish priorities for each policy and it should be carried out in a way that is aligned with the budget plan. "*Enjo-no-choryu-gawakaru-hon (A book for understanding aid trends)*," (first edition Dec. 2003, third edition Jan. 2006) pointed out the importance of strengthening public financial management capacity in consideration of the trend in aid strategies and approaches in the field of governance for the purpose of ensuring fiscal discipline, effective resources distribution based on strategic priorities, and the effective and efficient use of funds. In March 2006, JICA published a paper titled "*Capacity development – CD-towa-nanika, JICA-de-CD-wo-do-torae, JICA-jigyo-no-kaizen-ni-doikasuka (Capacity development – What is CD? How JICA understands CD? How to use it for the improvement of JICA's activities?)*." This paper also pointed out that it is necessary to consider the capacity of the recipient country's implementing agency to secure budget allocations and the national budget management system of the recipient country.

Japan first participated in aid coordination for public financial management through general budget support provided as grant aid for Tanzania in March 2004. JICA assigned project formulation advisors to its Tanzania office in order to actively participate in a political dialogue between the Japanese government and the recipient country/agencies, taking the leadership in the agricultural sector program and participating in aid coordination for poverty monitoring. JICA's active participation in political dialogues between the Japanese government and recipient countries/agencies concerning the management of public finances is also apparent in Mozambique, Ethiopia, and Uganda.

Japan has not yet clarified its role in the monitoring of PRS process. This report is intended to contribute to the understanding of current aid trends such as PRS process monitoring, which will hopefully lead to further actual involvement in the process by Japan.



Chapter 1

Contents of APR and its function in PRS Process

Chapter 1 Contents of APR and its function in PRS Process

Points of this chapter:

- As the Annual Progress Review/Report (APR) targets three types of stakeholders: the developing country's government itself, the citizens of the developing country, and the PRS budget support donors, the APR is expected to fulfill its respective roles for each type of stakeholder concurrently.
- As there are various problems with the APR concerning its contents and implementation timing, however, it has not been possible for it to sufficiently fulfill its expected roles for the government, the citizens, or the donors.
- The following gives the possible reasons for this.
 - i) The system for the collection and analysis of social and economic data in the developing country has not been sufficiently established.
 - ii) The contents of the PRS itself are not sufficiently concrete.
 - iii) The indicators that can be used to measure progress on an annual basis have not been fully discussed.
 - iv) The criteria based on which donors can determine whether the PRS is progressing in the right direction have not been clarified.

Chapter 1 will first clarify the characteristics, current situation, and challenges of the annual progress review/report (APR), which this study will discuss as the core of the PRS monitoring mechanism. To be specific, the discussion will be structured based on an analysis of the contents of the Progress Reports of four countries in Africa (Ethiopia, Uganda, Tanzania, and Mozambique) and reports on annual interview surveys conducted by the SPA Budget Support Working Group covering donors and related persons of the PRS countries¹.

1-1 APR and PRSP

The PRSP Annual Progress Review/Report (APR²) is designed to aim at proposing feasible improvements of the PRSP during its implementation period by monitoring the annual progress of the PRSP and learning lessons from it. To date, 47 APRs have been formulated in 30 countries worldwide. In Africa, APRs have been conducted four times in Burkina Faso and three times in Mozambique, Tanzania, and Uganda as of October 2005.

¹ This chapter refers to the contents of the ODI and JICA (2005) report, a report compiled for this study by the Overseas Development Institute (ODI) on consignment. ODI is an investigation and research institution in the United Kingdom.

² SPA Budget Support Working Group calls the PRSP Annual Progress Review/Report an APR. The World Bank/IMF website calls this annual progress report simply a Progress Report.

Table 1-1 Year the PRSP was formulated and the number of APRs conducted

Country	PRSP formulation year	Number of APRs conducted (as of October 2005)
Burkina Faso	2000/2004	4
Mozambique	2001	3
Tanzania	2000/2005	3
Uganda	2000/2005	3

Source: Prepared by the author with reference to the World Bank website (February 2006)

1-2 Roles expected of APR

The APR targets three kinds of stakeholders; the developing country's government that implements the PRS, the citizens of the developing country, and the PRS budget support donors. Each of the three is expected to fulfill the following roles.

- i) Improvement of the developing countries' government policy/budget formulation: the developing countries will be able to monitor the progress of PRS implementation through the APR, confirm the achievements of the PRS, learn lessons from past implementation, and reflect them in the PRS-related policies and budget formulation in the following fiscal year.
- ii) Accountability to the citizens of the developing countries: the governments of developing countries that implement their PRS using the APR will be able to present to their citizens the current progress of the implementation of their PRS. As the PRS was designed to respect a process that is open to the public, it was expected to be formulated through the participation of the general public. The developing countries are accordingly expected to be accountable for the progress of the PRS implementation.
- iii) The donors' accountability to the citizens of the donor countries: the APR will be able to play a role as a reporting document to fulfill the PRS donor countries' accountability requirements to their own citizens. In particular, with regard to budget support for PRS support and the debt cancellation related to the HIPC's, the APR will have an important role when developing countries present their PRS achievements and successful results to the donors.

Fulfilling these roles through the APR alone, ideally, will help promote the developing countries' efforts to take the initiative in poverty reduction by adopting the PRS and improve their capacity to fulfill their accountability requirements to their citizens. Furthermore, integrating various reports to the donors into one single reporting system will contribute to a reduction in transaction costs for the recipient country.

1-3 Contents of APR: Expectations and actual conditions

1-3-1 Expectations for APR

The World Bank/IMF has not established guidelines concerning the contents of the APR. This is because the PRS process respects the ownership of the developing countries. However, concrete guidelines are provided to their own staff members who are tasked to monitor the implementation process of the PRS and to report on it to the executive board. The guidelines are summarized targeting those staff involved in preparing the Joint Staff Assessments (JSA). The following is an outline of the guidelines.

- Developing countries that carry out PRS must produce progress reports on an annual basis.
- The reports should be integrated into the existing government review processes and the national budget

cycle.

- The reports should make use of a Policy Matrix produced in preparation for the PRS and cover the key results, implementation progress and appropriate revisions to the PRSP targets, indicators and policies.

In particular, in the formulation of JSAs, an evaluation should be conducted from the following perspectives.

- Does the APR provide sufficient information and analysis regarding the achievements and shortfalls with respect to the poverty targets, priority public action, and the PRS monitoring and evaluation systems as set out in the PRS?
- Does the APR propose any changes in the PRS and if so, are these changes appropriate in the light of the implementation experience to date, changes in external factors, and new data and analysis regarding poverty and its determinants?
- To what extent has the government used its APR to inform and/or involve domestic stakeholders and partners regarding implementation and to build support for the PRS?

The reviews that have been made by the Operations Evaluation Department (OED) of the World Bank have the following features:

- In principle, the APR is compiled in at least some of the ways suggested by the JSA guidelines;
- Ten out of twelve reports reviewed were found to have described the status of poverty, developments in the macroeconomic framework, and the implementation of priority sector policies and performance;
- The majority reported on their monitoring and evaluation systems;
- All countries reported their achievements in one or more sectors using quantitative indicators;
- Nine countries reported on their achievements against either annual or medium-term targets;
- Nine countries reported on the country's progress in policy measures of key sectors.

However, these are not sufficient according to what the World Bank/IMF had expected. According to the JSA guidelines, the APR needs to demonstrate beyond providing a static narrative report on progress achieved. Therefore, the APR should not be just a document on progress achieved, but also an action oriented report to contribute to the PRS process.

According to the results of the survey conducted covering 13 countries in Africa by SPA-6 in 2004, the APRs of the majority of the countries mainly reported on policy measures adopted in the previous fiscal year. On the other hand, only 5 countries (40%) actually monitored the values for the performance indicators in light of the chain from inputs, outputs, outcomes, to impacts. Similarly, only 5 countries proposed a revision of the indicators based on this form of monitoring. Compared with the survey conducted by SPA-6 in 2003, more of the APRs covered a review of policy measures and reporting on the progress of implementation. However, reviewing the indicators themselves and the performance evaluation methods on the basis of these indicators will be a challenge for the future.

1-3-2 Outline of APR of each country

This section will compare the contents covered by the APRs compiled by Ethiopia, Uganda, Tanzania, and Mozambique.

(1) Compilation status of APR

Compilation of the APR by these four countries as of February 2006 is as below.

Table 1-2 Compilation of APR by year

Country	2001	2002	2003	2004	2005
Ethiopia					
Uganda					
Tanzania					
Mozambique					

Note: APR compilation status for Uganda in 2005 was not mentioned in the World Bank website.

Source: Prepared by the author with reference to the World Bank website (February 2006)

The Uganda government produces a Poverty Status Report once every two years to compliment the APR. The Tanzanian government prepares a Poverty Human Development Report (PHDR)³ every year independently of the APR.

(2) Contents

The contents of the following APRs prepared by each of the four countries in 2003 are compared as follows:

Uganda

- Macroeconomic indicators, progress in priority sectors' reforms and public expenditures overview.
- Analysis of the current conditions in the governance and security sector (security, refugees, human rights, the judiciary, democratization, decentralization, public services, etc.)
- Income poverty and analysis of its determinants, access status analysis for producer goods (land, market, fishery resources, firewood, roads, electricity, etc.)
- Analysis of the current status and progress of policy implementation in social sectors (health care and HIV/AIDS, education, water/sanitation, etc.)

Ethiopia

- Implementation progress in key political measures and indicators capable of being followed up annually (GDP growth rate, take-up ratio of agricultural extension services, fertilizer consumption, crude enrollment rate in elementary education, textbooks/students ratio, healthcare access rate, safe water access rate, etc.) among those presented in the outline of the achievement of progress in the Sustainable Development and Poverty Reduction Program (SDPRP)
- Macroeconomic overview
- Public expenditures analysis (expenditure structure, expenses/income conditions in the poverty reduction priority sectors, progress in the reforms of public finance management, etc.)
- Current conditions, policy measures, and future challenges in various sectors (agriculture/food security, education, healthcare, water/sanitation, roads, private sector development)
- Current conditions, policy measures, and future challenges in cross-cutting issues (capacity building, gender, HIV/AIDS, population, environment)
- SDPRP monitoring system
- Future challenges

³ The PHDR is regarded as a country version of the Human Development Report published by UNDP every year.

Tanzania

- Overview of poverty reduction achievements (income poverty indicators, education indicators, healthcare indicators)
- Macroeconomic overview and progress of restructuring in key sectors' reform
- Current conditions and political measures in key sectors (education, roads, water, judiciary, healthcare, agriculture)
- Current conditions and progress of reforms in cross-cutting issues
- Fiscal expenditure framework in poverty reduction-related sectors
- PRS monitoring system

Mozambique

- Overview of the PRS implementation system (MTEF, PES (Economic and Social Plan)), outline of the monitoring indicators
- International/regional economic climate
- Analysis of the results of the household budget survey (conducted in 1996/97 and 2002/03), current status of poverty indicators
- Current conditions in the macroeconomy, key production sectors, and finance/monetary exchange sectors
- Current conditions, political measures, and future challenges in key sectors (education, science/technology, healthcare, women/social security, etc.)
- Current conditions, political measures, and future challenges in economic sectors (agriculture, infrastructure, transport/communication, private sector, mining, marine, manufacturing, tourism)
- Current conditions and political measures in the governance sectors
- Analysis of public expenditures in the previous year

(3) Comparison and evaluation

In the reports by the above four countries, all following items are covered:

- overview and analysis of the macroeconomy
- current conditions and progress of the implementation of reforms and political measures in key sectors
- improvements in progress on mainly social sector indicators
- public expenditures analysis

Poverty conditions are described in all the countries. In particular, Ethiopia most clearly described its poverty conditions using the indicators presented in the PRS⁴. In Mozambique, a detailed analysis of conditions in the social sectors was carried out using various indicators. Analyses of public expenditures were also carried out in all the countries. Among them, the reports by Ethiopia and Mozambique included the most detailed budget allocation achievements with respect to the PRS priority sectors.

Only the Uganda report raises some implications for improvements in the current and future political measures based on the past achievements and lessons. For the other countries, the input of some suggestions for reviewing poverty reduction measures, which is an important factor expected to be addressed in the APR, is a challenge for the future.

As Tanzania issues its PHDR along with the APR, it is also necessary to look into the PHDR in order

⁴ Ethiopia only reports on the indicators for which annual monitoring is possible, distinguishing such indicators from the others.

to obtain a picture of the detailed analysis using the poverty indicators.

In 2003 and 2004, the SPA-6 Budget Support Working Group (BSWG) conducted questionnaire surveys targeting the donors and developing countries on whether the following items were covered by the APR:

- i) Review of Policy Measures - evaluation of policy measures conducted in the previous fiscal year
- ii) Updates on New Action - updating information on key policy measures to be conducted in the succeeding fiscal year
- iii) Review of Indicators - detailed evaluation of performance for inputs, output outcomes, and impact indicators
- iv) Revision of Targets for the succeeding fiscal year

Looking at the questionnaire survey results, the SPA-6 reports the following changes in the contents of each country's APR (Table 1-3): the APRs, except for Uganda, have come to cover the latest information concerning a review of policy measures and new policy measures; there is a far less tendency that they cover a detailed performance review for indicators; there is a slightly stronger tendency that they revise the following year's targets.

Table 1-3 Changes in the contents of APR in Ethiopia, Mozambique, Tanzania, and Uganda

Country	Review of previous year's policy measures	Information on the succeeding year's policy measures	Review of indicators	Revision of the succeeding year's targets
Ethiopia	✓	✓	✓	✓
Mozambique	✗/✓	✗/✓	✓/✗	✗/✓
Tanzania	✓/✓	✗/✓	✓/✗	✗/✗
Uganda	✓/✗	✓/✗	✓/✓	✓/✗

Note: ✓ or ✗ = Response in 2003

✓ or ✗ = Response in 2004

✓ or ✓ = Covered

✗ or ✗ = Not covered

✗/✓ = Tendency to cover more data

✓/✗ = Tendency to cover minimum data

Source: SPA-6 BSWG "Survey of the Alignment of Budget Support and Balance of Payments Support with National PRS Processes;" regarding data on Ethiopia, refer to "PRSP/Kokyo Zaisei Kanri ni Kakaru Kisochoa Hokokusho (Basic survey report on PRSP/public finance management)" by JICA.

1-4 Evaluation of APR

1-4-1 Significance for the government

This section considers how valuable the APR is to the government that compiles it. According to the survey conducted by SPA-6, among the 13 countries, only a small number of countries answered that the APR had a significant impact on governmental measures or budget allocations, with one country to which the former case is applicable (Uganda: measures to alleviate infant and children death rates) and four countries to which the latter applies (Burkina Faso, Ghana, Tanzania, and Uganda).

One of the underlying factors is that sufficient data for the government to review its policy measures and budget allocations can not be obtained for the reason that the achievements of outcome and impact levels are not measured and reported annually like APR. Because the cycle of relating surveys such as demographic survey and health survey often do not match the APR process.

The other factor is that APR compilation and publication process is not aligned with the budgeting

process. This is not only a matter of timing. Alignment issue is in fact not simple when considering each country's annual budgeting schedule. If the APR needs to include not only the achievements of the previous year's policy measures, but also some quantitative result indicators, it should allow time for data collection and analysis. On the other hand, the following year's budget formulation process generally starts three to four months after the current fiscal year starts. Accordingly, it is very difficult to formulate an APR that covers sufficient information, including recommendations concerning policy changes and budget allocations.

In fact, in many countries, it is often the case that even the current level of the APR compilation is too late for the budgeting process. Even in the case of APR's influence on budget allocation in Uganda and Tanzania mentioned above, it was not the general budget but a reserve fund. e.g. Poverty Action Fund in Uganda .

1-4-2 Accountability to the citizens

According to the SPA-6 survey in FY2003, only three countries, Uganda, Burkina Faso and Niger, could involve the national assembly and civil society in the APR formulation process. Only four countries, Ethiopia, Malawi, Mozambique, and Rwanda provided explanations to their civil society. According to the same survey conducted in FY2004, only three countries, Ghana, Mozambique, and Uganda gave explanations in their national assembly sessions. Although the other seven, Madagascar, Malawi, Mali, Niger, Rwanda, Senegal, and Tanzania did not give explanations to the national assembly, it was reported that they distributed the APRs to concerned citizens. On the whole, in the APR formulation process, the party that the government holds discussions with is firstly the donors. Secondly, concerned citizens are given explanations in order to discuss the matter with them. Consequently, it can generally be said that the governments are not sufficiently fulfilling their accountability requirements to the citizens through APR.

The underlying factor is that the governments do not have sufficient capacity and resources to provide such explanations. Another underlying factor may be that conventionally the governments of African countries have not explained their political actions to their citizens, nor have the national assemblies to demand the government to demonstrate its accountability for their policies. On the part of the donors, there are various opinions about the extent to which the APR formulation process allows public participation. In the cases of Malawi and Ghana, it seems that the donors have not actively recommended full scale participation of the citizens within the formulation process to the said governments in the past.

1-4-3 Significance for the donors

To date, the original objective that the APR should be the only monitoring report on the progress of the PRS has not been sufficiently achieved. Many donors, especially budget support donors, cannot help stating that the current APR is insufficient as a report for targeting the donor's own country. According to the SPA-6 survey, the proportion of donors who view the current APRs as being unsatisfactory is on the rise: 57% in 2003 to 71% in 2004.

Accordingly, donors have come to depend on documents and processes other than the APR as sources of information for monitoring the progress of the PRS. In Tanzania, monitoring is undertaken through a wide range of reports including the PAF's semiannual review for budget support, TAS monitoring, the UNDP-related PHDR, and MDG annual reports, etc., as well as the APR that is compiled annually. In other countries, the tendency to demand multiple reports from the developing countries due to the insufficiency of the APR is becoming more common. Accordingly, an important challenge for both the recipient and the donor governments is to integrate these various processes and promote their alignment to the country's

budgeting process.

As part of the background to the fact that the donors see the APR as insufficient, there is a serious problem, which is that the collection and analysis of various social, economic, poverty-related data on which the APR is based are regarded as insufficient. This means that the donors distrust the contents of the PRS itself that there is a lack of logic between the goals, policy measures, and indicators. This is why donors require other indicators to confirm performance progress that are independent of the PRS monitoring indicators and the APR indicators. A typical example of this is the establishment of the Performance Assessment Framework (PAF) by budget support donors. In general, PAFs are more intensively focused on indicators for action and policy measures than the indicators set at the level of outcomes and impacts for PRS.

In addition to the evaluation of the quality of the contents shown above, some donors mentioned the timing of the compilation and submission of the APR. According to the SPA-6 survey, Switzerland pointed out that the timing for the presentation of sector monitoring indicators regarding Burkina Faso's APR was too late to integrate the outcomes and analysis results into the Progress Report. Canada pointed out that the existing schedule of the report draft submission and the final report formulation will not allow donors, who are the development partners, to have sufficient time for data analysis and the evaluation of effectiveness. Furthermore, the World Bank, Norway, and Sweden pointed out that Malawi's timing of its APR formulation is too late⁵.

1-4-4 Problems related to APR

As discussed above, it has been clarified that the APR has not been fulfilling its expected functions for either the government, the citizens or the donors. One of the underlying factors is the fact that an efficient system of social and economic data collection/analysis for the APR to conduct monitoring has not been established. It is also necessary to point out that the contents of the PRS itself are not addressing a concrete vision, and the causality of what kind of policy action is required to achieve the poverty reduction goal has not been fully established.

When the PRS contents, which should be the target of the APR monitoring, are not satisfactory, the APR contents can only be of little use. This may be because the World Bank and other institutions have called the PRS monitoring process "poverty monitoring," which has given the wrong impression that performance at the outcomes and impact levels should be monitored. The fact that budget support disbursements have been linked to the output indicators may have also influenced this.

If the PRS monitoring is to be conducted every year, it is necessary to consider the indicators which can be measured on an annual basis and the decision criteria based on which donors are able to determine whether the recipient countries are operating the PRS on the right track. In this respect, it is important to reconsider which should be reported in the APR, performance at the outcomes and impact levels or the actions the government has carried out in the previous term (to provide an evidence whether it is the results of implementation of the policy measures).

Even if the latter is adopted, it is necessary to describe not only the process, but also the results of the political action taken to solve concrete problems; for example, not whether the meetings were held or not, but whether the obstacles preventing the realization of PRS have been removed or not. From this perspective, the third generation PRSP prepared in FY2004 by Uganda had an attached annex called the "Policy Matrix," which corresponds to the poverty reduction targets and will be a valuable reference (see Table 1-4).

⁵ SPA Secretariat / SPA-Sector Support Working Group (2005) p.52

Table 1-4 Sample of Policy Matrix in the Uganda PRSC

Schedule I: PRSC Policy Result Matrix: Uganda PRSC4-6 (2004/05 - 2006/07)						
Implementation of Government's Poverty Eradication Action Plan(PEAP)and 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)
PEAP/PRSP PILLAR I: Creating a Framework for Economic Growth and Structural Transformation						
1. Efficient and Equitable use of Public Resources	PEAP Priority areas as % of budget	50% in FY04/05	MoFPED; MTEF			
1.1 Comprehensiveness of MTEF facilitates coherent budget management				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 2005/06-2007/08MTEF, and has executed the 2005/06 budget consistent with the agreed allocations.
	# 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/ outturn 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-conditional grants allocations	Base/Target to be determined	BPR, BTTB	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.

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	Agriculture: Improving access by farmers to technology, advisory and financial services.	<ul style="list-style-type: none"> • 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. • Extend NAADs to further districts/sub-counties if successful and cost effective. Strengthen linkages with NARS. See below for financial services. • Harmonise activities under Strategic Exports Programme with PMA(and MTCS) programmes. • Data collection and forecasting techniques strengthened in order to improve accuracy of weather forecasts. 	MAAIF NARO NAADs Secret.
	Strengthening meteorological services to support farmers' decision making.		MWLE
	Strengthening policies for helping the livestock sector.	Prepare livestock development policy indicating how best Government can help the livestock sector, including help for disease control and addressing the needs of pastoralist.	MAAIF
	Strengthening teaching about agriculture in the education system.	Finalize and implement policy to strengthen agricultural education in schools.	MOES
	Strengthening policies for marketing of agricultural produce and agro-processing (and industry in general)	<ul style="list-style-type: none"> • Cabinet approves the Marketing and Agro-processing Bill(MAP)and Warehouse Receipts Bill. • 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. • Government strengthens role of District Commercial Officer. • Cooperatives strengthened through revisions to Cooperatives Act, preparing of a regulatory framework, and promotion of Area Marketing Cooperative Enterprises. • 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. 	MAAIF MTTI MOFA
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.	MAAIF MPS	

Note: GOU = Government of Uganda

MoFPED = Ministry of Finance, Planning and Economic Development

MoLG = Ministry of Local Government

Source: Uganda PRSC 4 - 6



Chapter 2

**Conceptual background to PRS
and evaluation of PRS as a framework**

Chapter 2 Conceptual background to PRS and evaluation of PRS as a framework

Points of this chapter:

- The current recognition shared by the governments of the developing countries and donor organizations is that MDGs are goals of international development aid and the PRSP is a process to be undertaken. This view is especially prominent in Africa.
- The widely shared ideas among donors and recipient countries are drawn from reviewing various past experiences and approaches, and reflect the current PRS process as the basic concepts of: the emphasis on poverty reduction, ownership, and partnership, drawn from a review of the Structural Adjustment Program; the emphasis on a reconsideration of project-type aid, a holistic approach, alignment to the system of the recipient country, and harmonization in the procedures of the donors from the perspective of the improvement of aid efficiency/effectiveness, which was influenced by “aid fatigue” and the concept of new public management.
- In considering PRS process monitoring, the above basic concepts (poverty reduction, ownership, methodology of participatory approaches, improvement of aid efficiency and effectiveness) should be reflected in it. It is also necessary to understand the key components of the PRS of the recipient country in order to set appropriate monitoring indicators.
- “Evaluation of the roles of the PRSP as a framework” proposed by the World Bank/IMF also points out that the actual processes of PRSP should be respected rather than the conventional document-oriented working culture.

This chapter identifies the basic philosophy of the PRSP by reconfirming the supporting trends that form the background to the emergence of PRSPs. The chapter also explains the significance of PRS process monitoring with the APR as its core, introducing the discussions in the SPA-6 Budget Support Working Group (BSWG) on whether the APR, which is formulated to provide opportunities to review the annual progress of the PRS process, really reflects the basic philosophy of the PRSP. In addition, introducing an outline of the evaluation by the World Bank/IMF concerning whether the PRSP as a framework has fulfilled its functions, this chapter explains the future directions of the PRS.

2-1 Trends in international development aid

In the 1990s, trends in international development aid went through great changes. The first milestone was the World Summit for Social Development held in Copenhagen, Denmark, in 1995. The Copenhagen Declaration on Social Development, which was adopted then, proposed the restructuring of international development aid regarding poverty reduction, employment promotion, and social integration as inseparable development challenges. The contents were summarized in the following 10 commitments⁶.

⁶ It should be noted that these 10 commitments cover the most of the new underlying trends in international development assistance to date. In other words, these proposals have produced great structural changes so far, which indicates that it is incorrect to view this change as just a temporary phenomenon.

- i) Create an economic, political, social, cultural and legal environment that will enable people to achieve social development;
- ii) Eradicate absolute poverty by a target date to be set by each country;
- iii) Support full employment as a basic policy goal;
- iv) Promote social integration based on the enhancement and protection of all human rights;
- v) Achieve equality and equity between women and men;
- vi) Attain universal and equitable access to education and primary health care;
- vii) Accelerate the development of Africa and the least developed countries;
- viii) Ensure that structural adjustment programmes include social development goals;
- ix) Increase resources allocated to social development;
- x) Strengthen cooperation for social development through the UN.

In response to this, structural change in international development aid accelerated in the latter half of the 1990s. In 1996, “The OECD/DAC’s New Development Strategy” was announced. In 1998, the World Bank proposed the Comprehensive Development Framework (CDF), which is trying to include each institution or donor’s development efforts. At the Köln Summit in 1999, an approach to debt reduction for Heavily Indebted Poor Countries (HIPs) among the LDCs, was finally agreed on. It was called the Enhanced HIPC Initiative. Taking the opportunity afforded by this HIPC Initiative, the PRSP regime, which was in a way one of the requirements for implementation of the HIPC Initiative, was agreed on and started out as a framework targeting the all the LDCs in 1999. In 2000, in response to DAC’s New Development Strategy, the Millennium Development Goals (MDGs), which were initiated by the UN, were adopted. MDGs were summarized into the following eight themes.

- i) Eradicate extreme poverty and hunger
- ii) Achieve universal primary education
- iii) Promote gender equality and empower women
- iv) Reduce child mortality
- v) Improve maternal health
- vi) Combat HIV/AIDS, malaria, and other diseases
- vii) Ensure environmental sustainability
- viii) Develop a global partnership for development

In short, MDGs as the goals of international development and PRSPs as the process were to be shared among various institutions and donors. In addition, since the US simultaneous terrorism incident in September 2001, international political significance has been added to poverty reduction efforts. As a result, The International Conference on Financing for Development held in Monterrey in 2002 and the G8 Kananaskis Summit in the summer of 2002 built a consensus concerning increases in funding for poverty reduction.

2-2 What the new trends mean

The following five considerations can be said to represent the meaning of the new trends

- i) Poverty reduction takes priority over structural adjustment
- ii) The focus of development assistance should be placed on the LDCs (especially in Africa)
- iii) Respect for the recipient country’s ownership (in the Driver’s Seat)

- iv) Respect for liaison and collaboration among both multilateral and bilateral development institutions
- v) International formulation of a framework (PRSP) that practically ensures application of the above concepts

Social reform shown in the above Copenhagen Declaration on Social Development had had a consistent influence since before the neoclassical structural adjustment on the trend in international development assistance⁷. After the mid-1990s, this trend became even more extensive, involving the World Bank/IMF. Among the underlying factors contributing to this were the end of the Cold War and the developed countries' "aid fatigue" that the international society experienced in the 1990s. The termination of the Cold War took one of the main political motivations for supporting LDCs away from the developed countries. At the same time, most of the developed countries had come to face structural financial deficits. Both of these factors reduced the inflows into the development support funds for the LDCs in the 1990s.

Table 2-1 Trend in inflows into international ODA funds in the 1990s

(Unit: Million US dollars)

	1990	1999	Rate of change (%)
DAC as a whole	38,690	37,860	-2.15
DAC (into the LDCs)	9,300	6,830	-26.56
DAC and multilateral institutions (into the LDCs)	16,010	11,790	-26.36

Source: OECD/DAC, Geographical Distribution of Financial Flows to Aid Recipients (disbursement basis)

This table reveals great many things. While the inflows of the whole of the DAC countries stayed almost flat in the 1990s, the inflows into LDC support funds reduced by as much as 30%. This reduction corresponds to that of the total for the DAC countries and multilateral development institutions⁸. When the development fund inflow reduces by approximately 30%, its economic impact is magnified. Table 2-2 below indicates the trend in population facing absolute poverty across the region. Extreme aggravation of the situation of the LDCs, mainly in Sub-Saharan Africa, is apparent.

Table 2-2 Trend in the population in absolute poverty with a cost of living of less than US\$1 per day across the region

(Unit: Million people)

	1987	1998	increase and decrease	Rate of change (%)
East Asia	418	278	-140	-33
Latin America	64	78	14	22
Middle East and North Africa	9	5	-4	-44
South Asia	474	522	48	10
Sub-Saharan Africa	217	291	74	34
Sub-Saharan Africa as a proportion of the total (%)	22	33		

Source: The World Bank, World Development Indicators

When the increase in the support funds comes to its limit and cannot catch up with the increase in the population in absolute poverty, it is logically natural to take measures to improve aid effectiveness⁹. At the

⁷ Refer to Esho (1997)

⁸ This implies that support funds required for the conversion of the former Eastern countries to a market economy were generally provided by cuts in support for LDCs.

⁹ As a typical manifestation of this, see World Bank (1998).

end of the 1990s, activities to critically review existing international development aid were carried out on a broad scale, involving the World Bank and IMF.

In critically reviewing the Structural Adjustment Program, it was pointed out that various conditionalities for structural reforms, which were passively adopted by many developing countries as heteronomous requirements for receiving the World Bank/IMF grant credit, detracted from their ownership of the reforms. Based on this review, there was a demand for setting the goal of economic development at not structural reform but poverty reduction, by adopting a framework that can prevent the exasperation of the political leadership and ensure ownership. In many cases, the exacerbation of economic difficulties due to the structural reforms also increased political volatility, which led to the vicious cycle of: degraded political leadership failure to satisfy the conditionalities reservation of disbursements prolonged economic stagnation. Such structural reforms were regarded as a requirement imposed by the World Bank/IMF and were originally viewed as unattractive within the recipient countries. Accordingly the reforms were vulnerable as they were being treated domestically as a scapegoat. In such a way, there was a risk of generating a kind of moral hazard.

Regarding the improvement of aid effectiveness, consistency throughout development policy measures (a holistic approach) and shouldering the responsibility for the payment of transaction costs were emphasized. In particular, focusing on bilateral development aid, criticisms concerned the following three points: i) there was no consistency between the development assistance of individual donors, which generated waste from the perspective of effective resources utilization; ii) most of these forms of aid were project type, which lacked continuity since compensation for the recurrent costs was eliminated; iii) this type of aid not only imposed huge transaction costs on the originally low-capacity recipient countries, but also lowered their administrative efficiency. The Helleiner report¹⁰ was a leading critical review that embraced the above perspectives and had a great influence on discussions in the subsequent years.

We have to note that the new trend came as a result of discussions that recognized the flagging efforts for development in the LDCs, as mentioned above. In this way, the main agenda concerning international development aid was summarized into the following three pillars.

- A. Reinforcement of the recipient countries' ownership
- B. Reinforcement of a holistic approach in development strategies
- C. Reduction of the burden of transaction costs on the administrative agencies in the recipient countries

Among these three, PRSPs arose in order to ensure A and B. The PRSP's true worth is shown in striking a logical balance between the recipient country's ownership and the donor's efficient intervention in the recipient country's policy actions. For this purpose, the PRSP should be led through the ownership of the recipient country with the donors' active participation. The 10 years of experience in the implementation of Structural Adjustment Programs showed that interference in domestic affairs not only detracted from ownership, but also damaged the effects of development, although intervention was indispensable in order to make sure that the development assistance was successful.

Harmonization efforts have been pursued in order to ensure B and C. These were promoted at the initiative of OECD/DAC with the main goal of reducing transaction costs, an issue that was strongly emphasized by the Helleiner report. As a result, the Rome Declaration on Harmonization¹¹ was adopted at the Rome High-Level Forum in February 2003.

¹⁰ Helleiner et al. (1995)

¹¹ For the whole text, refer to: <http://www.aidharmonization.org/ah-wh/secondary-pages/why-RomeDeclaration>

Many of Japan's stakeholders tended to understand the trends in aid coordination and modality reforms solely according to the logic of reductions in transaction costs, since the Rome High-Level Forum drew great attention. Although transaction cost reduction is a major theme, it is only one of the above three pillars of the new trends, so that achieving this alone does not ensure reinforcement of the recipient country's ownership and a holistic approach in development strategies. Even if the reductions in transaction costs are achieved, this will not directly result in a rise in the applicability of PRSPs as a framework¹². Accordingly, in order to look at the change and flow of the new trends, it is necessary to review SPA activities and discussions on them assuming that screening of the problems and deeper discussion focusing on the PRSP as a framework has taken place.

2-3 SPA since 2000 and discussions on APR

SPA is an international aid forum, which consists mainly of the World Bank/IMF and bilateral donor institutions, set up in 1987. At the time of its conception, it was aimed at the smooth collection of aid funds required for the structural adjustment program, and was called the "Special Program of Assistance to Africa." The activities were organized in three-year phases. Following the gridlock of structural adjustment financing and the change in aid trends, the functions of SPA-5 in 2000 and later SPAs changed to a considerable extent. The program was also renamed the "Strategic Partnership with Africa." The constituent members have come to include UNECA, NEPAD and the major developing countries in Africa.

SPA-5 established seven working groups¹³ with different themes in order to cover all related themes with the PRSPs as an axis, which had just started. As the working groups' activities have developed, the discussion has come to focus on the reinforcement of the developing countries' ownership and a holistic approach considering the separation of roles from those of the OECD/DAC. In particular, the expansion of budget support has come to draw greater attention. The milestone of this trend was the Addis Ababa Principle agreed on in the Technical Meeting held in Ethiopia in the fall of 2001. The principle stipulated that "all aid fund flows should go through the systems of the recipient countries," and this had a great impact on the later support reform led by the OECD/DAC¹⁴.

During the three year period of SPA-5, the actual achievements of the seven working groups differed widely¹⁵. Among the seven, the public finance management working group came under the closest scrutiny. The working group's activities included the implementation of a diagnosis of developing countries, unification efforts for the diagnostic methods such as those seen in PEFA, and capacity building in public finance management. Through engaging in these activities, discussion came to focus on two points: the expansion of budget support that underpins the PRSP process from the financing side, and sector programs that assist in budget support. The Technical Group meeting held in Brussels in the fall of 2002 and the Plenary Meeting in January 2003 in Addis Ababa agreed that the activities of SPA-6, which started in 2003, would be integrated into two working groups, a Budget Support Working Group (BSWG) and a Sector Support Working Group (SSWG).

¹² As a result of OECD/DAC activities after the Rome High-Level Forum, it is being replaced by "Alignment to the PRSP."

¹³ Consisting of "Economic growth and allocation," the "PRSP-Process," "Poverty Monitoring," "Aid and public finance," "Public finance management," "Sector programs," and "Partnership."

¹⁴ This was symbolized by the Paris Declaration on Aid Effectiveness in March 2005. For the whole text, refer to: <http://www.aidharmonisation.org/>

¹⁵ In a way, this was natural since these themes were set as part of the process of trial and error in search of a new aid challenges as the post structural adjustment approach.

The agenda of the BSWG in SPA-6 was roughly grouped into the following three issues, on which a field survey of the actual conditions has been conducted every year.

- i) Strengthening of ownership in the PRSP process and its alignment with the national process
- ii) Reform program and capacity building in public finance management
- iii) Improvement of the predictability of aid fund flows

These three are mutually related. In particular, the improvement of predictability (iii) has drawn considerable attention. It is clear that the reduction of uncertainty in development investment by improving predictability will improve aid effectiveness. It has been already generally agreed among European aid agencies¹⁶ that committing to aid activities for more than one year will promote aid effectiveness. Although multi-year commitment to budget support logically raises the predictability, things do not actually work as they have been considered. This is because the prerequisites for disbursement are not sufficient. In the PRSP process, disbursements should respond to the progress toward the development goals addressed by the PRSP. If not, disbursements will create moral hazards even though the ownership may be strengthened. This can also justify the need for an annual review, or the APR.

Field studies targeting 15 African countries conducted by SPA-6 in 2004¹⁷ pointed out the following issues.

- Only 20% of the countries reported the APR to the national assembly
- Only two countries answered that their APR was completely aligned with a governmental process, such as budget making
- Only 7% said the APR had a significant feedback effect on government policy measures and 26% on budgetary allocations
- Only 29% of all the aid agencies said the APR gave sufficient data for a decision on the disbursement

Some of the reason why the APRs receive such a lukewarm appraisal as this can be considered as follows.

- As the contents of the first generation of PRSPs to form the foundation of the APR lacked concreteness, the APR also lacked details or specifics
- countries tended to regard the PRSP passively as a requirement to obtain eligibility for the HIPC Initiative and conditionality for receiving an IDA loan
- The donors' side did not logically structure development targets in the PRSP and domestic accountability. Accordingly, there was a strong tendency to avoid giving clear conditions for deciding on disbursement¹⁸.

In order to complete an APR, which is inadequate as shown above, donors have come to establish their own framework. These are the so-called Performance Assessment Frameworks (PAF)¹⁹. These PAF's have the following problems.

- The number of development indicators that are set for the donors' own sake naturally tends to increase,

¹⁶ Countries with a system that is able to do this include the UK, Sweden, Norway, the Netherlands, Ireland, etc.

¹⁷ SPA6 BSWG, Co-chairs (2005).

¹⁸ This tendency is prominent among European donors that are engaged in the field of Political Conditionality, such as basic human rights, fair elections and democracy, freedom of expression, etc.

¹⁹ Refer to Chapter 3 (p.37)

so that the ownership of the PRSP process may be undermined

- As indicators that donors adopted in order for them to be domestically accountable are not usually able to be shared due to their diversity, the increase in such indicators further increased the overall number of indicators
- If PAFs are used as the determinants of disbursements, the increasing number of PAFs will make it difficult to improve predictability and will detract from incentives to improve the APR

Such discussions remind us of the conditionalities for the structural adjustment programs in the 1980s. When donors consider the requirements for the actual disbursement of a multi-year commitment, the indicators structured by them for the disbursements are actually “conditionalities.”²⁰ The latter sections explained aid trends and introduced criticism of the structural adjustment program. Based on the lessons learned from the criticism, ownership by the developing countries and transparency with respect to the conditionalities should be assured in the current PRS process. With regard to these trends, an urgent challenge is to improve the quality of the APR without unnecessarily expanding PAFs.

2-4 Background to the introduction of PRSP and the new aid modality

Section 2-1 introduced a new trend in international development aid. This section discusses the background theory to the PRSP in further detail.

The idea has become widely accepted that the PRSP is already not just a paper, but a holistic implementation process based on the paper. Among developing countries and donors, the term “PRS” has become more popular than “PRSP,” so that the significance of the implementation and of the PRS and its monitoring have received more focus. JICA is required to accept the basic concepts that explain the current conditions in order to recognize the ways to observe the changing process and to determine the appropriate means for its contribution.

2-4-1 Background to the introduction of PRSP and the new aid modality

This section considers the most appropriate ways of observing the management of the progress of a PRSP by recognizing the basic philosophy embedded in the PRSP and the results that are required from its promotion. For this purpose, the background to the introduction of the PRSP in 1999, which is the key theme of this paper, and the resulting change in aid methodology that is being developed mainly focusing on the PRSP is reviewed first.

In order to view the origin of the reconsideration of aid trends that led to the recent introduction of the PRSP, it is necessary to go back to the 1980s. In the 1980s, criticism arose of the Structural Adjustment Programs, many of which were carried out by the World Bank/IMF, and lessons from these criticisms were discussed. The need to respond to the poor was insisted on and the existing aid approaches were actively critiqued. In the same decade, an administrative management method called New Public Management (NPM) was introduced mainly in the developed countries. The concept of NPM also influenced development aid approaches. Furthermore, the idea that the increasing accumulation of debt had an adverse

²⁰ There is a difference, though. Conditionality in the Structural Adjustment loans was “ex-ante conditionality (in short, policy actions to be achieved by the deadline stipulated, and if these policy actions were not achieved, the loan would be suspended).” On the other hand, the current indicators are “ex-post conditionality (developing countries take the initiative in deciding policy actions that are necessary for PRS goal achievement; both the partner countries and donors check the progress of the PRS in stages; altering the implementation plan, and efforts are taken to reach the goals).”

effect on the promotion of development had become accepted since the middle of the 1980s, so that measures for debt relief were adopted at an accelerated pace.

While major problems of the promotion of development (responses to poverty, debt relief, the need to change aid approaches, etc.) were highlighted, it was the Cold War structure that prevented the application of solutions to these problems. Under the Cold War structure, political propaganda took priority and the development aid that was provided was mainly characteristic of the individual donor. Although bilateral cooperation and small scale aid full-scale coordination occurred, comprehensive aid coordination today had not been implemented yet. However, as a result of both the fact that “aid fatigue” among the donor countries had become noticeable and that the Cold War had come to an end, aid effectiveness came to be more actively reconsidered in the latter half of the 1980s. A foundation had formed for this reconsideration of the existing aid approaches and acceptance of the criticism of structural adjustment approaches, so that aid paradigms started to shift from the existing “independent aid” to “collaborative aid,” such as the Sector-Wide Approach (SWAp) and the PRSP in the 1990s.

Among the major factors that led to this shift, criticisms of the structural adjustment programs and the lessons learned from them and reviews of existing aid approaches will be outlined in the following sections. On the basis that it was these criticisms and reviews that led to the introduction of the SWAp, MTEF, and further to the PRSP, an attempt will be made to elucidate the key constituents of the PRSP and the items to be monitored for management of the progress of the PRSP process.

(1) Criticism of the Structural Adjustment programs

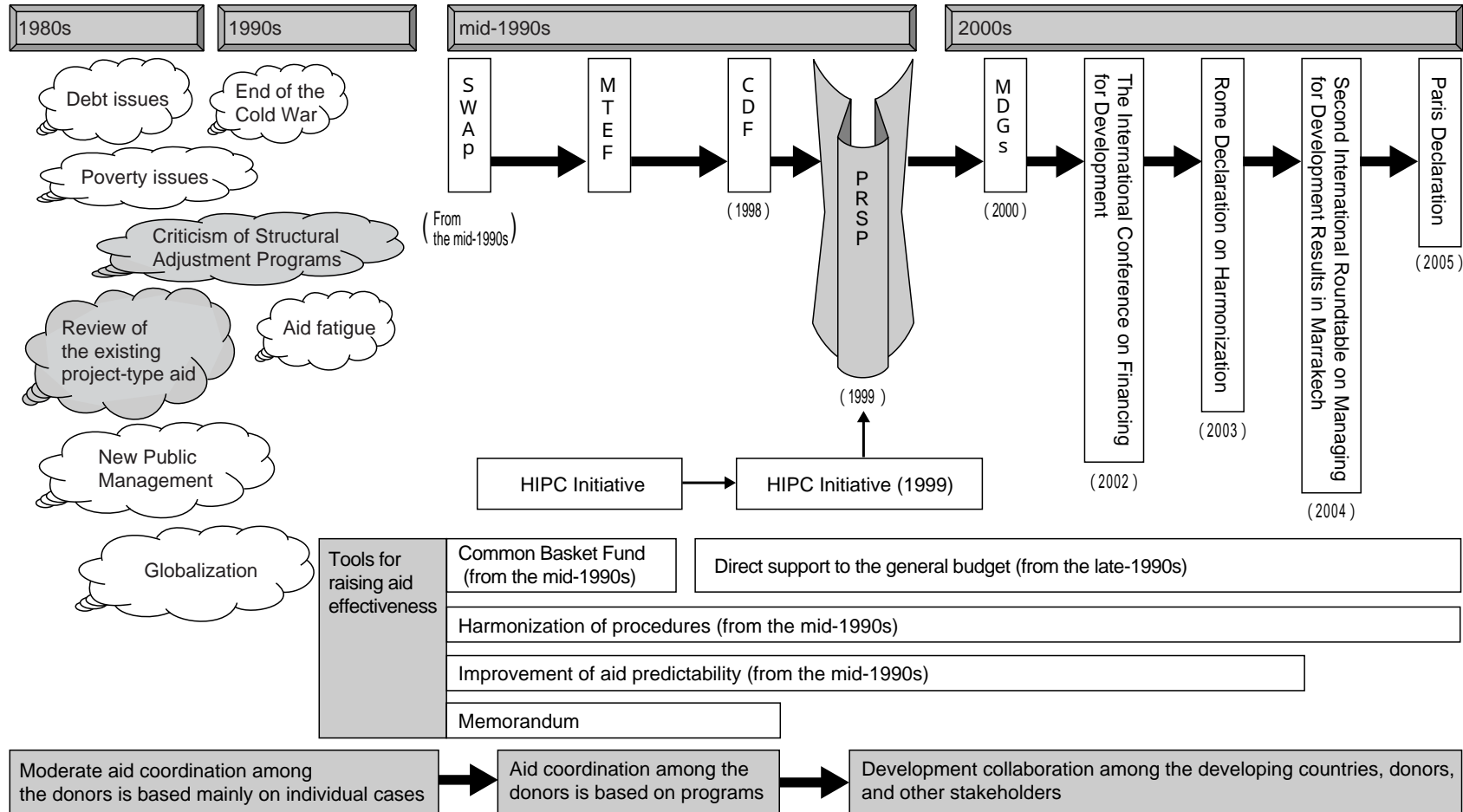
Structural Adjustment Programs originated with the purpose of the stabilization of the macroeconomy, the provision of incentives to producers, and the effective allocation of resources under the chaotic conditions of the 1970s, when the oil crisis occurred and the issue of the accumulated deficits of the developing countries became more serious. The full scale introduction of Structural Adjustment Programs started in the 1980s. These programs, which were promoted by the World Bank/IMF, had a huge impact on development aid. As their influence was so great, these programs also faced intense criticism.

The main criticisms were as follows. Firstly, the developing countries had lost their motivations to take the initiatives, since they rather felt that their goals were fulfilling as many of the conditionalities as possible. Receiving loan authorization from the World Bank/IMF depended on agreement on a Policy Framework Paper (PFP) with the World Bank/IMF. The PFP stipulated many policy measures as the conditionality that the developing countries had to achieve by a certain deadline. Secondly, the conditionalities were excessive and hasty prescriptions that achieving them was followed by significant pain in the short term, which had a serious impact, especially on the poor.

Consequently, the need for improvements in social safety nets came into the public limelight. At the same time, the Structural Adjustment Programs turned out to be not as effective as been expected by the World Bank/IMF and the various countries that promoted them. Rather than the Structural Adjustment Programs themselves, the problems of the governments of the partner countries were pointed out as the reasons for this. Accordingly, the need for good governance also came to the fore.

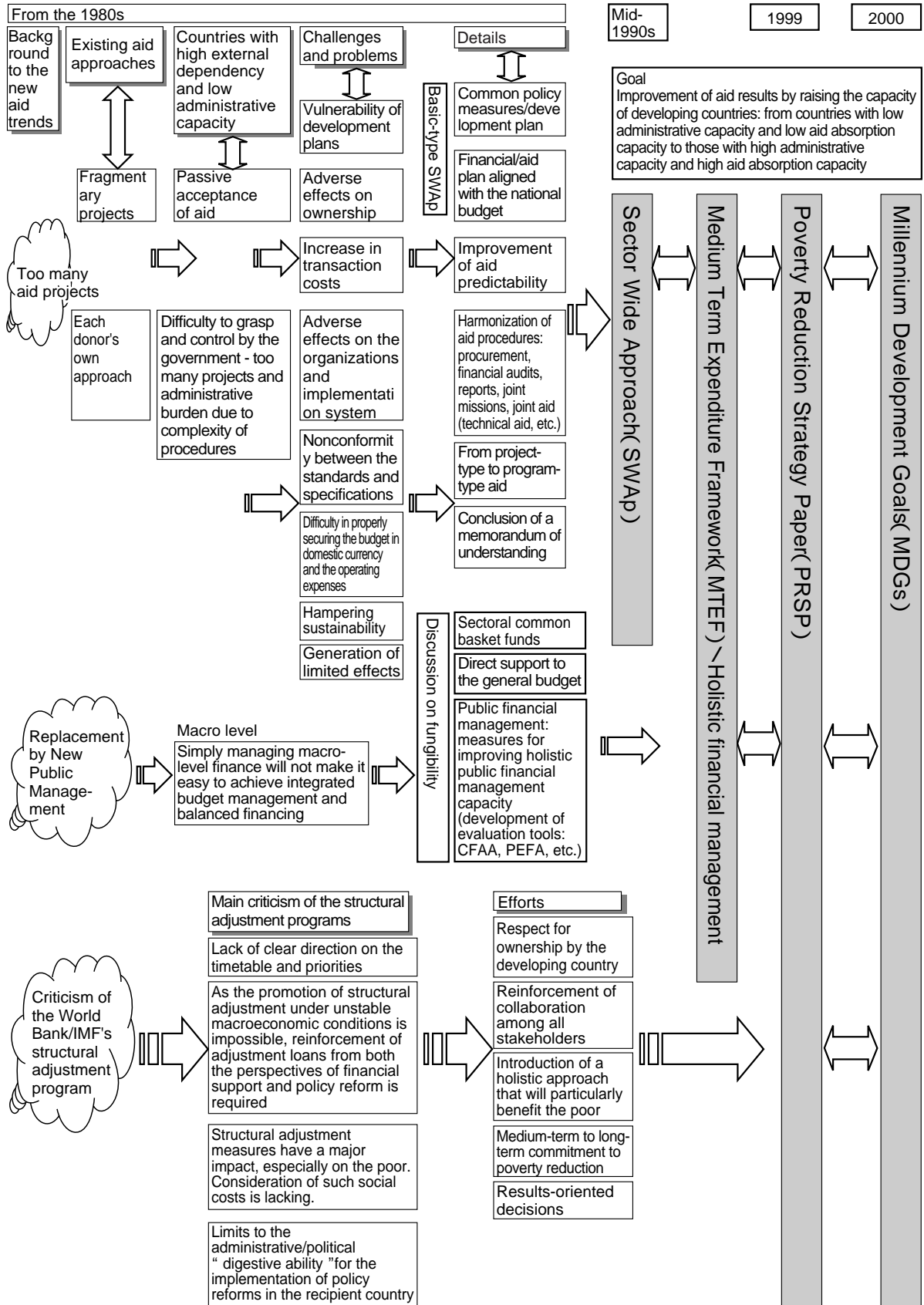
These lessons taken from the experience of the implementation of structural adjustment loan programs by the World Bank since 1979 can be summarized by the following four points. Firstly, they lacked clear specification of the timetable and priorities. Secondly, strengthening the structural adjustment loan program from both financial aid and policy reform aspects is required as it was impossible to promote structural adjustment under conditions where there was a lack of macroeconomic stability. Thirdly, data on the social costs should have been obtained as structural adjustment policies have a great social impact, especially on

Figure 2-1 Aid trends related to the PRSP



Source: Prepared by the author

Figure 2-2 Adverse effects of the existing aid approaches and the new aid approach



Source: Prepared by the author

the poor. Fourthly, there should have been greater recognition of the limits to administrative/political “digestive capacity” in terms of policy measure implementation in the recipient country²¹.

From these lessons, the basic concepts for the introduction of the PRSP, as described below, came to be emphasized in the latter half of the 1990s, namely i) the importance of developing countries’ ownership; ii) the importance of collaboration among all the stakeholders under the developing country’s ownership; iii) the importance of holistic approaches that benefit the poor; and iv) the importance of efforts to reduce poverty from a medium-term to long-term perspective.

(2) Review of aid experience: from a review of the existing aid approaches to the introduction of SWAp

Reform of the aid methods, which was carried out mainly by the World Bank, the UK, and North European countries, originated with their experience and review of aid in Africa. Of the papers that comprehensively summarize this experience and review it from a practical standpoint, the following two papers still have a considerable impact on today’s aid approaches.

One is a discussion paper written in 1995 by Harrold²², which is considered the bible of today’s SWAps. The other is the “Helleiner Report²³,” which proposes the future direction of development and desirable aid approaches by taking lessons from the review of aid in Tanzania during the same period as the “Harrold paper.” The report reviewed aid provided to Tanzania in order to investigate and analyze the problems that resulted in a questioning of why this aid did not achieve the expected results.

Both papers were written using analyses that were based on the experiences from frontline aid implementation and they critically review the problems of the existing project-type aid from the donor’s point of view. As they are useful in understanding the criticisms of this project-type aid, the challenges that both papers pointed out are summarized below.

1) Drawbacks of implementing fragmented projects

Projects discovered and formulated through the donors’ own fragmented and approaches had the following adverse effects on the recipient countries’ governments and on aid effectiveness.

i) Weakened development plans

Although various aid projects were implemented by many donors in developing countries, each donor took independent action. Accordingly, the recipient country’s officials could not fully assess each project while the various projects were being carried out. Therefore, the national development plans of developing countries are not only difficult to prepare but also vulnerable in terms of their implementation. For example, documents related to policy measures of the PFP and other papers demanded by the World Bank/IMF in the era of structural adjustment were not actively formulated by the government of the recipient country, but were actually formulated by the donors. Bilateral aid strategies were also formulated as the donor’s own development strategy the donors actually carried out only the projects that they were interested in. They were not always shared by the government of the recipient country and the donor, even though they were the results of bilateral discussions. As a result, the role of the donors in development plans ballooned, especially in countries with high aid dependency, so that the degree of engagement of recipient countries inevitably became limited.

²¹ Institute of Developing Economies (IDE)-JETRO (1988) p.47

²² Harrold et al. (1995)

²³ Helleiner et al. (1995)

ii) Adverse impacts on ownership (loss of the capacity of the central player due to various commitments by the donor countries)

Many of independent projects and individual approaches by each donor were not identified or formulated. They were carried out through passive acceptance on the part of the recipient country. The recipient country's government often did not feel that they were managing the projects. In many cases, the government did not even know of the projects' existence. In developing countries with high aid dependency, hundreds or thousands of projects were being carried out by various donors. When the donor-led projects were completed, further follow-up development efforts also often evaporated. Accordingly, such projects not only damaged ownership of the developing countries, but also hampered the sustainability of the development.

iii) Increase in transaction costs

The selection of aid programs has been carried out based on the donors' interests even though the donors and recipient governments have bilateral discussions. From among the aid plans that the donor has high interest in, plans that matched the donor's approach and regulations were screened and implemented. Various donors sometimes forced the recipient country to adopt the systems that were different from that of the recipient country, when applying the individual donors' own implementation methods and accounting systems. The government officials of the recipient countries had to spend an enormous amount of time to hold discussions with each donor, to respond to their reports, and follow different procurement procedures, accounting and auditing methods that were required by the respective donors.

As there were various different approaches and regulations imposed by different donors, the donors often established a Project Implementation Unit (PIU) to manage the projects, highly paid government officials and experts, and/or to ensure that the aid was carried out smoothly.

These various individual approaches not only increased the complexity of governmental administrative work, but also placed an excessive burden on the implementation capacity of the government, and further diffused this capacity, so that the organizations involved and implementation system were adversely affected.

iv) Difficulty of including operating expenses in the budget

Projects that were started at the initiative of the donors were not fully assessed by the recipient countries' governments. As the government had also had a low interest in such projects and sometimes did not properly position them in the sector development and national development plans, it was difficult to take proper budgetary steps. On the other hand, once the project started, personnel costs and utility charges became a burden in the succeeding years. The sustainable operation of the project was impossible unless the operating expenses were budgeted for. Accordingly, continuous operation of such projects increased the burden on the recipient countries' operating expenses, and there are a very large number of such individual projects, so that including the operating expenses in the budget became even more difficult.

v) Hampering the sustainability of the whole sector

A number of individual projects increased the vulnerability of development plans, had adverse impacts on the organizations involved and the implementation system, increased transaction costs for the recipient country's government, and hindered normal administrative operations. They also increased the burden of operating costs, and made it difficult to budget for operating costs, and to include the whole development plan in the budget. In conclusion, the excessive number of individual projects hampered the sustainability of the whole sector.

vi) Limited effectiveness within the target projects

It was not only donor-led individual projects as described above that were carried out in developing countries. There were also projects elaborately planned and implemented. It was pointed out, however, that even if they were carried out at the initiative of the government and the stakeholders in the recipient country, there were generally only a small number of successful projects among the great many failed ones.

This issue is closely related to the aid absorption capacity of the government of the recipient country. In order to ensure that projects are successful, the recipient country should prepare an appropriate development plan by itself, select the aid projects required for the development, and include the operating costs as well as the implementation costs in the budget. Only then are the projects able to start. After the donor hands over the project, the recipient country needs to maintain the operations and expand the project's outcomes by arranging for the appropriate conditions from the perspectives of personnel affairs and budgeting. For this purpose, appropriate development/budget plans actively formulated by the recipient country and sufficient organizational/implementation capacity on the part of the recipient country are required. However, many individual projects inhibit these factors from the recipient's side. As a result, even projects with good prospects often only have a limited effect on the country as a whole, and on the sector. In many countries, there are actually few cases in which significant project effects or trickle-down effects were found.

2) Lack of ownership and partnership

Aid approaches to date have not regarded the governments of developing countries as the central player in development. Rather, donors took the initiative in formulating development plans. While donor-led aid projects that were not aligned with recipient countries' development plans were carried out, the recipient countries lacked the awareness that they were expected to be the central players of this development. In addition, many donors, without close liaison among them, carried out so many projects that the recipient country's government could not keep track of them all. The reports emphasized that it was important to raise the developing countries' own awareness of being the central players in development and respect their capacity to plan, implement, and operate their own development, and to promote collaboration among the donors to support the central players as well as collaboration between the donors and the governments of the recipient countries.

The above propositions addressed by the two reports, which were published at about the same time, were the results of a review of conventional aid from a practical perspective. Putting those propositions into practice in the frontline work of the developing country became the next challenge. In particular, in the Sub-Saharan countries of Africa, efforts to tackle these challenges started in the middle of the 1990s. The efforts actually carried out are described below.

- While respecting the recipient government's ownership and the stakeholders' partnership, policy

- measures and development plans should be formulated at the initiative of the recipient government, and through a common understanding between the government and the stakeholders
- For the efficient utilization of aid resources, the plan should be aligned with the national budget. In order to promote this, the stakeholders should clarify their commitment for the succeeding years and the medium-term commitment required. The recipient government should include the plan in the budget, manage the budget appropriately, and secure the operating costs.
 - In order to solve the problem that the various aid implementation procedures of individual donors places a burden on the government of the recipient country, donors should develop common aid procedures using the regulations/system of the recipient country. The burden on the recipient country's administration should be alleviated and appropriate financing should be managed through promotion of the harmonization of procurement, accounting and auditing procedures from the perspective of public expenditure management.
 - Common basket funds and other budget support should be introduced in order to implement harmonization procedures and to tackle the problem of fungibility.

The approach to sector development described above, including new aid methodologies, is referred to as the Sector Wide Approach (SWAp). It is tentatively referred to as a framework for policy measures/strategies to cover a whole sector or a medium-term sector development plan based on ownership by the recipient country to implement the program and forms of partnership between the recipient country and the supporting donors; in other words, a development approach (not a blueprint but an approach) implemented by the recipient country and the donors after the formulation of a financial/support plan aligned with the national budget, an implementation plan, and implementation procedures.

(3) Results achieved through SWAp

Considering the above background, the SWAp should be recognized as an aid scheme for countries with high foreign aid dependency, low administrative capacity, and insufficient aid absorption capacity. In the same way, aid methodologies, including common basket funds, and the harmonization of procedures should be applied to such countries. On the other hand, for countries with high administrative capacity and high aid absorption capacity, the introduction of these new aid methods is probably not necessary.

(4) Spread of SWAp

Implementation of the SWAp, which was started mainly by donors in North and West European countries, has accelerated since the middle of the 1990s. In 1994, a workshop concerning new-type aid programs was held in Harare in Zimbabwe. In 1995, Sida's policy paper concerning sector program aid and the already mentioned World Bank's Harrold paper were publicized. In 1996, guidelines concerning sector program aid by Danida (Denmark) and Sector Budget Support guidelines by the Ministry of Foreign Affairs of the Netherlands were also publicized. In addition, the general concept of Sector Development Programmes was introduced in the EU Secretariat meeting in 1996, when the EU announced that it would aid sector development programs in the field of human development/social development.

The policy of the "Promotion of ownership and partnership" adopted by the DAC new development strategy paper, the compilation of which was said to be led by Japan, further accelerated the movement to promote sector programs (SP). SPA-5, which started in 1996 to discuss a desirable balance of international payments aid and aid to Africa agreed on full scale engagement in the SWAp. Japan also agreed on the general statement of this approach. As a result, most aid plans by the World Bank and other aid agencies

have come to place SP at the center of their direction.

(5) Reinforcement of holistic financial management and SWAp

While introduction of the SWAp started in the countries of Sub-Saharan Africa, the World Bank/IMF and other international financial institutions that were responding to the developing countries' financial crisis had begun to notice the following issues since the 1980s: i) the concept of "fungibility"²⁴ was recognized so that the necessity of not overlooking the overall funding of the public sector had arisen; ii) the roles of the developing countries' governments were being reconsidered with the result that the need to increase the efficient operation of the core of the public sector, the privatization of which is impossible or inappropriate, had arisen; iii) the increasing need to observe fund management in the public sector of developing countries due to the problems of project implementation, including the lack of funds in domestic currency for projects and the lack of operating costs, had been raised. Accordingly, there were concerns being raised that macroeconomic financial management by the World Bank/IMF alone would make it difficult to carry out unified budget management and achieve a balanced budget. Eventually, the significance of budget management at the initiative of the recipient government was recognized, including the management of aid funds provided by the aid stakeholders through the formulation of common policy measures and development plans by the aid stakeholders involving both multilateral and bilateral aid agencies. The North and West European donors that attempted to outgrow the existing projects and interests of multilateral development institutions, such as the World Bank/IMF that had attempted to reinforce holistic financial management, agreed on the SWAp.

Introduction of the SWAp required strengthening aid fund management of the whole sector concerned, so that, through medium-term development plans and resources distribution, the fund management system, including the operation/accounting/reporting system, could be reinforced.

(6) Introduction of PRS

The review of structural adjustment policy measures led to recognition of the importance of the developing countries' efforts to develop their own countries through their ownership of the process, the importance of cooperation among all aid stakeholders under the ownership of the developing country, the importance of holistic approaches that benefit the poor, and furthermore, the importance of medium-term commitments to poverty reduction.

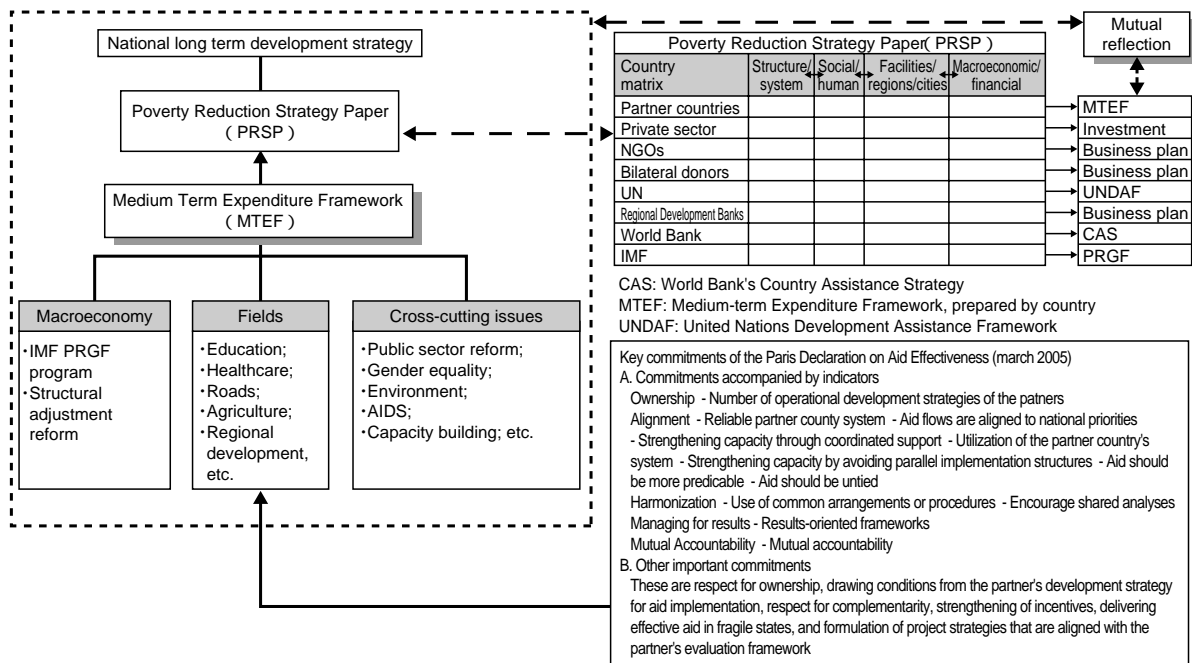
The review of aid experience to date led to the introduction of the SWAp, or a sector-level development approach. As the SWAp can be utilized in order to actualize the above-mentioned items recognized as being important due to the review of structural adjustment policy measures, the PRS also came to adopt the concept of the development approach of the SWAp.

Accordingly, a PRS is also regarded as having the same definition as the SWAp mentioned in (2). Today, it is called a PRS rather than a PRSP since it is not a just a paper, but an implementation strategy that needs to be focused on as a core aspect of development.

The PRSP process is also conducted: i) led through the initiative of the governments of the developing countries; ii) with the participation of a wide range of aid stakeholders; iii) through the formulation of a poverty reduction strategy paper, which is a common development plan; iv) and through the formulation of a medium-term expenditure plan that is aligned with the national budget based on the poverty reduction strategy; and v) by governments of the developing countries and aid stakeholders. The basic ideas, which

²⁴ Refer to Chapter 3 (p.38)

Figure 2-3 Constituents of PRS



Source: Prepared by the author

were recognized as the lessons taken from the review of structural adjustment policy measures, include “ownership,” a “results-oriented framework,” a “holistic approach,” and “partnership.”

Today, in responding to the discussions on the SWAp, efforts to reform each donor’s aid methods are being taken. It is necessary to engage in the following challenges through PRS implementation: “improvement of aid predictability” as a tool for carrying out effective development assistance; shifting from “common basket funds” as aid for sector strategies to “direct support to the general budget” to respond to the national development strategy; the “harmonization of procedures”; shifting from “project-type aid” to “program-type aid”; and other means.

A PRS is regarded as a summarization of the criticisms of structural adjustment policy measures, a review of the conditions of existing aid, and the concept of NPM. Formulation of a PRSP was required for application for the Enhanced HIPC Initiative and as information for making a decision on IDA loans. The targets of the PRSP process were countries that had not been able to achieve the expected results. In particular, most of the countries that the Enhanced HIPC Initiative was applicable to did not have sufficient aid absorption capacity; in other words, they were not able to select aid properly or to prepare aid absorbing resources. In the same way as with the SWAp, a PRS tries to achieve aid results through improving capacity and transforming the target countries into ones with a high administrative and full aid absorption capacity.

(7) Key constituents and the aid modality of PRS

In order to consider how PRS process monitoring can be achieved, it is necessary to identify the key constituents of a PRS. The most important papers are the PRSP, which is the foundation of a poverty reduction strategy, sector development plans that support the PRSP, and medium-term to long-term budget

plans.

As explained above, a PRS is a development approach taken by the partner country and the donors. The PRS, as a common development plan, is formulated taking the strategies and business plans of the development stakeholders, such as the donors, into consideration. A key constituent of a sector development plan is SP in countries where the SWAp has been introduced. A key constituent of medium-term to long-term budget plans is the MTEF in countries where the MTEF has been introduced. The summarization of the development plan and budget plan for each sector formulated by the developing country based on these key constituents is the PRSP. The relationship between these constituents is shown in Figure 2-3.

In order to see the overall picture of a PRS, it is necessary to fully understand the strategies and business plans of the development aid stakeholders such as the donors, the development plans for each sector formulated at the initiative of the partner governments (SP formulated for the SWAp in some countries), and medium-term budget plans (MTEF in countries where the MTEF has been introduced). As shown in the history of the introduction of the PRS, the aid absorption capacity and administrative/financial capacity are expected to be improved through a PRS. The key commitments prescribed in the Paris Declaration on Aid Effectiveness in March 2005 function as indicators for carrying out the PRS process effectively.

(8) Monitoring indicators required for management of the progress of PRS

As shown in Figure 2-3, in the conceptual structure of a PRS, commitments to macroeconomic adjustment/reform programs, sector development plans, and cross-cutting issues such as HIV/AIDS should form key constituents of the PRS if they are financially endorsed by a medium term expenditure framework, such as an MTEF.

In view of this relationship, in the ideal structure to monitor the PRS process, when the indicators set for each of the constituents are integrated they should correspond with the indicators for the achievement of the PRS. However, in the present situation this is not always the case.

Currency exchange policies and financial policies, which are frequently adopted as IMF conditionalities, tend to have their policy effects reduced when they become open to the public. It is difficult for such policies to act as PRS indicators. More generally, when alignment between the SP and PRS indicators is not achieved, or when the PRS support modality is general budget support, PAF indicators (most of them are policy measure indicators), which are not always aligned with a PRS, are sometimes adopted.

In addition, there are still some cases in which individual documents are agreed on between the developing countries and each donor, so that the conditionalities particular to each donor are set. In such cases, it is difficult to ensure transparency and share the indicators between the donors and the partner governments for the purpose of contributing to aid predictability. At present, monitoring indicators for a PRS and conditionalities for an economic adjustment/reform program (the World Bank/IMF) and for bilateral donors are actually used separately as monitoring indicators. One of the future challenges is how these indicators can be shared in the PRS process.

2-4-2 Aid trends mainly in PRS since the introduction of PRSP

In January 1999, CDF was introduced following a proposal by James Wolfenson, then the World Bank president. In September 1999, the PFP, which used to be required by the World Bank, was replaced by the PRSP. IMF also renamed its Enhanced Structural Adjustment Facility (ESAF) as the Poverty Reduction and

Growth Facility (PRGF). In this way, poverty reduction has come to be fully promoted as the common development challenge for donors.

Aid methods adopted by the donors are nowadays required to correspond mainly to the PRS. In the past, even if multilateral and bilateral donor support was provided mainly in the form of projects through a dialogue between the donors and the partner government, these projects had not been criticized. Due to the introduction of the PRSP and SP, as well as the discussions on fungibility, each donor is now required to provide support of high quality and with efficiency that makes it possible to reduce the partner government's transaction costs under the leadership of the partner government and through collaboration. Among the aid methods suggested are: "general budget support," which directly inputs aid funds into the partner government's budget; "common basket funds," in which donor funds are pooled; harmonization of the donors' aid procedures including procurement, reporting, accounting, and auditing; the untying of aid; and shifting from project-type aid to program-type aid. Discussions on aid modalities among the donors, including general budget support and harmonization of procedures had not only been discussed among the donors, but had also already been introduced in some developing countries. Since 2000, such discussions have become more active, and more common.

Signs of this trend are seen in development-related international conferences including the G-8 summit meetings and the International Conference on Financing for Development. In the OECD/DAC, a task force for the harmonization of aid procedures was established (from January 2001 to December 2002), and in multilateral aid institutions such as the SPA and the World Bank active discussions were also being held.

(1) Monterrey International Conference on Financing for Development (March 2002)

The Monterrey Conference held in Mexico in March 2002 agreed on engagement to achieve the MDGs, an increase in the total amount of aid funds, eight efforts for effective aid implementation, and so on. In order to increase the amount of aid funds, the EU decided on an increase in the ratio of all member countries' ODA funds to the GNP from 0.33% to 0.39% (32 billion dollars to 39 billion dollars) by 2006. The US announced an increase in its ODA amount from the present 10 billion dollars to 15 billion dollars by 2006. The eight efforts suggested to make aid more effective were: i) harmonization of operational procedures under the ownership of the recipient country; ii) untying of aid to the least developed countries; iii) enhancement of the absorptive capacity and financial management of the recipient countries; iv) use of development frameworks including the PRSP; v) increase in the effective use of local technical assistance resources; vi) promotion of the use of the FDI, trade and domestic resources; vii) strengthening of partite cooperation and South-South cooperation; and viii) improvement of ODA targeting to the poor, the coordination of aid and measurement of the results. These eight efforts reflected the discussions in Africa to date, and this consensus became the main pillar of later G8 summit meetings and international development conferences.

(2) Rome Declaration on Harmonization and the Paris declaration

With the aim of increasing growth, poverty reduction, and the strengthening of development partnerships towards the achievement of the MDGs in 2015, the Rome Declaration on Harmonization was agreed on in the Rome High-Level Forum in February 2003. The Forum, which was a follow-up meeting of the Monterrey Conference, emphasized the following two important points.

- Implementation of a Program Based Approach, introduction of new aid modalities including budget support and pooled funds, harmonization and simplification of aid procedures (among donors, and between donors and the recipient country), aid predictability improvement on the donor's side, and the

introduction of the management of aid for development results.

- Among the challenges pointed out in the progress since the Monterrey Conference were: weakness in the partner countries' institutional capacity to develop and implement results-driven national development strategies; insufficient delegation of authority to the donors' local offices; lack of incentives for the promotion of effective development coordination among the donors and the recipient countries; lack of the reliable and timely predictability of the donors' aid, and other issues.

Furthermore, the Second International Roundtable on Managing for Development Results was held in Marrakech in February 2004. In March 2005, the DAC High-Level Forum held in Paris adopted the Paris Declaration on Aid Effectiveness, which promotes donor collaboration for aid effectiveness. An outline of the Paris Declaration is as follows.

Outline of the Paris Declaration on Aid Effectiveness

The following indicators are to be followed up jointly by the donors and developing countries.

1. Indicators with quantitative targets

Ownership

- Number of partner countries that have operational development strategies

Alignment

- Reliable country systems
- Aid flows are aligned to national priorities
- Strengthen capacity through coordinated support
- Use of the partner countries' own system
- Strengthen capacity by avoiding parallel implementation structures
- Aid is more predictable
- Aid is untied

Harmonization

- Use of common arrangements or procedures
- Encourage shared analyses

Managing for Results

- Results-oriented frameworks

Mutual accountability

- Mutual accountability

2. Key commitments without quantitative targets

Respect of ownership, drawing conditions from the partner's development strategy in aid implementation, respect for complementarity, strengthening of incentives, delivering effective aid in fragile states, formulation of project strategies that are aligned with the partners' evaluation framework.

(3) Main trends in the improvement of aid effectiveness

A series of discussions based on the review and experience of aid to African countries provided mainly by the World Bank, the UK, and North European countries since the 1980s made them shift their aid approaches from individual-type aid by way of SWAp to collaborative aid represented by the PRS. Collaborative and results-oriented aid methods have become key aid modalities. For example, general budget support that respects PRS support as its core has become common, and harmonization of the procedures has been promoted. The core of today's aid trends are the improvement of aid effectiveness by raising the administrative and aid absorption capacities of vulnerable countries using the above methods. In the future, engagement of the participating countries, including Japan, in the indicators presented in the Paris Declaration will be strengthened. For this purpose, it is important to appropriately verify the effectiveness of the aid methods listed as the indicators and their actual relationship to the results.

2-4-3 New trends in aid and Japan's position

Japan, which started official development assistance (ODA) as part of its postwar reparations, has conducted its aid programs cautiously so that these would not be considered as interference in the developing countries' domestic affairs, such as their policy measures. In addition, Japan respected the developing countries' own official requests (aid on a request-basis principle) and has provided aid under the condition that the recipient country's implementation system has been prepared to some degree. Among these conditions, is payment of the operating costs and allocations to the counterpart that receives the transfer of technology in the recipient country, the avoidance of the duplication of development assistance from other donors and other matters.

These are the underlying factors in Japan's approach to development assistance that was based on the premise that Japan would not become involved in the recipient country's domestic politics wherever possible. Accordingly, aid modalities tended to be assistance for individual projects rather than large scale development assistance that would have an impact on the entire plan for national development or sector development. Japan had basically not become involved in the budget allocation process in the recipient countries either, providing mainly off-budget aid, mostly through aid in kind.

At present, Japan has difficulty in accepting, from a theoretical or institutional perspective, the new kind of development aid that has been developed mainly in Africa. The period when the Western countries were reviewing existing aid and groping for new ways to deliver development assistance corresponded with the period during which Japan was proud of its success in providing aid to other Asian countries, the main recipients of its aid. During this period, the amount of Japan's ODA contribution continued to increase. Accordingly, Japan continued the existing modalities of its aid according to its economic and political background without fully following the discussions on aid effectiveness that the other donors have been conducting since the 1980s. Regarding discussions on aid effectiveness and aid coordination, Japan went through a period of non-involvement.

As shown above, aid stakeholders in Japan still generally have the idea that criticisms of fragmented projects are only targeting the aid provided to African countries, since they feel confident in Japan's success in providing aid in Asia. They have insufficiently recognized that the target of these criticisms includes Japan's aid mainly to Asia. Moreover, only a few of them understand the idea that program-type aid should be promoted instead of project-type aid and that general budget support should also be promoted, so that a full scale change in the awareness of aid among Japan's aid stakeholders is required.

Japan's aid stakeholders, however, understood the concept of effective and efficient aid and they have supported aid coordination as a general concept. This is because they know the significance of exchanging

views between donors and the recipient government and the significance of implementing aid under the condition that each aid package should be aligned with the recipient country's overall development strategy or plan, even if these packages consist of project-type aid. Actually, Japan supported, at least spiritually and from an overall perspective, the process of the conceptualization of aid coordination into new paradigms such as the CDF and PRSP. However, Japan had resisted the specifics of this trend, or modality, insisting on the "best mix" approach. Japan had opposed the idea of the unified adoption of common fund budget support by donors that insisted on radical aid coordination and the hasty unification of procedures, since Japan had institutional limitations and was concerned about denial by other countries of Japan's concept of aid with a human face.

On the other hand, the adverse effects of single projects that the main donors besides Japan have pointed out and the problems revealed in the Harrold paper and Helleiner report were persuasive regarding aid in African countries. It cannot be said that all of these issues show Japan's aid to be an exception. As long as Japan agreed with the trends in general, but did not compromise on the details, it was able to avoid being isolated among donors in the past. However, it has become difficult for Japan to continue opposing the details since the Japanese government decided to participate in various agreements, such as the Monterrey Consensus of the International Conference on Financing for Development, the agreement to the Rome Declaration on Harmonization the agreement on the Paris Declaration on Aid Effectiveness as a document with quantitative targets of ownership, alignment, harmonization, and the promotion of managing for development results and mutual accountability. It is clear from Japan's experience concerning Tanzania that unless Japan presents clear commitments in order not to oppose such agreements it will be isolated from the donor community.

The Japanese government will make it clear internationally that it will participate in an aid coordination framework only "on a trial basis" when it decides to try participating in such aid modalities after selecting a recipient country and sector. The Japanese government will select priority countries among African countries that are achieving relatively good progress in their PRS process and that are strongly requesting budget support, and then it will tentatively participate in the aid coordination framework of the priority countries. The government seems to think that it is possible to expand its support if the aid it has participated in on a trial basis turns out to be effective.

Achievement of quantitative targets of the indicators as shown in the Paris Declaration on Aid Effectiveness will be more strongly emphasized. For this purpose, it is necessary for Japan to urgently decide how concrete a response it is able to make and should take action by acquiring a clear picture of the progress of each country's PRS and its key constituents.

2-5 Evaluation of PRS as a framework

As we have seen above, the PRS has played a central role in strengthening liaison and cooperation among partner countries and donors.

Since the Millennium Declaration and MDGs were adopted by the UN Millennium Summit in 2000, the international society has regarded MDGs as a set of criteria to measure development progress and achievements. Since the agreement on the Monterrey Consensus in 2002, developing countries have been required to improve their policy measures and governance capacity and developed countries have been required to improve the amount and quality of aid. Under these circumstances, PRSs have played the role of the foundation for concrete development policy measures and plans. At the same time, aid resources for PRS implementation have been considered together with the achievement of the MDGs.

In other words, the PRS approach has formed a framework for the achievement of the MDGs at the

country level, and has indicated a framework for fulfilling the responsibilities of both partner countries and donor countries indicate in the Monterrey Consensus.

This section will overview the evaluation of functions fulfilled by the PRS as a framework over the past five years according to the operations evaluation report by each evaluation unit of the World Bank and IMF announced in July 2004.

2-5-1 Evaluation of PRS implementation by the World Bank/IMF

A joint report on PRS implementation is compiled annually by the World Bank and IMF (Table 2-3). In the beginning, the report was made twice a year in accordance with the World Bank/IMF joint meeting of their development committee. Since September 2002, the report has been made once a year. In 2002, the latest detailed review was carried out.

The 2004 edition²⁵ emphasized that PRS approaches have come to focus on challenges that each partner country faces when they are making efforts to improve the development results, effectively address poverty reduction, and appeal for more effective development cooperation (including quantitative increases).

2-5-2 Evaluation by OED (the World Bank)/IEO (IMF)

The operations evaluation report by each evaluation unit of the World Bank and IMF was published in July 2004. The points are given below. The PRS initiative has developed into a movement to link poverty reduction results and aid management. However, such efforts were not sufficient in for the reflection of the PRS in customizing approaches and policy measures and in relating partnership to accountability. It has been pointed out that instating the PRS as a strategic roadmap for determining policy measures is necessary in the future.

The followings are the contents of the report in more detail.

(1) OED, the World Bank, “The Poverty Reduction Strategy Initiative: An Independent Evaluation of the World Bank’s Support through 2003” (July 2004)

While the report (OED 2004) by the Operations Evaluation Department (OED) of the World Bank appreciated that the PRS initiative linked the discussion on policy measures in low income countries to results-oriented aid management focusing on poverty, it pointed out that the design of PRSs, including conditionalities made under the initiative of the World Bank/IMF, minimized the partner country’s plan/implementation process, blocking customization based on each recipient country’s conditions and environment. The report proposed the promotion of customization, helpful in setting wider policy alternatives, and clarification of the concept of partnerships concerning accountability on the part of the recipients and the donors.

(2) IEO, “Report on the Evaluation of Poverty Reduction Strategy Papers (PRSPs) and Poverty Reduction and Growth Facility (PRGF)” (July 2004)

The Independent Evaluation Office (IEO) of IMF produced the same results as the OED report. It pointed out that strictly the PRSP process has not generated wider ranging discussions or alternative options for policy measures at the macroeconomic level. Furthermore, it also pointed out that most PRSPs could not present strategic road maps for the determination of policy measures, and also pointed out that strictly interpreted they were used only for obtaining PRGF.

²⁵ World Bank/IMF (2004)

Table 2-3 Joint report on the conditions of PRS implementation by World Bank/IMF staff

Date of publication	Title	Outline
2000.4	Progress Report on Poverty Reduction Strategy Papers	The need to compile PRSP reflecting the environment and situations of each country was stressed.
2000.9	Poverty Reduction Strategy Papers-Progress in Implementation	The report states experiences gained in the process of I-PRSP compilation. Constraints of capacities due to institutional and technical demands and administrative costs, unclear role sharing of donor and development partner, and the need for country analyses were also implied. The tension between the need to quickly compile PRSP in order to receive concessional support and debt relief and ensuring the ownership of the recipient country through wide participation was pointed out.
2001.4	Poverty Reduction Strategy Papers-Progress in Implementation	PRSPs were planned in 4 countries, and I-PRSPs compiled in 32 countries. Implementation steps of PRSP process were presented by World Bank and IMF, including guidelines related to JSA for full-PRSP. Establishment of PRSC for the World Bank to support PRSP was also documented.
2001.9	Poverty Reduction Strategy Papers-Progress in Implementation	PRSPs were planned in 5 countries, and I-PRSPs compiled in 36 countries. The initial timetable for PRSP compilation was too optimistic and both the developing countries and the donor countries underestimated the time required for the necessary analytical work through participatory process. Discussion on how PSIA (poverty and social impact analysis) can be utilized by the recipient countries in order to grasp the impact of growth, poverty, and implementation of policies was presented. It was presented that the PRSP process was understood as the basis for measuring progress of the achievement of mid-term development goals at the country level.
2002.3	Review of the Poverty Reduction Strategy Papers (PRSP) Approach Main Findings	PRSPs were planned in 10 countries, and among which 3 countries compiled annual reports. It was reported that (purposes of) the PRSP approach is widely considered effective among low income countries, public organizations, development partners, and that the following 4 main achievements are commonly recognized: i) fostering a sense of ownership of the developing countries, ii) open dialogue within the government and with certain members of the civil society, iii) giving a more prominent place to poverty reduction in terms of policy discussions through efforts to pursue beyond the intervention in the social sector and focus on the reduction of income poverty through sharing of growth, and iv) systematic collection and analysis of data and monitoring of results. On the other hand, there are 3 points for future challenges: i) alignment of development partners (including World Bank and IMF) who support the implementation of PRS, ii) shift from process to substance and implementation, grasping the relationship between policies and the achievements of poverty reduction, and iii) setting realistic goals and targets. It was stressed that flexibility is required in taking the PRA approach, and the process and targets of poverty reduction can be different depending of the situations in different countries. It was pointed out that lack of capacities and the inability to fully utilize the capacity are still the main obstacles which still hampers the compilation, implementation and monitoring in many countries.
2002.9	Poverty Reduction Strategy Papers-Progress in Implementation	PRSPs were planned in 18 countries, and among which 5 countries compiled annual reports. It was pointed out that a more systematic evaluation to measure the outcome achieved is necessary.
2003.9	Poverty Reduction Strategy Papers-Progress in Implementation and Detailed Analysis of Progress in Implementation	PRSPs were planned in 32 countries, and among which 7 countries compiled more than one annual report. It was reported that while there are significant improvements and progress in terms of the implementation of PRSP, and lessons learned from the efforts made in PRSP initially implemented are utilized for successful planning and implementation of more recent PRSPs, on the other hand, PRSPs are used for different purposes and are creating tension in various relationships. It was concluded that compromises in implementing PRSP is inevitable, and it is not possible to always obtain ideal results.
2004.9	Poverty Reduction Strategy Papers-Progress in Implementation	PRSPs were planned in 42 countries, and among which 23 countries compiled more than one annual report. It was pointed out that due to the country-specific nature of PRS process, experiences and situations differ in different countries. However, it is generally considered useful in the following 4 aspects: i) developing countries deal with poverty reduction directly in its development strategy formulation and implementation. ii) participatory processes are encouraged in many countries, and iii) PRSP draws attention to the importance of understanding and tackling the obstacles hampering effective development in each country. The ongoing challenges are: i) integration of PRSP process into the existing decision making processes, particularly the budgeting process, and involvement of sector ministries and agencies and the national assembly, ii) establishment of stronger link with MDGs and identification of financial, political and organizational constraints hampering the acceleration of progress towards achieving MDGs, iii) establishment of result-oriented national strategies and improvement of complimentary monitoring and evaluation system, and iv) alignment of donor support to the national strategies and harmonization of administrative procedures for receiving aid from donors, as well as speeding up the increase of aid flow.

Sources: Compiled by the author based on the World Bank/IMF (2005a)

2-5-3 Review by the World Bank/IMF in 2005

When a detailed review was carried out in 2002, the Board of Governors requested the World Bank/IMF to execute a full scale review in 2005. The final report was submitted to the Joint IMF-World Bank Development Committee in October 2005²⁶. The review reported that when the review was conducted, a PRS was being implemented in 45 countries, among which 24 countries had formulated an APR once or more.

One of the key background factors in conducting the review in 2005 was the change in the PRS architecture. The change was necessary to strengthen the partner countries' ownership and to abolish endorsement of the PRSP by the Executive Board that used to be required to receive the Bretton Woods Institution's²⁷ concessional aid. More specifically, the introduction of a Joint Staff Advisory Note²⁸ was planned, and the basic concepts of the PRS have been emphasized by eliminating the idea that unless Washington approves and signs-off on a case of aid it will never be actualized. In addition, the following were also suggested: elimination of the concept of the paper culture; focusing on the underlying process involve in the formulation of the strategy; and promoting country approaches that are carried out depending on the domestic processes and respecting the individual country's characteristics.

The review was aimed at presenting a framework that enables a more systematic evaluation and analysis of PRS implementation and progress to be carried out through the following processes.

- Consideration of progress, challenges, and good practice for the improvement of results
- Partner-led measurement/evaluation of development cooperation results
- Indication of an evaluation framework
- Specification of appropriate indicators to measure the results of the PRS approach

The review pointed out the roles fulfilled by the PRS and the future challenges to be faced from the perspective of "Balancing Accountability" and "Scaling Up of the Results." This was based on the fact that the PRS has become accepted as presenting a certain framework for achieving development tasks such as the MDGs and for fulfilling mutual responsibilities between the recipients and donors as indicated by the Monterrey Consensus, as described in the beginning of this section.

Actually over the past five years, many countries have come to position Poverty Reduction at the center of their public policy in relation to the full scale PRS implementation process. Accordingly, concrete political commitments and accountability of the partner countries have become an essential element of the discussions and have been presented as issues to be resolved.

The review was not designed to explore the causal relationship between specific poverty reduction results and the PRS process. Rather, it focused on how the PRS approach impacted on policy decisions and the policy implementation process, and what role it was fulfilling in strengthening institutions and systems for the purpose of improving the recipient government's policy measures, intervention, and assistance, and achieving better results.

Five themes were identified and verified as representing the effectiveness of PRS approach in the review.

²⁶ World Bank/IMF (2005c)

²⁷ Called BWI for short. This is a generic name for the World Bank Group and the IMF.

²⁸ Changed from "Joint Staff Assessment." This is designed to give a simpler but more detailed evaluation of the PRSP and the Annual Progress Report.

i) Strengthening of the medium-term PRS direction

Evidence-based policy decisions using accurate and transparent data are important. For this, setting clear goals and targets, preparing alternative scenarios that take bottlenecks in the absorptive capacity for aid into consideration, and effective monitoring systems are inevitable in the PRS process.

ii) PRS utilization as a framework for mutual accountability between the partner countries and the donors

In order to be mutually accountable, the prioritization and specification of public action in the PRS on the side of the partner is inevitable. It is important for donors to carry out policy measures specified by the partner country based on the priorities indicated by the partner country. Furthermore, donors are required to provide aid in a way that eventually strengthens the partner country's capacity using their institutions and systems whenever possible.

iii) Strengthening of the relationship between the PRS, the Medium-Term Expenditure Framework (MTEF), and the budget making process

Strengthening the relationship between the PRS, the Medium-Term Expenditure Framework (MTEF), and the budget making process is the key to establishing and institutionalizing the PRS approach. In the past, more attention was given to the budget formulation phase in exploring the relationship between the PRS and the budget making process. Currently, it is considered that the budget implementation phase and budget reporting should be reinforced.

iv) Sustainable and substantial participation in the PRS process

The participation of a wide range of stakeholders is essential for the strengthening of accountability mechanisms. Although it is almost impossible to make a policy decision this is fully open to the public and this is not necessary, the donors' side should encourage the partner government to provide opportunities for a wider range of stakeholders to participate in discussions on policy issues. Participatory monitoring is an effective means by which citizens can give feedback in the PRSP evaluation that is regularly conducted.

v) Application of the PRS approach to countries influenced by disputes and vulnerable countries

The principles of the PRS approach can be applied to countries influenced by disputes and vulnerable countries. In such countries, special attention should be given in order that the various expectations included in the PRS will be realized considering the local conditions.

In countries influenced by disputes and in vulnerable countries, donors should carefully assess the details of the local situation before providing aid. Dependence on unsustainable duplicate systems over the long term should be avoided.

The review concluded that the principles of the PRS should continue to be maintained in the future, and the PRS should form the foundation of development results to be achieved at the partner country level. Although PRS implementation status varies according to the country, the common point is the necessity to consider the issues of vulnerable system and capacity as well as development challenges.

2-5-4 Conclusion

Lessons learnt from the evaluation process Five years have past since PRS implementation started and the PRS is no longer a strategy formulated by external necessity as a requirement for receiving loans. Developing countries are required to specify their own development challenges and to clarify priorities and timeframes using the PRS process in order to fulfill the governments' accountability requirements in the recipient countries. Donors are required to carry out effective and efficient aid according to the development plan in order to fulfill the requirement of the accountability of the donor governments to their publics.

By utilizing the PRS process, individual countries have developed their own elaborations and improvements, although each country has different conditions, systems, and environments. As a result, the importance of the PRS approach has increased further. It is high time that these good practices were carried out routinely.

In order to link the PRS to concrete, practical, and effective policy decisions and implementation, a monitoring system in which a wide range of stakeholders participate is essential. Among such stakeholders are the private sector that plays an important role in the implementation stage, the national assembly, which is the national decision-making machinery and the poor who are the beneficiaries. It is important that donors should actively participate in the monitoring as an opportunity to receive feedback in order to align and harmonize their own aid with the development plans from the perspective of mutual accountability.



Chapter 3

Mechanisms of PRS implementation and monitoring reviews

Chapter 3 Mechanisms of PRS implementation and monitoring reviews

Points of this chapter:

- In order to implement PRS and to achieve its goal, the following are required: to establish an implementation framework; to formulate an implementation plan based on the framework; and to check when needed if the strategy is being carried out as planned, if goals are being achieved, and if revision of the plan is required.
- Mechanisms for checking the above points should be arranged mainly from the following three aspects in terms of: i) finance; ii) policy implementation; iii) multi-sectoral impact measurement. According to these aspects, the tools are grouped into PER/MTEF, sector monitoring, and poverty monitoring for convenience, although there are actually various ways of categorizing the tools.
- PER/MTEF: These tools are introduced under the influence of the concept of New Public Management. PER refers to a public expenditure review that deals mainly with affairs from budgeting to payments. For more appropriate public spending, the link between PER and MTER tends to be strengthened. The development of a PER into a PEFA is being actively discussed.
- Sector monitoring: In many cases, sector programs (SP) are introduced in priority sectors in the PRS. In SPs, implementing ministries manage monitoring by setting various indicators. However, these indicators do not always correspond to those set in the Policy Matrices adopted by the PRS. Sector monitoring targets the levels of input, output, and outcome.
- Poverty monitoring: Poverty monitoring checks if PRS implementation is progressing toward its comprehensive goal of poverty reduction from a cross-sectoral viewpoint. It focuses on the measurement of PRS impacts. The kind of monitoring survey to be carried out is decided in each fiscal year (e.g. household budget surveys, labor force surveys, agricultural surveys, population/health surveys, etc.). According to the philosophy of the PRS, the purpose of this monitoring is to contribute not only to policy making, but also to information provision towards the citizens. Theoretically, it includes indicators that can be monitored annually. However, such indicators depend on data obtained by administrative affairs, and the quality of the data is not adequate. Poverty monitoring is able to indicate an uneven distribution of poverty and the local characteristics of poverty. Based on such indications, it can contribute to efficient budget allocation.
- Performance Assessment Framework (PAF): This is shared by general budget support donors and the partner government, and is a base for the monitoring review by the donors as well as for decisions on the disbursement of aid fund. Accordingly, the PAF tends to balloon and may possibly reduce the predictability of aid funding. By streamlining the PAF through coordination among the donors, it is necessary to make efforts to strengthen the partner countries' ownership.
- General budget support: The PRSP regime is a monumental change in that it enables intervention by the donors in financial operations while respecting the partner country's ownership. Budget support can be the means to enhance engagement by the donors in the public expenditure process. The results of a budget support evaluation have recently been published. There are possibilities for the process of such an evaluation to introduce new evaluation methods to the short-term PRS monitoring process in addition to giving feedback regarding how the donors should offer aid.

As the review in Chapter 1 and 2 has shown, the idea of the PRS initiative has been established following the changing aid trends. Some countries have already formulated a second-generation or third-generation PRSP. They have come to the stage in which they should discuss how to produce results and how to work towards appropriate ways of providing aid in the future by reviewing their implementation process based on this strategy.

This chapter explains what kinds of methods are used in PRS progress monitoring. Although policy implementation monitoring had been carried out even before the introduction of the PRSP, the significance of the monitoring has come to be recognized more widely and deeply by the introduction of the PRS. It should be noted that the history of the introduction and the methods of the PRS vary from country to country although the strategy is referred to as a PRS in the same terms. As the mechanisms and tools that are adopted and used are different, the PRS roles played in each country should also vary. This chapter will discuss this issue mainly according to Tanzania's case and the case of other countries as required.

3-1 PRS implementation and budget support, and Performance Assessment Framework (PAF)

3-1-1 Effectiveness of budget support as a modality

Budget support is referred to as an aid modality in which development aid funds are directly supplied to the recipient country's budget account, without taking the form of In-kind type payments, or advance payment for goods. More accurately, it is called Direct Budget Support (DBS). There are two types of DBS: Sector Budget Support (SBS) which is earmarked for funding certain sectors; and GBS without earmarking²⁹.

Budget support is not a totally new modality. As an aid modality, Structural Adjustment Loans (SAL) in the 1980s had entirely the same characteristics as budget support. However, other modalities, especially bilateral aid, had been of the in-kind type until the mid-1990s. Needless to say, the sense of vigilance against various forms of unauthorized use of aid funds operated in the background. In order to prevent unauthorized use, it is inevitable that donors intervene in development policy. SAL secured the possibility for donors to intervene with policies based on the imposed conditionalities. On the other hand, there was not such a possibility with ordinary bilateral aid, and the mainstream idea was that the adoption of in-kind aid would prevent unauthorized use.

However, the fact that this idea did not work well in practice has gradually become recognized. This is mainly because there has been a greater focus on the concept of fungibility. It was the World Bank (1998) that directly took up the issue of fungibility from the perspective of aid effectiveness. In Japan, the word fungibility was translated as the possibility for the diversion of aid funds³⁰, which is misleading. If diversion is a problem, in-kind aid, earmarked fund aid, and expenditure voucher inspections can take care of the problem. However, fungibility and diversion have totally different concepts. Diversion means that the fund is not used for the original purpose and is used for a different purpose, while fungibility means that the aid funds are used for the original purpose, and the country's own financial resources that are budgeted for, but not paid out, are then used for purposes other than development. Accordingly, in-kind aid, earmarked fund aid, and expenditure voucher inspections cannot solve the fungibility problem³¹. Taken in its broadest sense,

²⁹ According to the definition indicated in the Inception Report June 2005, Joint Evaluation of General Budget Support 1994-2004.

³⁰ For example, Lexicon of International Cooperation 3rd ed. (International Development Journal) (2004) p. 181.

³¹ In other words, the translation, "the possibility of diversion" is not appropriate in that it may give the false impression that it can be prevented by adopting in-kind type aid, earmarked funds, expenditure voucher inspections, etc.

fungibility is referred to as an increase in public expenditures for purposes other than the original intent through a change in the original budget restrictions made possible by aid fund flows. Basically, this is due the fact that it is practically impossible for donors to see the overall picture of the multi-dimensional budget restrictions of the partner country in advance³². If donors delved too deeply into budget operations, which is an issue of national autonomy, this would go against the respect for ownership.

One of the innovative points of the PRSP regime is that it allowed both intervention in budget operations by the donors and respect for ownership at the same time. Participation of the donors in the PRSP formulation process enables them to figure out the full picture of the public expenditure plans required by development, so that the possibility of an increase in public expenditures for purposes other than development becomes limited. Accordingly, development effects automatically improve for the same amount of aid funds³³. Under these circumstances, providing budget support funds in the amount only required for development will theoretically lower the possibility of unauthorized use rather more effectively than in-kind aid. Furthermore, it is possible to improve the efficiency of the use of funds by bringing the priority items for the use of the funds in line with those of the national development targets and thereby enabling diversion among development budget items according to changes in the conditions after budget formulation³⁴. Accordingly, the budget support modality is theoretically effective on the assumption that a PRSP exists³⁵.

Furthermore, the effectiveness of the budget support modality can be proven from the perspectives of the donor's capacity for development policy intervention and the strengthening of incentives. The significance of the public expenditure process in development policies is clear, but this generally belongs to issues of the national autonomy of the partner country, as mentioned above. Participation in the PRSP formulation process is not sufficient for donors to insist on their rights as stakeholders in the public expenditure process. Inputting aid funds into the partner country's budget process will generate rights as a stakeholder and strengthen their capacity to intervene in the public expenditure process. This also ensures that the partner government and implementation agencies keep a close watch on the soundness and transparency of regional finance and expenditure processes. At the same time, it gives donors the incentive to support the construction of a sound and transparent system. Compared with in-kind aid, which regards a lack of trust in the public expenditure process as a given condition, there is greater expectation that budget support will improve the capacity for the overall management of public expenditures and reduce corruption.

3-1-2 Challenge of the budget support modality and trends among donors

The challenges related to the current conditions surrounding the budget support modality are as follows.

- i) Compared with project-type aid, there is a greater likelihood of drastic changes occurring in aid fund flows according changes in the development conditions of the partner country. The tendency for fund

³² Even if the budget for recurring budget and development budget are distinguished, there is no significant difference unless this distinction can be reviewed by donors. This is because it is natural for the expected amount of aid funds to be subtracted from the original development budget in advance and to be transferred to the recurring budget.

³³ According to some trial surveys, the increase in expenditures for purposes other than development amounts to 20-30% of the aid flows. Accordingly, there are grounds for the assumption that aid efficiency will rise if fungibility is controlled.

³⁴ As is often seen in many countries besides developing countries, the expenditure budget that was originally expected needs to be subsequently changed, so it is also necessary to allow for flexible diversion of allocations between development-related budget items to some degree.

³⁵ In contrast, the effectiveness of the budget support type modality is very limited in countries that have not formulated a PRSP.

disbursements to be concentrated towards the end of the fiscal year has been already observed³⁶.

- ii) Unified views or tools of performance evaluation are not shared³⁷ although the performance evaluation of the development process is a basis for donor commitments and disbursements. The reinforcement of intervention in development policies and the public expenditure process is a prerequisite for budget support.
- iii) The most desirable mix of modalities has yet to be discussed. The role of budget support naturally differs depending on the stage of development and conditions in the partner country. For some development challenges, such as a large-scale infrastructure improvements, project-type aid is appropriate.
- iv) In conclusion, methods for the ex-post evaluation of budget support have not been established yet. The goal of budget support is the economic development of the partner country. Accordingly, it is necessary to evaluate the country's development from various perspectives.

i) is an issue of predictability and has been a central theme of discussions among donors in recent years. ii) is also a challenge similar to i). If the standards for performance evaluation are established, major differences in disbursements among the donors and their opportunistic attitude will be avoided. In this case, however, there is a risk that all aid fund flows will stop when some political or external economic shock (a sharp fall in the market conditions for primary products, etc.) has a significant negative impact on development conditions in the partner country. This risk is even more likely to arise when these evaluation standards becomes clearer and are more widely shared among the donors.

In order to respond to this risk, the EC has adopted a method called a Graduated Approach. In this approach, aid funds are divided into two, Fixed Tranche and Variable Tranche funds. Fixed Tranche funds are disbursed regardless of the development performance, minimizing the conditionality. Variable Tranche funds are disbursed according to the development performance, by imposing conditionalities in the normal way. In other words, this approach is an attempt to strike a balance between the predictability of aid funds and incentives to achieve development results³⁸.

From a more fundamental perspective, the current international stance regards development aid as a form of intervention by the donors in policy measures. According to this stance, it is undeniable that improving predictability is incompatible with continuity in the leverage of intervention, although maintaining the leverage of intervention (opinions and influence) is important until the development effect is seen. Accordingly, the graded approach of the EC is an extremely practical compromise, but its effects will be limited. In this case, the introduction of the ex-post concept following conditionality reforms will work. In other words, the issue of predictability improvement as seen above is an ex-ante issue, but making the relationship between the APR and disbursements clearer (integration of the APR and the PAF, simplification of the triggers, a quantitative approach) will definitely improve ex-post predictability. When this process settles, this will lead to improvements in ex-ante predictability.

The issue of iii) can possibly provide a certain level of solution to the above problem. The original definition of project-type aid is to implement specific development activities according to a fixed schedule through the arrangement of an environment that is isolated from the external environment and institutional

³⁶ Needless to say, this resulted from the opportunistic attitude of the donors.

³⁷ Under current conditions, it is similar to the concept of conventional conditionality.

³⁸ Of course, this does not completely solve the problem. Some partner countries may feel satisfied if they are at least able to get funds from the Fixed Tranche without making any effort. In order to respond to this risk, the EC raises the rate of the Variable Tranche for countries that have weak ownership.

frameworks³⁹. Accordingly, if project-type aid is included in the budget (On-Budget)⁴⁰, it will have a higher degree of predictability than budget support. In the case of a large-scale infrastructure development, the transaction costs from the perspectives of both time and labor will drastically increase. This is because, in most budget support cases, line-ministries have no experience in dealing with such forms of infrastructure development and they have to start with the transfer of technology. In this way, it is theoretically possible to indicate the *raison d'être* for a certain rate of project-type aid. Such a view of a modality mix⁴¹, which takes predictability and transaction costs into consideration, is common, although the proportion varies from country to country.

Regarding budget support evaluation, a joint evaluation survey was established by 22 donors⁴² at the insistence of the OECD/DAC. The survey is being conducted by a consortium led by the University of Birmingham. A draft of the Synthesis Report⁴³ was completed in January 2006, and the final report is planned to be completed by March 2006. This survey is attempting an empirical evaluation of budget support for the ten years from 1994 to 2004, targeting seven countries: Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, and Uganda, and Viet Nam, according to the methodology of a survey⁴⁴ conducted by DFID-ODI in 2003. The Logical Framework and Causality Map is presented in Annex 4 as a summarization of the method.

The logical framework assumes six levels: two levels (the level of Entry Conditions as conditions for the beginning of development and the level of Immediate Effects after the Inputs level) were added to the four levels of the evaluation process (Inputs, Outputs, Outcomes, and Impacts). In short, it evaluates the influence of mainly three factors, the Flow of Funds, Institutional Effects, and Policy Effects, in the process from Level 2 (Immediate Effects) to Level 4 (Outcomes). The Causality Map structures the causal relationship between individual aid results. It indicates how an aid result that is recognized individually at a certain level is connected to aid results at the next level.

Considering the above, general budget support evaluation in the target countries was conducted according to the following nine Key Evaluation Questions.

- i) How were the initial conditions and the order of development priorities by the government and donors in development in the target country responded to?
- ii) How did it contribute to harmonization and alignment?
- iii) How did it contribute to the achievement of efficiency in public expenditure management?
- iv) How did it contribute to the improvement in the budget formulation process?
- v) How did it contribute to the improvement in development policies?

³⁹ Although this definition is not necessarily shared among aid-related persons in Japan, it is without doubt a common recognition in the international community. Accordingly, unless donors in European countries and the US establish a Project Implementation Unit (PIU), they do not carry out project-type aid. Establishing a PIU is not just a matter of convenience.

⁴⁰ Keeping project-type aid "on-budget" is significant from the perspective of fungibility, and is one of the targets of the Paris Declaration on Aid Effectiveness. Accordingly, if the donors are to insist on the effectiveness of project-type aid, reluctance towards making aid funds "on-budget" is not to be tolerated.

⁴¹ Japan once insisted on the best mix theory. At that time, only the image was emphasized, but efforts towards a comprehensive explanation and formulation of the theory were not made. It is regrettable that the theory was thus not persuasive, as it was regarded as simply an assertion of the status quo.

⁴² Australia, Belgium, Canada, Denmark, France, Germany, Ireland, Japan, Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, UK, US, and EU

⁴³ See <http://www.idd.bham.ac.uk/budget-support/>

⁴⁴ See DFID (2003)

- vi) How did it contribute to the improvement in macroeconomic performance?
- vii) How did it contribute to the improvement of public service provision?
- viii) How did it contribute to poverty reduction results?
- ix) What kind of sustainability did these processes have?

The main inductive conclusions in 6 levels from 0 to 5 are as follows.

Level 0 – Entry Conditions

There is nothing that should be normally used as a precondition. However, making staying on track with its IMF-supported program a condition and conducting a political analysis are often seen as conditions. Sometimes, general budget support is provided as an extension of SWAPs.

Level 1 – Inputs:

Depending on the individual conditions, the input is designed flexibly. A major difference with sector budget support is that this is not seen in the means of input. The greatest delay in harmonization is in technical cooperation for capacity building.

Level 2 – Immediate Effects:

The budgeting of aid funds has advanced and medium-term predictability has improved. While harmonization and alignment have improved, political dialogue and sharing of conditionalities are future challenges. Transaction costs as a whole are rising.

Level 3 – Outputs:

Expenditures related to poverty have increased comparatively. Resources for service delivery have been increased. Public finance management systems have improved. However, there has been no improvement in poverty reduction policies, corruption/bribery, and democratic political accountability. Income inequality has also not changed.

Level 4 – Outcomes:

Service delivery has improved. Improvement has not been seen in the economic growth environment, such as the quality of public services, the rule of law, and trust in the government.

Level 5 – Impacts:

A clear argument has not been made as to how general budget support has contributed to poverty reduction and the improvement of empowerment.

From the above analysis and discussion, the draft of the Synthesis Report concluded that it is cautiously optimistic about general budget support. It presented the donors with the following three recommendations: practical analysis of the political process, coordination of technical cooperation, and reconsideration of a desirable policy dialogue that is based on conditionality.

This conclusion is extremely reasonable, considering the stance⁴⁵ of this joint evaluation survey initiative. In particular, considering the fact that general budget support was not always a mainstream aid

⁴⁵ This evaluation was a pilot project aimed at structuring and clarifying the methods of budget support evaluation, which was an unexplored field, rather than drawing a concrete conclusion.

modality during the whole target period of the evaluation (1994-2004), and the fact that it is methodologically difficult to evaluate only on the basis of the contribution of the budget aid modality among several aid modalities that were adopted collaterally, this reserved conclusion at the moment rather indicates the credibility of this evaluation.

Considering that the PRS process is an uncompleted process with a feedback function based on regularly issued reviews, the evaluation process of budget support should be regarded, in the same way, as giving feedback on the desirable forms of aid of by donors. The issues pointed out by this evaluation should be dealt with in this process.

The PRS monitoring taken up in this paper is a short-term evaluation process with the APR as its axis, and is on a different level from the above evaluation process that took such a long time. However, there can be a considerable degree of similarity between the two. This is because a long-term evaluation process should be supported by an accumulation of short-term evaluation processes. There should also be substantial room for applying the methodology developed here to any short-term evaluation process. Such an interactive form of integration will increase objectivity in the method of evaluating general budget support.

3-1-3 Performance Assessment Framework (PAF)

(1) Changes brought about by the introduction of PRS

The introduction of PRS in 1999 has brought about a wide range of changes to the world of international development aid. This section summarizes the impact of PRS from the perspective of monitoring. As described in Chapter 2, as a result of reviewing the collapse of the structural adjustment approaches in the 1980s, the PRSP regime focuses on the strengthening of ownership as its proposition. On the other hand, from the perspective of promoting efficient and results-oriented development, productive engagement by the donors and reinforcement of their intervention are required⁴⁶. This is clearly paradoxical. The true worth of the PRS is that it solved this paradox. If the partner government formulates a PRS through participatory processes with ownership, this does not necessarily mean that there is a violation of ownership if the donors strengthen their intervention in development policies based on PRS⁴⁷.

As seen in the above sections, monitoring mechanisms, such as MTEF and PER, had already been adopted in developing countries from before the introduction of PRS. As these mechanisms seek a more dependable direction for development policies that are able to serve as a background to budget formulation, the necessity of the PRS came to be more clearly recognized. What kinds of changes did the introduction of the PRS impose on such monitoring mechanisms?

A requirement is that the recipient government should ensure accountability by both the domestic stakeholders and foreign stakeholders, as already pointed out. As the expectations for the desired contents of PRS differ in many cases depending on each actor, its coordination has become an important challenge. While the first generation PRSPs in many countries only listed an exhaustive development menu that tended to make everyone happy since this was their first try, donors attempted to strengthen their policy interventions in a search for more efficient development results under the PRSP regime. As a result, the gap between them became deeper.

⁴⁶ The proposition that development aid is essentially policy intervention is widely shared as to its meaning, although it is not familiar to development-aid related persons in Japan. The objective of development aid is "poverty reduction," which should be the exit point shared both by the partner country and the donors. In this sense, criticisms that the strengthening of development policy intervention is a manifestation of neo-colonialism are beside the point.

⁴⁷ For both sides, a moral discomfort with regard to the strengthening of intervention can rather be an incentive to the exit of poverty reduction.

In this way, the PRS monitoring process in many countries was divided between the PAF, which is led by the donors, and the APR, which is based on a PRS.

(2) Outline and problems of PAF

The PAF was an aggregation of monitoring indicators that were formed spontaneously and was shared among donors in the first generation PRSP⁴⁸. In its early stages, the PAF was based on the policy matrix attached to the World Bank's PRSCs. Why is the PAF based on a PRSC, and not on a PRSP? According to the SPA survey, many respondents pointed out that this was because a monitoring review based on the PRSP was not practical under the conditions at the time. The significance can be divided into the following three components.

- i) The first generation PRSP was immature.
- ii) Progress in sectors at the macro level and cross-sector challenges such as governance, administrative and financial management, macroeconomics, and the private sector, which guarantee the PRSP implementation system, are significant factors in the implementation and progress of the PRS itself. Accordingly, progress in the institutional reform process in relation to these factors is required, and many indicators of this progress are included in the PAF.
- iii) As the PAF is independent of the domestic stakeholders of the partner countries, the donors felt that it is easy to include intervention challenges in the PAF.

Actually any of these points could be true. It can be expected that i) will be solved as the PRSP improves and matures. However, ii) and iii) are problematic. With regard to these aspects, the PAF essentially has the momentum to balloon. Problems that will arise from the ballooning of the PAF are not only the increases in transaction costs. If the PAF is established as the base for monitoring review by the donors, the disbursement of aid funds is also determined according to the PAF. The ballooning of the PAF will automatically reduce the predictability of funds. If the predictability of the disbursements is determined by the PAF, ownership that is respected by the PRSP will inevitably lose its substance. In addition, the issues of so-called political conditionality are not as negligible as the issues related to predictability⁴⁹. There are some reasons for the donors to propose these conditionalities. However, the problem is, many of such conditionalities are abstract, and are not suited to regular monitoring⁵⁰.

⁴⁸ The generation of the PAF is rather related to the initiative of the HIPC than the PRSP process itself. Countries that have reached the completion point could receive a PRGF from the IMF as well as the other kinds of funds, which are provided to the government in a similar way as general budget support. These funds are a surplus according to some donors (Sweden, etc.) that was originally intended to compensate for debt repayments. The surplus was not taken back and continued to be supplied to them. At that time, the PAF was formulated as a framework for the use of these funds. As general budget support gradually expanded, the PAF also continued to be taken over. Compared with the PRGF, the introduction of the PRSC happened later. This is why, in many cases, the World Bank formulated its PRSC matrix based on the PAF, which had been adopted earlier, or it integrated the PRSC matrix into the PAF. The current PAFs in Mozambique and Ethiopia were regarded as PRS policy matrices. In Uganda, as the PRSC evolved at a fast pace, a PAF such as that adopted in Tanzania was not formulated. In this respect, it should be noted that the PAF is positioned differently from country to country.

⁴⁹ Here, political conditionality is referred to as the protection of fundamental human rights, ensuring fair elections and democracy, and the protection of freedom of speech and other rights.

⁵⁰ For example, even if it is important for donors to insist on the significance of basic human rights and democracy, it is difficult and not practical to monitor their progress quantitatively at the same time as the PAF every year. The donors should recognize they can raise these issues at different opportunities for policy dialogue, such as the CG meetings, in order to demand that the partner country improve the situation. When indicators for these issues are included in the PAF, it would be advisable for the donors to avoid being caught in their own trap by setting conditions that they could easily deal with through administrative officials, and that are easy to monitor and are concrete (for example, the establishment and enforcement of gender-equality related laws).

The positioning of the PAF varies depending on the donor. The view the PAF should be based on is predominant. On the other hand, there are cases in which the partner government is strengthening its cooperative relationship with the donors, thus preventing the PAF from ballooning, as seen in Mozambique. Essentially, in the background to the generation of a PAF, there is a double accountability required of the partner government. In this sense, deliberation is required to establish a monitoring process based on the PAF. Each donor should cooperate with the other donors as much as possible, prevent the ballooning of the PAF by streamlining the indicators described in ii), and making efforts to strengthen ownership on the part of the partner government.

Table 3-1 Outline of Tanzania's PAF

Sector	Items to check	Process (mechanisms)
Macroeconomy	Existence/nonexistence of a macroeconomy suitable for budget support	PRGF by the IMF
PRS implementation progress	Progress in each of three clusters (economic growth and poverty reduction; quality of life and welfare; and governance /accountability)	PRS (NSGRP) review (APR)
Resource distribution and budget	Does the budget reflect the national policies?	PER (macro group)
Public finance management	Are efficiency and transparency assured in government expenditures and procurement? Are regulations appropriately executed?	PFM review process (PEFAR)
Poverty monitoring	Is administrative data efficiently collected and disclosed?	Poverty monitoring system
Priority sector	Has service provision improved? (education, healthcare)	Sector review

Source: Prepared by the author based on United Republic of Tanzania (2005).

(3) The case of Tanzania

In Tanzania, there is a national poverty monitoring system that monitors progress in the PRS, as described in the previous section. Based on this poverty monitoring system, an APR and PER are formulated, so that the citizens can be widely informed through this monitoring system. Accordingly, the APR is responsible for the monitoring of and detailed discussions on the progress of the PRS. The PAF mostly deals with the other indicators, in other words, those in the sectors that ensure the PRS implementation regime. In other words, while the PAF includes the contents of the APR, it is also designed to strengthen the implementation system itself, so that it tends to cover a wider range of more detailed indicators. As this makes the PAF itself more detailed and diminishes the PAF's strategic quality, it has stimulated moves towards modifying the PAF into a more strategic and simpler PAF that contributes to a policy dialogue between the government and the donors, which reflects the original intention.

As the state of PRS formulation and implementation, macroeconomics, and governance is different in every country, Tanzania's case cannot be applied to all countries. However, the experience of Tanzania, where aid coordination and budget support efforts are more advanced than in the other countries, represents the common conditions or future challenges that developing countries will need to face, such as the hollowing out of ownership, the ballooning of the PAF, and the strengthening of conditionalities. In the case of Tanzania, ten Technical Working Groups (the membership includes government officials and the donors) give detailed reports and evaluations of around 70 indicators (PAF Action) as to aspects of the country's progress, future challenges and solutions in two reviews every year. Table 3-1 gives an outline of Tanzania's PAF as of April 2005. The movement towards the formulation of a simpler and more strategic PAF resulted in the restructuring of the PAF into one with 20 indicators in the annual meeting on general budget support

held in October 2005. Although this new PAF covers the items shown in the Table below, it is designed to depend on the existing monitoring mechanisms for the details. However, some monitoring mechanisms have insufficient functions. It is anticipated that reinforcement of the existing mechanisms and overall adjustments are required.

3-2 PER and MTEF

3-2-1 Background to the spotlighting of public expenditures

It goes without saying that financial monitoring and review are important not only in the field of development aid but also in public policy management. This has two aspects; tax revenues and public expenditures. Of these, public expenditures have recently drawn attention in the field of international development aid. In order to discuss the reasons, it is important to review the challenges that have been faced in the arena of international development aid since the 1990s.

Chapter 2 has seen the changes in the international development aid environment brought about by “aid fatigue” and the end of the Cold War. These have reduced development aid fund flows into LDCs, which resulted in aggravation of the economic environment and an increase in the proportion of the poor in LDCs, mainly in Sub-Saharan Africa. In order to respond to this situation, international efforts are being taken to improve aid efficiency since there is a limitation on increases in aid fund flows. In this context, it is practical to give priority to expenditures when focusing on the public finances of a developing country. The reasons for this are:

- It is difficult to make efforts to increase the tax revenues of LDCs in which the number of people in absolute poverty is increasing as a result of the deterioration of the economy.
- In light of the objective of yielding development results, the streamlining of public expenditures has a more direct causal effect. Increasing tax revenues without streamlining public expenditures may inhibit the incentive to promote expenditure cuts.
- The significance of preventing waste in public expenditures due to bribery and corruption has been recognized since a substantial proportion of public expenditures were wasted through bribery and corruption in the 1980s.

Without doubt this trend was also influenced considerably by the public sector reform called New Public Management (NPM), which was introduced by the Thatcher administration of the UK in the 1980s and was also developed in New Zealand and Australia⁵¹.

3-2-2 Viewpoints required for the monitoring and review of public expenditures in development assistance

In consideration of the monitoring and review of public expenditures in the context of development aid since the end of the 1990s, it is natural that the points to note greatly differ from those in the developed countries. The main points are as follows:

- Ensuring accountability on the part of the recipient government is demanded by both domestic stakeholders and foreign donors. In addition, as the content of accountability differs in many cases, its

⁵¹ Evaluating NPM itself is not an objective of this paper. However, it is a common view that NPM was an effective policy in responding systematically to structural financial deficits that prevailed in all developed countries in the 1980s, but now the UK, New Zealand, and Australia are experiencing better conditions in their economic fundamentals.

adjustment is an important challenge.

- As the goal of development policy is to yield development effects, the content of accountability naturally focuses on the results of development.
- Accordingly, auditing that focuses on a results-oriented “value for money” concept⁵² has a stronger power of persuasion than that focusing on traceability⁵³ aiming at compensating for traditional fiduciary risks⁵⁴.
- At the same time, priority is given to the prevention of bribery and corruption.
- From the perspective of the effective utilization of the limited funds, the prevention of fungibility⁵⁵ is a significant factor.
- In efforts for the efficient operation of development investment, the improvement of aid funding predictability plays an important role.

There has been discussion on how the current situation is able to respond to the above requirements, or how the current mechanisms should otherwise be changed. Through such discussion, trends in modality reform and aid coordination concerning international development aid have formed since the beginning of this century. The establishment of the PRSP regime in 1999 was regarded as a milestone in the process of trend formation. Before starting a discussion of this trend, public expenditure monitoring that was carried out in the pre-PRSP period will be outlined.

3-2-3 Budget making process and the tools of monitoring and review

Let us look at the relationship between the actual budgeting process and monitoring. The budgeting process consists of six stages as listed below.

- i) Planning and budgeting
- ii) Parliament discussions
- iii) Payments
- iv) Accounting and booking
- v) Expenditure review and feedback
- vi) Auditing and reporting

The MTEF and PER were institutionalized as monitoring-related tools in the pre-PRSP period in the 1990s. It is possible to see that i) corresponds to the MTEF and v) to the PER. The MTEF and PER will each be discussed below.

⁵² Fiduciary risk is referred to as the possibility of a breach of trust based on the concept that the government is entrusted with the administrative operations by both the domestic tax payers and foreign donors.

⁵³ Traceability is referred to as the degree of verifiability of the contents of public expenditures by various expenditure vouchers.

⁵⁴ This is referred to as auditing that focuses on verifying how much the policy targets concerning public expenditures are achieved rather than verifying public expenditure vouchers.

⁵⁵ This is referred to as the phenomenon of an increase in public expenditures that were spent for purposes other than development since the government’s own budget funds were added to by the inflow of aid funds. As the public spending originally planned is to eventually be executed, it is clear that the phenomenon cannot be prevented by traceability confirmation.

(1) MTEF

The Medium Term Expenditure Framework (MTEF) is referred to in brief as a process in which an annual budget is prepared considering the constraints on multi-year development funding⁵⁶. In concrete terms, it is a medium-term (3-5 year) rolling plan, in which the cabinet, central ministries and regional governments allocate resources maintaining fiscal discipline based on strategic priorities. It is designed to amalgamate top-down resource distribution and bottom-up policy cost calculation. In other words, the purpose of the MTEF is to maintain the order of strategic priorities in public expenditures within the budget constraints.

The MTEF is not a substitute for annual budget making. Even if an MTEF is formulated, an annual budget is still prepared according to the MTEF. However, in a country that adopts an MTEF with the inclusion of expenditure details, there is a requirement for the direction of budgeting to shift towards clarification of the main public expenditure programs and the grounds for policy decisions.

The MTEF started during the trend towards public sector reform in the developed countries, as mentioned above. It originated in Australia in the 1980s, and the introduction of the MTEF to developing countries has been promoted since the 1990s. At the moment, making a clear evaluation of the effect of the MTEF is still premature. However, there has been a rough consensus that such a policy reform is rational to a substantial degree in the developing countries, where there are strict budget limitations to development tasks and poverty reduction measures.

(2) PER

The Public Expenditure Review (PER) is one of the public financial management evaluation tools adopted by the World Bank. The PER has its origin in the Public Investment Review in the 1970s, when the World Bank was providing only investment loans. The World Bank started using this as a PER in the beginning of the 1980s. Since the middle of the 1980s, when the World Bank started providing program loans, the number of PER implementation cases has risen steeply. This is because the World Bank came to feel the need to evaluate the overall budget system of the recipient country for providing program loans, which are actually financial aid targeting the government of the developing country. The PER in those days was mainly carried out through a quantitative analysis of public expenditures, focusing on consideration of the desirable budget allocation to certain sectors or priority expenditure items and then checking how the budget was actually allocated.

In the 1990s, the PER has come to place greater importance on the efficiency of public expenditures and the qualitative aspects of budget/financial management as the World Bank focused more on governance and the prevention of corrupt practices. In other words, it has come to stress the upstream process of expenditure management operations, that is, the process of the formulation of mid-term expenditure plans and annual budgets as well as their endorsement by the parliament. The World Bank carries out the formulation and revision of a Country Assistance Strategy (CAS) once every four years. Before the CAS formulation and revision, various types of country assessments are carried out in order to clarify the current state. Among these assessments, the PER is regarded as part of the core diagnostic work.

There are two objectives of the PER:

- strengthening of the process of budget analysis and formulation in the developing country in order to promote efforts related to economic growth and poverty reduction; and
- evaluation of the developing country's public expenditure policies and programs in order to fulfill the

⁵⁶ For more details, see JICA (2003) pp.38-43

fiduciary duty required by the World Bank and other donors as well as to provide the recipient government with opportunities to receive an external evaluation of its public expenditure policy.

Within the World Bank, directors in charge of each country in the regional bureaus and the manager of the Poverty Reduction and Economic Management (PREM) Sector Unit are responsible for the quality of the PER of each country. Regarding the actual PER planning and implementation, the task manager, who is selected and appointed mainly from among staff in the PREM Sector Unit, is responsible for ensuring the required quality in PER implementation. Accordingly, the target range of the PER is mostly stipulated by a concept note formulated before PER implementation by the task manager.

Table 3-2 summarized a comparison of the items mentioned and those with little or no description in the PER regarding each stage of the overall policy framework, budgeting, payments, accounting and bookkeeping, and auditing. The table shows that the PER does not deal with much evaluation of the practical aspects, at the payments level and the later levels. In addition, among those aspects adopted through the selection in the PER of certain items may depend on the task manager's decision. It depends on what the task manager would like to do with the PER results.

The World Bank's guidelines concerning PER implementation were indicated in a World Bank (2001) document. In this, the World Bank categorizes PER implementation methods into three types⁵⁷.

i) In-house type PER

The PER is prepared wholly from data collection through an analysis by the staff of the World Bank and consultants employed by the World Bank. There is little interaction between the World Bank and the recipient country until the completion of the PER.

ii) Bank-led PER

Although the overall process management is carried out by the World Bank, a great deal of commitment from the recipient government to data collection and data analysis is expected. The recipient country has ownership concerning the outcomes of the analysis. Participation of not only the recipient countries, but also that of other donors and non-governmental actors is possible.

iii) Joint or recipient government-led PER

The PER is formulated by the World Bank and the recipient government jointly or through the leadership of the recipient government with the support of the World Bank.

The mainstream PERs in the 1980s were the type i) mentioned above. The evaluation activities were carried out based on desk work within the World Bank. Such PERs valued the reporting documents as the results of the evaluation. According to the evaluation results, country assistance plans were formulated and revised. In the 1990s, however, the participation of the recipient government and non-governmental actors in the process came to be respected as the overall operational flow of World Bank's analysis and policy advisory functions increased the tendency to focus on customer orientation and results. Accordingly, the type ii) PER mentioned above joined the mainstream. The PERs of this type placed importance not on the evaluation results, but on the evaluation process itself and the capacity development of actors on the recipient side through their participation in the evaluation process.

The type iii) PER is more advanced and is regarded as an annual evaluation of the recipient country's own budget management process. In this case, a report of the evaluation of the contents of the annual

⁵⁷ World Bank (2001) pp.15-16

Table 3-2 Items included in PER and those rarely included

		Items included in the PER	Items without sufficient description or those not included
Legal/institutional framework	Legal framework for expenditure management	<ul style="list-style-type: none"> - Legal framework for budgetary and financial policy - Roles in the financial management of administrative, legislative, and judicial agencies 	<ul style="list-style-type: none"> - Constitutional requirements
	Financial relationships among the government agencies	<ul style="list-style-type: none"> - Sharing of responsibilities among the ministries or among different levels, such as between central and local agencies - Expenditure transfers to local governments - Local government authority for taxation and borrowing 	
	Relationship between the government and non-governmental bodies	<ul style="list-style-type: none"> - Range of goals of the government's financial administration and its alignment with government finance statistics - Transparency of the distinction between the government and public enterprises - Transparency of the reporting on government-owned shares 	<ul style="list-style-type: none"> - Independence of the central bank - Transparency and openness of the framework for the control of the private sector
	Government structure	<ul style="list-style-type: none"> - Types of government (presidential, parliamentary, etc.) - Structure of ministries that are responsible for financial management - Management system of the public servants - Secondary agencies (bureaus, agencies, autonomous bodies) 	<ul style="list-style-type: none"> - Organization of cabinet ministers (prime minister, finance ministry, and the authority of each ministry)
Payment plan and the preparation of budgeting	Range of budgeting targets	<ul style="list-style-type: none"> - Alignment with budget items and government financial statistics - Extrabudgetary funds and earmarked funds - Activities based on the financial administration - Contingent liabilities - User charges (service fees) - Funding by donors - Fund transfers between public enterprises and the government account 	<ul style="list-style-type: none"> - Tax expenditures
	Expenditure analysis	<ul style="list-style-type: none"> - Financial sustainability - Expenditure structure - Analysis of obligatory expenditures and discretionary expenditures - Evaluation of the public investment program - Cross-sectoral analysis - Sectoral analysis - Effectiveness and efficiency of the expenditure program - Expenditure range and its impacts on poverty - Analysis of the degree of distortion between earmarked expenditures and actual costs - Content evaluation of payment delays 	
	Financial framework and expenditure plan	<ul style="list-style-type: none"> - Macroeconomic framework and outlook by the financial administration - Revenue predictions - Financial scenarios and sensitivity analyses - Financial risks and contingent liabilities - Independent examination concerning macroeconomic models and their premises - Setting goals for total revenues, total expenditures, and deficits 	<ul style="list-style-type: none"> - Funding predictions by the donors
	Budget formulation	<ul style="list-style-type: none"> - Setting priority policy measures and expenditure ceilings at the cabinet minister level - Setting priority tasks and resource distribution among the ministries - Degree of particularity in the budget allocation (flexibility of expenditures for each ministry) - Expenditure category (items, program, etc.) - Cost estimation of cases to be budgeted - Medium-term expenditure estimation - Clarity of program goals - Process of budget draft preparation - Integration of the capital account and budget of continued cases - Feedback from program evaluation - Parliamentary approval of government budget draft 	<ul style="list-style-type: none"> - Expenditures in the succeeding year of the currently implemented program - Participation of the civil society in the budget formulation process

		Items included in the PER	Items without sufficient description or those not included
Payments	Fiscal system, cash management, expenditure monitoring	<ul style="list-style-type: none"> - Legislation concerning treasury and cash management - Organizational structure that takes on treasury functions - Funding plans and predictions - Banking transactions and accounting and bookkeeping - Rules and procedures concerning expenditures and cash distribution - Flexibility given to persons in charge of budget management (rules concerning contribution acceptance, carrying over, etc.) - Commitment management - Monitoring and management of accounts payable and delayed payments - Monitoring and management of salaries - Checking of financial statements and bank statements 	<ul style="list-style-type: none"> - Verification of the receipt of commercial goods and services
	Procurement and fixed asset management		<ul style="list-style-type: none"> - Legislation and regulations concerning procurement - Organizational structure of the government sections in charge of procurement - Disclosure of the procurement process and procedures - Bidding procedures - Formulation and management of the required documents and information system - Reviewing procedures of the inspection and objection raising processes - Management of fixed assets
	Internal controls and internal audits	<ul style="list-style-type: none"> - Rules, organization and procedures concerning internal controls - Rules, organization and procedures concerning internal audits 	
Accounting and bookkeeping, reporting, and external audits	Accounting and bookkeeping, reporting, and ledger management	<ul style="list-style-type: none"> - Government financial management information systems - Internal reporting - Range and targets of external financial reporting - Timing and quality of external financial reporting 	<ul style="list-style-type: none"> - Direction and criteria for accounting and bookkeeping - Process of accounting and bookkeeping and the locus of responsibility - Ledger management system
	Management of debt and aid acceptance		<ul style="list-style-type: none"> - Laws and regulations regarding the management of debt and aid acceptance - Management, control, and reporting regarding government debt - Management, control, and reporting of financial assets - Management, control, and reporting of aid funds
	External audits		<ul style="list-style-type: none"> - Legislative framework for external audits - Independence of the head audit organization - Jurisdiction of the head audit organization - Audit standards - Timing and quality of audit reporting - Sanctions on illegal operations - Parliamentary reviews of accounting reports - Follow-up of the audit findings

Source: Produced by the author based on Allen et al. (2004) pp.115-121

evaluation is sometimes formulated by the World Bank staff. This is very similar to the Joint Staff Assessment (JSA), in which the World Bank/IMF staff make an evaluation of the PRSP, and is regarded as a report document formulated by the World Bank. Its weakness is that the formulation process is inferior to the in-house type PER in quality and it takes longer. However, the World Bank appreciates the significance of the impact brought about by respecting the recipient government's ownership. The existing types of PER indicated in i) and ii) are carried out only once every few years since their links to CAS are stressed. The PER indicated by iii) is carried out every year, since the process in which the annual evaluation outcomes are reflected in the succeeding year's budget is stressed.

The PER today corresponds to either ii) or iii) above. The World Bank (2001) also mentions rough standards for the application of these PER types. The difference between the application of the ii) and iii) PER types is mainly related to the difference in the public expenditures management capacity of the recipient country. The first case of a type iii) PER was that of Tanzania, where the PER was introduced in 1998⁵⁸. A similar approach was introduced or is planned to be introduced in Uganda, Ethiopia, Kenya and other countries.

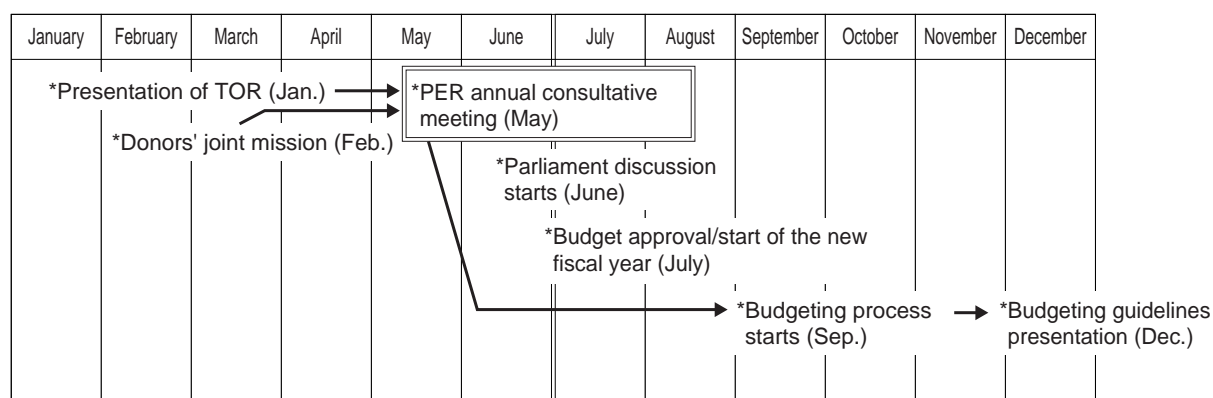
Another issue regarding PERs is related to comprehensiveness of a PER as a public finance management evaluation tool. PERs have been conducted since the 1980s, and they have been targeting all countries that have had transactions with the World Bank. Accordingly, a PER is not an evaluation tool that only targets the LDCs. It cannot continue to be claimed that the current PER has the potential to sufficiently respond to the development challenges of the current LDCs. As Table 3-1 shows, the PER evaluation deals with the phases from budget formulation to payments, so that many items are not included in the evaluation targets of the accounting, bookkeeping and auditing process. Since the PER was introduced, the World Bank has developed and introduced other assessment and evaluation tools such as the Country Procurement Assessment Review (CPAR), which evaluates the process of government procurement of the recipient country, and the Country Financial Accountability Assessment (CFAA), which evaluates the phases mainly from public expenditure execution to accounting and bookkeeping. Accordingly, there was no need for the PER to be adopted as a comprehensive means of evaluation. These assessment and evaluation tools require the participation of actors on the recipient side that respect the process, however, the issue of transaction costs shouldered by the recipient government had risen since there were many tools. As a result, Public Expenditure and Financial Accountability (PEFA) was established in 2001 as a multi-donor initiative to integrate these assessment and evaluation tools (see Box 3-1).

The above public expenditure monitoring and review based on the MTEF and PER started in the beginning of the 1990s by bringing the NPM of the developed countries into the developing countries. These tools were evaluated as being effective in introducing rationality in taking measures responding to public sector problems in developing countries. However, it is true that there is a large gap between developed countries and developing countries, especially LDCs, in the development challenges and the level of poverty. In the case of the latter countries it is difficult to reconcile the fact that only these tools will produce sufficient results. As the link between the PER and MTEF becomes stronger and discussions towards the budgeting process develop to involve domestic and foreign stakeholders, it is becoming clearer that a basic bottom line of country development is even more necessary. It is under these circumstances that the PRS regime started in 1999. In the process of PER evolution according to the PRS regime, the movement towards adopting joint or government-led PERs and PEFA and the integration of assessment and evaluation tools through PEFA have been developed.

⁵⁸ For example, the PER is carried out with the participation of most of the main donors, and is amalgamated with the MTEF in Tanzania. For this, 16 sectional meetings including priority sectors have been established.

In conclusion, efforts to strengthen the liaison between the MTEF and the PER in developing countries after the PRS regime started are summarized by taking up Tanzania's case. In Tanzania, a PER was conducted by the World Bank in the beginning. However, the PER has been adopted as a routine work of the Tanzanian government since 1998. In Tanzania, the PER is referred to as a process of providing information on budgeting for the succeeding fiscal year as a form of feedback, examining plans and the state of the public expenditures of the previous and the current fiscal year as well as the progress of project implementation. The process that starts generally in January continues until the next fiscal year's budget framework called "budgeting guidelines" and is presented by the Ministry of Finance to the other ministries and local governments (see Figure3-1).

Figure 3-1 PER process in Tanzania



Source: Prepared by the author based on Shunichiro Honda and Tamahi Yamauchi, *Report of the seventh public expenditure review and annual consultative meeting* (June 8th, 2005) and JICA (2003)

The PER consists of two phases. The first phase, from July to December, is a preparation period for the formulation of budgeting guidelines. The second phase, from November to May the following year, is for reviewing public expenditures by working groups from each sector and an external evaluation by the World Bank/IMF as the leading figure, with other donors and representatives of the civil society. In the PER Annual Consultative Meeting held in May every year, the review and evaluation are discussed and shared by various stakeholders, so that the process comes to its culmination. The report compiled by the World Bank by summarizing the external evaluation is also called a PER⁵⁹.

In Tanzania, the MTEF is referred to as a medium-term budget formulated by each ministry and local governments based on the budgeting guidelines. As described above, the PER itself makes up the budgeting process in Tanzania, so that it is closely linked to the MTEF, which is a budgeting process based on the medium-term expenditure plan. However, a problem has arisen in that the difference between the PER and the APR is unclear as the PER comes to take on the character of a budgeting process. This issue will be discussed again in Chapter 4 4-1.

⁵⁹ In the PER Annual Consultative Meeting in May 2005, the evaluation targets of the PER external evaluation were expanded and the evaluation came to be called a Public Expenditure and Financial Accountability Review (PEFAR). The PER external evaluation had been carried out focusing on the public expenditure aspect as indicated in this section. Regarding the aspect of accountability, various donors conducted various overlapping investigations, which posed a major operational burden on the Tanzanian government. Responding to the Tanzanian government's request for integration of the investigation work, donors decided to integrate the PER external evaluation and various investigations for financial accountability from the time of the external evaluation of FY2005. (Shunichiro Honda and Tamahi Yamauchi, *Report of the seventh public expenditure review and annual consultative meeting* (June 8th, 2005))

Box 3-1 The current state of Public Expenditures and Financial Accountability (PEFA)

PEFA is a multi-donor initiative that was started in December 2001. The World Bank, IMF, EC, UK, Switzerland, Norway, France and SPA participate in PEFA. The Secretariat of PEFA is located in the headquarters of the World Bank. The objective of PEFA establishment is capacity building of both the recipient countries and the donors concerning: i) evaluation of the state of public expenditures, procurement, and accounting systems of the recipient countries; ii) the ordering of various programs to reform public financial management and activity planning for capacity building; and so on. The background factor is the existence of various assessment and evaluation tools for evaluating public financial management capacity as formulated by aid agencies and international agencies. These evaluation tools are a burden to the recipient government, and they often overlap. Among such tools are: the World Bank's assessment and evaluation tools (PER, CPAR, CFAA, etc.) mentioned above; IMF's Reports on the Observance of Standards and Codes of Fiscal Transparency (ROSC), Public Expenditure Tracking Assessment and Action Plans for Heavily Indebted Poor Countries (HIPC AAP) conducted jointly by the World Bank-IMF; EC Audits; DFID's Fiduciary Risk Assessment; UNDP's Country Assessment of Accountability and Transparency (CONTACT); etc. For activities conducted at the beginning of PEFA, see JICA (2003).

PEFA's main activities during the first period (2001-2005) include: i) development of a Strengthened Approach to support the formulation and implementation of reform strategies that suit each recipient country; ii) development of a performance measurement framework that provides consistent information for assessing and monitoring country public finance management performance. The second (ii) activities, which are carried out as part of the Strengthened Approach mentioned in i), are appreciated as an influential outcome in the first period. PEFA summarized the evaluation results of various assessment and evaluation tools mentioned above in August 2002⁶⁰, based on which PEFA developed a framework for public finance management capacity evaluation that is common to all donors. It had been necessary to make such efforts to develop an evaluation tool that can cover all budgeting processes from the formulation of a policy framework, policy implementation, and reporting, to auditing, and to share it not only within the World Bank, but also among other donors in order to enable multiple organizations to work together. PEFA (2005) is a result of these efforts. In the second period started in 2005, the performance measurement framework was to be introduced experimentally in order to adjust it by checking its versatility and convenience. It is planned to disseminate the completed performance measurement framework among the relevant persons in the developing countries and the donors. For more details of this performance measurement framework, see JICA (2005).

Developing the comprehensiveness and unification of evaluation indicators promoted by PEFA corresponds to the movement to complement and strengthen the second type of the three types of PER mentioned earlier. Some indicators in PEFA (2005) require data from the previous three years. With regard to this point, it is not always appropriate to introduce PEFA to a PER that is carried out annually, such as the third type of collaborative or government-led PER. However, a full-scale adoption of this framework in the future is expected to provide a framework through which multiple donors can evaluate public finance management capacity on the basis of a common platform.

3-3 Monitoring of sectors and projects

There are various relationships between sectors and various projects. In some cases, projects are subordinated to a single sector. In other cases, a project is positioned across sectors. Some projects belong to a single ministry, and others belong to more than one ministry. In particular, regional development and comprehensive development projects involve multiple sectors and ministries. Although a project sometimes has several promotion agencies, a sector has more varied relationships with promotion agencies. There are cases in which one sector is covered by more than one ministry. In a country where decentralization is advanced, a presiding ministry of local administration or district (regional) government has the authority to carry out policy measures.

In order to clarify accountability in the formulation and implementation of development aid plans, it is extremely important to find the relationships between sectors and project promotion agencies. In the same

⁶⁰ Allen et al. (2004)

way, it is also important to identify the relationships between sectoral results and poverty reduction. Sectoral outputs are subordinated to the outcomes in the overall policy measures of poverty reduction. Conversely, sector-level outcomes are regarded as outputs at the PRS level. Projects, which are subordinate to a sector, were carried out by multiple promotion agencies. A poverty reduction strategy is carried out by a more complicated aggregation of promotion agencies.

Uganda clearly distinguishes outcome indicators, which monitor poverty reduction, from output indicators, which monitor the performance of related actors. Not many low income countries carry out the harmonization of such indicators. For example, in Tanzania's healthcare sector, the main targets, such as a decrease in the infant mortality rate, improvement in the rate of receiving immunization, and the proportion of districts that carry out HIV campaigns are shared by the PRS and sector plan, but outputs and outcome indicators are not shared.

3-3-1 PRS and sector programs

In many priority sectors of the PRS, sector programs (SP) are formulated. Successful alignment between the PRS and an SP means that the SP goals should fully contribute to the PRS goal of poverty reduction. However, even in Uganda, which has formulated its third generation PRS, the degree of such alignment varies among the sectors⁶¹. If the promotion agency in charge of the sector does not clearly share the overall goals, there is a tendency to concentrate on the achievement of only the goals at the sectoral output level. Furthermore, if the sectoral goals are to be achieved only through the efforts of the public sector, or whether through a considerable degree of participation of the private sector, depends on the sector⁶².

3-3-2 Sector monitoring

(1) Overall framework

1) Characteristics

The significance of developing the whole sector has been discussed since the SPA plenary meeting in the middle of the 1990s. In those days, the interests of partner governments and donors had shifted to public finance management, so that importance came to be placed on the planning and monitoring of the overall sectoral expenditures by the partner government and donors. Responding to these expectations, the sectoral development plans has come to be formulated as SPs. The introduction of SPs started in the latter half of the 1990s before the introduction of the PRSs in low income countries, such as in Africa. In particular, many SPs were adopted in the elementary education and healthcare sectors. However, the number of SPs adopted in the agriculture and road sectors is increasing. As of 2003, 100 programs that are recognized as SPs are being carried out in 26 African countries⁶³. Many concept papers, including Harrold (1995), explain the characteristics of these SPs. Among these, the five characteristics most frequently pointed out are listed below.

- i) Comprehensive aid with policy intervention: Aid requires comprehensive cooperation and adjustment between the partner government and the donors. Individual projects are grouped into a sector or sub-

⁶¹ Berke (2002)

⁶² Among SPs, programs that are generally carried out by centralized administrations, such as those of the education sector are easy to align with the PRS. On the other hand, programs in the agriculture sector, in which the private sector plays a central role, alignment is difficult.

⁶³ Secretariat/SPA-Sector Support Working Group (2004)

sector, so that the partner government and donors can share the plan, funds, implementation system, and monitoring methods for it.

- ii) Inputs are systematically introduced to the partner government: Cooperation at the sector level makes it possible to deal with issues of institutional reform such as issues of a medium-term policy and financial systems, and strategies of decentralization and privatization⁶⁴.
- iii) Policy whitepapers that form the base for reform: The contents of sector reforms are generally made public in the form of policy whitepapers that are usually formulated by the government⁶⁵.
- iv) Result-oriented approaches that effectively use funds: a financing method clearly focusing on strategies to improve unit costs and results was developed⁶⁶. The World Bank calls this a Sector Investment Program.
- v) Aid modality challenge: In the process of promoting program-type aid, there is a way to maintain each donor's projects and a way not to maintain them (introduction of general budget support and a common basket)⁶⁷.

In an SP, joint monitoring of the inputs, outputs, and outcomes of the sector strategy is carried out through efforts to create partnerships that are formed by the partner government and the donors. In the countries that started SPs several years ago, sectoral outputs are beginning to be seen. However, factors including policy development within and outside the sector and steady economic growth are required until the outcomes are seen. Accordingly, the existing sectoral monitoring within the sector framework has often targeted only budget achievement, inputs, and outputs, but not outcomes. One of the reasons is that it takes an unexpectedly long time for data assessment. UNESCO took four to six years to compile internationally comparable data on education. Since the Education for All (EFA) meeting in Dakar in 2000, data processing has accelerated⁶⁸.

Sectoral monitoring is being carried out with difficulty, which is discussed in the next section. Although an SP obviously has the function of structuring sector level systems, there remains a question as to why some low-income countries have not implemented SPs. DFID in the UK adopts four checking items at the time of the introduction of an SP: the link between financial management and policies; the capacity for macroeconomic operations and financial operations; sectoral operational capacity; and aid dependency. DFID made it clear that an SP is not effective when these requirements are not satisfied⁶⁹. These items cannot be achieved only by sector line-ministries, but also through the efforts of every PRS-related department and agency of the government and through improvement of the efforts of the donors' side.

⁶⁴ Harrold (1997). Yuichi Sasaoka (2000)

⁶⁵ The Education Sector Development Program (ESDP) in Tanzania was introduced in 1996, and the Primary Education Development Program (PEDP) started in February 2001/02. Both programs were based on the Education and Training Policy (ETP) of 1995. Uganda's Education Sector Investment Plan (ESIP) carried out from 1997/98 was based on the education whitepaper of 1992.

⁶⁶ 5Northern European countries and the UK refer to themselves as the Like-Minded Group, aiming at establishing SPs and Sector-Wide Approach programmes (SWAp) that reflect their values.

⁶⁷ The US, France, and Japan that basically continue providing project-type aid insist on the importance of aid coordination at the planning and monitoring stages. However, participation of these countries in SPs on a limited scale is possible, as Japan participated in the GBS in Tanzania.

⁶⁸ Roberts (2003) p.23

⁶⁹ Foster et al. (2000)

2) Classification by Riddel

SPs are carried out not only by various promotion agencies, but also through various aid modalities depending on the sectors and the partner countries. Riddel (2002) categorized them into four types.

- i) Project-type aid: aid by a single aid donor, who is responsible for supplying the aid funds/goods, and their management and ensuring accountability.
- ii) Earmarked funds: Targeting a portion of the SP activities, aid is provided with the donors' specification of the aid conditions and the purpose of the use of the funds.
- iii) Sector Budget Support (SBS): Targeting overall activities included in the SP expenditure framework, aid is provided through the government's financial and accounting system. More than one aid donor pools their funds, and they set common and personalized conditions for the funding.
- iv) Direct Budget Support (DBS): Aid provided to overall expenditures or the financial framework of the government. A policy dialogue is conducted between the government and the donors⁷⁰.

Riddel insists that an SP can be worked out through the sharing of policy frameworks and expenditure frameworks⁷¹. A mixture of aid fund flows and government finance fund flows can prevent an increase in the transaction costs accompanying the acceptance of aid and can build the project implementation capacity of government officials and the government's institutional capacity. Murphy (2005) explains that SP expenditures themselves are executed through more than one modality. Actually, one of Tanzania's SPs, called the Primary Education Development Program, is carried out mainly through a basket fund and two other modalities. Uganda's primary education SP is implemented through a greater variety of modalities.

(2) Characteristics of monitoring

Many indicators are set in order to monitor the progress of SP implementation. The monitoring system varies to a large degree depending on the recipient government in the same way as the implementation system varies. There is also a difference in the number of indicators and their credibility and usefulness. For example, Ghana's healthcare sector had 20 indicators through which progress in decentralization concerning budget allocation and improvement in the level of satisfaction of the clients of regional hospitals are objectively confirmed⁷². On the other hand, only five indicators were available in Zambia, so the Ministry of Health carried out a revision of their indicators using examples from the case of Ghana⁷³.

Tanzania's Education Sector Development Program does not clearly specify monitoring indicators. However, indicators for preschool, primary, and secondary education as well as teacher training indicators are summarized in the basic education indicators issued every year⁷⁴. Unfortunately, it is said that the credibility of these indicator values is not high. In addition, the tangible conditions of school attendance by

⁷⁰ The DBS is generally considered to consist of General Budget Support (GBS) and Sector Budget Support (SBS), the original text mentioned GBS as DBS.

⁷¹ Foster et al. (2000)

⁷² Leading indicators are: proportion of health expenditures in the current expenditures, proportion of the current expenditures across the level of medical institutions, immunization rate (DPT, mumps), dissemination rate of family planning, total number of medical institutions' outreach cases, rate of client satisfaction (provincial hospitals), and the utilization rate of insecticide-treated mosquito nets.

⁷³ Rate of receiving antenatal checkups, number of antenatal checkups received, rate of the presence of persons attending the birth, the immunization rate, and the rate of underweight babies.

⁷⁴ Major indicators are: net enrollment ratio, gross enrollment ratio, teacher/student ratio, ratio of successful applicants for primary education completion, enrollment ratio of primary school graduates who enter secondary school, first and final secondary education achievement test results, ratio of enrollment in teacher training schools, and the number of teachers in teacher training schools.

students are not known since there are no clear statistical data values concerning double shifting (morning and afternoon shift), the employment conditions of the teachers (fulltime/temporary), the dropout rate, attendance rate, and other conditions.

Regarding the credibility of the monitoring indicators for SPs in Africa, many countries conduct sample surveys regularly, although large scale investigations are sometimes conducted. Accordingly, it is often not clear if the values represent national averages or the median. Uganda and Tanzania are making efforts to construct an accumulation system for poverty data through a decentralized district system, but they have not reached the stage at which organized data summarization is effectively functioning.

1) Review, audit, reconsideration, and evaluation

Although a fixed form of Joint Annual Review (JAR) for each sector and its frequency has not been decided yet, there is rough specification at the sub-sector level in primary and basic education. The following are cases of the primary education sector in Zambia and Tanzania⁷⁵.

Sector reviews

The JAR is carried out every year through the participation of the Ministry of Education, related officials of the regional and district governments, and related persons of educational institutions, donors, and civil society groups. In Zambia, the latest progress report has been published concerning progress of the last but one fiscal year, based on which the succeeding year's annual plan is formulated in order to reconsider the long term plan. In Tanzania, the evaluation survey team holds workshops, so that a presentation and discussion is held and the final report is sent to the basic education development committee. The next step is the formulation of a quarterly report. In Zambia, there are four committees, each of which consists of the Ministry of Education and the donors. The committees are regularly evaluated and managed based on the quarterly report. In Tanzania, a development committee for the basic education SP (primary, secondary and informal education) is convened. There are also working groups on priority challenges or fields. Although aid to the primary education sub-sector is only being improved in the SP in both countries, the strategy targets have recently been shifting to the whole sector.

Audits

Internal and external audits are conducted. In Zambia, a Ministry of Education internal audit (conducted several times a year irregularly by sampling) and a Ministry of Education external audit (conducted once a year by the General Accounting Office) are conducted. Although donors that are supplying funds to the basket funds have the right to request an external audit at any time as required, this has never been exercised. In Tanzania, there is an internal audit unit in the Ministry of Education and Culture (consisting of loaned employees of the Ministry of Finance and the audit board). An external audit is conducted mostly on primary education. Although one of the conditions for basket fund disbursement is to submit the report within six months after the fiscal year ends, the submission of the report tends to be considerably delayed.

Annual or mid-term revisions

In Zambia's JAR, the SP activity plan is revised according to the annual budget allocation and the progress of the monitoring. In addition to non-periodical revisions, the mid-term evaluation is planned at

⁷⁵ Based on the reports by Takako Suzuki (Project Formulation Advisor in Zambia) and Kazuyo Igarashi (Project Formulation Advisor in Tanzania).

the beginning of 2006. In Tanzania, suggestions for the succeeding fiscal year are presented based on the JAR and audit outcomes. Although the content of the suggestions is approved in the basic education development committee, the revisions are actually not carried out.

Evaluation by the stakeholders

Although Zambia has many indicators and data, the current progress and the distance to the goal have not been clearly indicated. However, there exists a common recognition that the sector policy has improved over the last ten years. Regarding the unachieved challenges, cooperative efforts for improvement are being made. In Tanzania, the results of the PETS in 2004 were not as good as expected, as shown later. The results indicated that the funds had not reached the service delivery points and report submission was delayed, so that the basket fund operation faces difficulties. Accordingly, the Ministry of Finance is making a request to switch from basket funding to sectoral budget support. Regarding the improvement of the indicators, the Ministry of Finance and some donors are considering the adoption of a sector PAF that can take in indicators at the budget support level.

2) Actual results

In the education SPs in Uganda and Tanzania, a drastic improvement in the enrollment rates was seen due to the exemption from primary school fees. In Uganda, the student population increased from 3.6 million in 1996 to 7.4 million in 2004⁷⁶. This is the best example of a quantitative expansion in the number of students. The three main factors in this achievement are: strong leadership on the part of the policy makers, comprehensive policy changes, and continuous support from the donors⁷⁷. However, problems of the poor quality of lessons and education, and the low rate of students who remain in school (22% in the seventh or the final grade) have been left unsolved. Tanzania's chief goals are: expansion in school enrollment, improvement of the quality of education, capacity building of the education administration. The main achievements are shown in the table 3-3.

Table 3-3 Progress in the chief goals of Tanzania's Primary Education Development Program

Contents	Strategy	Actual achievements	Goal
1. Expansion in enrollment (see note)	Enrollment in the first grade	1,481,354	1,600,000
	Recruitment of teachers	9,000	11,651
	Construction of classrooms	10,700	13,396
2. Quality improvements	Reprinting of textbooks, etc.	Teaching materials-student ratio changed from 1:4 to 1:7	1:1 by 2006
3. Capacity building	Advance training for teachers	Number of grade A teachers: 9,000	10,000
	Training for regional governments and school administration committees	A substantial number of training courses	Training for all staff

Note: A description of informal education is omitted.

Source: United Republic of Tanzania (2004).

⁷⁶ SPs (2002-2006) are promoted in Tanzania's primary education. In the year primary education was provided without charge, the number of students who enrolled in the first grade increased from 1.1 million to 1.6 million. The gross primary education enrollment rate improved from 59% (2000) to 88% (2003).

⁷⁷ It was based on the SPA Sector Support Working Group (2003), in which the author also participated. The contributing factors were pointed out when Ms. Malinga, Commissioner of the Department of Planning of the Ministry of Education and Sports was interviewed.

The PRSP (2000) that was formulated at the same time as the primary education SP strategy set targets in primary education, secondary education, and gender to be achieved by 2003. Table 3-4 shows a comparison between the targets and their achievement in primary education. The PRSP confirms the achievement annually based on the JAR results.

Table 3-4 Main examples of the achievements in education

Indicator	2000/Baseline	2001	2002	2003/achievement	2003/target
Gross rate of primary school enrollment (%)	78	84	99	105	85
Net rate of primary school enrollment (%)	59	66	81	88	70
Rate of primary school dropouts (%)	5.6	4.8	–	4.8	3.0
Rate of those passing the final examination (%)	22	29	27	40	50

Source: United Republic of Tanzania (2003), etc.

3) External conditions

SP outcomes at the sectoral level often cannot be understood by depending on the accumulation of each of the items of outputs⁷⁸. The infant and child mortality rate and average life span in Zambia's healthcare sector became worse from the 1980s to the 1990s. This was a result of the low rate of economic growth and the high prevalence of HIV/AIDS, which the sector's internal efforts alone were not able to respond to. The analysis of Zambia's Demographic Health Survey (DHS) showed that these factors increased the infant and child mortality rate⁷⁹. Unless the scale of these external factors is identified, the extent to which the healthcare SP contributed to the reduction in child mortality cannot be judged.

In the case of Uganda's primary education, which was regarded as successful, the citizens had a considerable demand for education⁸⁰. This is thought to be the result of not only the SP, but also the introduction of democratic elections and the accumulation of various institutional reforms, including public finance management and decentralization. Such a precise analysis of both policy and institutions tends to be lacking in the coverage of each stage of the SP, PAF, and APR. In a basket fund, which provides funds for the SP, fund flows are frequently halted due to insufficient arrangements or defects in reporting from the local areas. This is a problem not only of the SPs, but also of the capacity and decentralization of local government. Accordingly, if the operation of the funding is shifted from a basket fund to budget support, the conditions for the release of the funds are mitigated and expenditures can be allocated smoothly. However, this does not mean that the essential institutional problems are solved⁸¹.

⁷⁸ Achievement of poverty reduction, which should be the result of the PRS, is far more distant, and it is difficult to measure.

⁷⁹ World Bank (2001) p.62

⁸⁰ The gross enrollment rate in 1992 was 68%, and net enrollment rate was 40%. In 2005, the gross enrollment rate was 120%, and net enrollment rate was 80%.

⁸¹ Memorandum of Understanding (MoU) for Tanzania's primary education is expected to be revised. Among the reports that were conditionalities of fund disbursement, some were to be issued quarterly. The quarterly requirement is planned to be changed to a half a year requirement (as of June 2005).

(3) Evaluation

1) Evaluation of SPs

SPs are evaluated as being effective as a strategic tool. From 2002 to 2003, investigation of the basic education SP was conducted jointly by 13 donors under the leadership of Canada and the UK⁸². The investigation targeted four countries; Burkina Faso, Uganda, Bolivia, and Zambia. The evaluation was made from three aspects: i) change in the aid to basic education; ii) functions of the recipient country; iii) change in the partnership. In particular, the partnership was defined as a relationship between the donors' side and the recipient's side with equal power and influence. In the evaluation, four factors concerning partnership were identified: a straightforward relationship with trust and respect; flexibility based on information on the reality; efforts to build an equal relationship; substantial and broad participation.

In i) above, the transition from projects to SPs, the implementation of Technical Assistance (TA) and the holding of a policy dialogue followed by the shift, the continuation of the existing TA (in the fields of teachers' training, etc.), and the continuation of the conditionality policy were seen as the general tendency. Regarding ii), modalities suited to the functions of the basic education field have been structured (see Table 3-5). While many activity contents have come to be carried out in the form of programs, project-type aid has continued. Regarding the doubt that budget support approaches are able to cover all the roles of aid, the evaluation considered that project-type aid can complement budget support. Project-type aid is still effective for carrying out local activities, providing development models, and solving minor challenges immediately, based on the locality's uniqueness that a nationwide plan cannot address.

Table 3-5 Examples of activity content, function, and modality

Activity	Function	Modality
Formulation of a policy and strategy	Policy dialogue and TA	Project
Strengthening of the competent institutions		Transition from a project to a program
Monitoring and evaluation	TA and direct funding	Both. There is a tendency to shift to a program.
Development of new teaching methods	TA and a few cases of direct funding	Project
Development of curriculums	Same as the above	Projects and programs
Development/production/distribution of teaching materials	Funding with TA	Projects and programs
Retraining of teachers	TA and direct funding	Programs and TA projects

Source: DFID (2003)

Regarding the partnership mentioned in iii), the donors indicated in advance that the SP approach would improve partnerships through a strengthening of ownership, provision of opportunities for aid coordination, and a reduction in transaction costs. However, the investigation results showed that the overall output was neutral. While the transition to SPs led to the reinforcement of partnerships in two countries, improvements in partnerships were not clearly seen in the other two countries. Although the project-type approach has the function of developing new methods, the scaling up this function will not be successful unless the project is linked to a program. It was considered that the means of integrating projects and programs is the important issue.

⁸² DFID (2003)

Finally, it is the role and attitude of the leading agencies in the implementation process that is important in the program approach leading to partnership. Donors should request information on the policy, technology and accountability in response to the capacity and needs of the partner government. The recipient government should disclose information on implementation progress, planning, and the monitoring and evaluation of the program to donors as well as domestic stakeholders.

2) PETS

The Public Expenditure Tracking Survey (PETS) is an investigation of the reach of fund flows within the sector, especially to check if the funds and materials from the central government through various stages have reached the final service points in the locality. PETS, which has been conducted in several countries, is drawing attention as a form of investigation that focuses on the linkage between public expenditures and development results, factors that cause inefficiency in the systems, accountability, and transparency⁸³. In Tanzania, a PETS was carried out in the education sector in 2004. It found out that only 85% of the development budget and 54-64% of the ordinary budget reached the schools⁸⁴. These results do not always mean that there is bribery, corruption, or fund transfers to other sectors. Some cases occurred as the result of administrative officials' apprehension concerning fund acknowledgement operations and the purposes of the system or a lack of knowledge of accounting.

A PETS was carried out in Uganda in 1996. The PETS results in 2001 found that Uganda's service delivery had drastically improved. Although Tanzania carried out a similar investigation, full scale countermeasures were not taken or thorough investigation of the possible causes was not conducted afterwards. As a result, hardly any improvement was seen. This may be partly because the social sector fund from the government and donors was provided from the Ministry of Finance to the Ministry of Education, the Ministry of Home Affairs, and district governments, so that the overall fund management became difficult.

If a PETS is used in order to conduct more detailed analyses of the sector's inputs and outputs through a PER or sectoral JAR, it can be used to assess policy and institutional reforms. Of course, it should be noted that SP evaluation through a PETS works with public sector reforms, decentralization policies, and general institutional reforms. Other risks include that high costs when the investigation covers a wider area and that the government's response may be unenthusiastic when the factors causing inefficiency were not clearly identified.

3-3-3 Project monitoring and PRS

When project-type aid is carried out, monitoring is often conducted according to the evaluation framework set by the project itself. When project-type aid is selected, there is discussion on what kinds of monitoring design and considerations are required from the perspective of its relationship with the PRS and SP.

(1) Planning

In order to carry out appropriate project monitoring, the following are required in the planning stage: firstly, construction of a log-frame; secondly, establishment of a monitoring implementation system within the project. This indicates the significance of the participation and engagement of the project stakeholders in the planning stage. Before the project starts, the following questions should be checked as premises.

⁸³ Kanungo (2003)

⁸⁴ MoF and REPOA (2004) p.54

- Has a comprehensive baseline study been carried out in order to assess the current conditions and select the appropriate targets?
- Is the project plan appropriate?
- Is there enough support for the monitoring system (the number of staff, budget)?
- Is there a system in which monitoring results are regularly reflected in the project?

A log-frame is formulated at the time of the pre-project evaluation in order to clarify the significance of the project's implementation. The method of monitoring what kinds of project goals and to what extent these goals have been achieved by the implementation of the project are determined. For example, in a malaria project that started in Tanzania in 2004, it was decided to monitor changes in various indicators through the reports made by the implementation agencies of the partner government and reports made by the local consultants in order to verify the various results. Moreover, as part of the tasks to be carried out before the monitoring, it is necessary to confirm the project plan contents and changes in the project's external conditions at the time of planning and monitoring.

At the implementation stage, the following are important for project operation: who, when, and targeting what is the monitoring being conducted for; with whom are the monitoring results assessed and shared; through what decision-making process are the assessment results reflected in modifications to the project plan⁸⁵. It is assumed that a consensus on the project implementation process has already been established among the related people. However, in past cases of projects, a consensus on the monitoring methodology and appropriate indicator selection was not always established among the related people.

According to a DFID investigation, for example, it was pointed out that it was difficult during the project implementation period to evaluate how and to what degree the inputs were linked to improvements and outputs since monitoring after the inputs was not planned in the project operation system in projects carried out before the implementation of budget support. In order to carry out an evaluation in the mid-project period and on completion of the project, it is generally assumed that it is necessary to check the actual state using objective indicators and investigations. However, in many cases, the evaluation is actually carried out based on impressions according to a fragmented reality. Although the significance of efficient monitoring and evaluation is recognized in most of the projects, the implementation of the project activities themselves is frequently given priority⁸⁶.

(2) Implementation

In an ordinary education project, a steering committee is set up by the recipient government agencies, stakeholders, and donors in order to hold regular meetings for monitoring. The participants are the recipient government agencies, the aid receiving agency (for example, the ministry of international cooperation), the ministry of finance, the ministry of education (departments that match the project contents), local agencies, the project receiving agency, the related NGOs, etc. Regular monitoring is effective in not only checking the progress of project implementation, but also in raising the awareness of ownership and in building capacity.

As there is generally a limitation on input costs and the period, a plan is made in order to target a specific challenge in a part (sub-sector) of the overall plan for the education sector of the recipient country. For example, in order to improve the quality of secondary education, teacher training is carried out. The project contents are decided in a project log-frame at the launch of the project. At the same time, goals,

⁸⁵ JICA (2005)

⁸⁶ DFID (2002)

outcomes, activities, and monitoring indicators are determined. They are structured based on a causal relationship in which activity outcomes lead to the achievement of the goals.

Activity monitoring is carried out by the stakeholders engaged in the project through the achievements of ordinary affairs and data collection targeting the beneficiaries, the assessment of interview survey results, etc. Part of the monitoring work is to assess and share the collected data within the project. Furthermore, sometimes the results of experimental project activities are intentionally reported outward, and dissemination and awareness-raising seminars are held. In some cases, a participatory monitoring approach is adopted. For example, by assembling the beneficiaries or the targets of teacher training, an assessment of the project challenges can be carried out. Project monitoring makes it possible to conduct more detailed assessments of extremely limited targets, compared with national-level monitoring in an education sector. When the existing recipient government organizations and functions are used, ordinary project budgets can afford the cost.

(3) Methods and spillover effects

There are two methods of project monitoring from the perspective of investigation methods.

Firstly, there is a qualitative/cultural anthropological approach. A case study is conducted targeting a certain school to see the education process and the stakeholders' mutual interactions focusing on the students and teachers. In the case of a teacher training project, the trainee teachers, trainers, and students who took the lessons can be individually interviewed in detail. As a result, the influence that the project has can be understood as a narrative. Sometimes the monitoring results of a specific project are shared by external government officials engaged in education. However, this is recognized as only being in the case of an individual project. In most cases, the monitoring methods are not sufficient to learn universal lessons from the project and find out its influence on policy changes in the overall education sector.

Secondly, there is a quantitative/empirical approach. Respecting numerical descriptions by measuring, it derives universal rules from an analysis of causal relationships. For example, there is a case in which a citizen participatory project for construction of a primary school is carried out by more than one donor, and schools with common components are constructed in different regions of the country. In such a case, quantitative monitoring is carried out by obtaining quantitative data on the input factors, including the price of construction materials, labor costs, and the construction period. The results of the monitoring are shared by the other donors. This may lead to practical advancement, such as consideration of the appropriateness of the project costs and improvement of the construction methods. In a few cases, an overall project evaluation is carried out with the other donors.

Depending on the donors' circumstances, different monitoring methods and indicators are adopted in different projects. Accordingly, general lessons are not learned from the results. As education-related officials of the recipient government spend a lot of time on the projects they are in charge of, they often cannot afford the time to reflect the monitoring results of similar projects supported by other donor's in their own project implementation.

(4) Indicators

There are inputs (means/personnel, equipment, and costs for the purpose of obtaining outputs) and outputs (goods, human resources/capacity obtained by the inputs). Monitoring indicators are grouped into two⁸⁷. One is a process indicator for indicating the requirements for achieving the goals. An example of this

⁸⁷ UNESCO (2004)

is the number of teachers trained in a teacher training project. The other is a conclusive indicator. An example of this is the literacy rate of the students who received education from the teachers in the above example. Indicators range from quantitative ones that are visible to qualitative ones. For example, the number of teachers in a teacher training project corresponds to a quantitative indicator, and a teacher's ability to communicate the contents of a lesson to the students in a classroom corresponds to a qualitative indicator. In the case of monitoring a project, how to understand the causal relationship between the inputs and the outputs depends on the way the indicators are established as well as on the monitoring methods.

It is difficult to verify a causal relationship between the inputs and the outputs in the strict sense. Sometimes statistical methods such as regression analysis are adopted in order to derive lessons from a development project. In many cases, however, clear conclusions cannot be obtained. This is because the circumstances of education consist of many complicated variables. For example, it is true that improvement of the teacher's ability has contributed to the improvement of their students' literacy rate. However, it is deducible that the improvement of the teacher's ability can be a necessary condition, but not a sufficient condition. The improvement of the students' literacy rate may be a result of the quality of the teaching materials, the students' learning environment at home, or the academic ability of their parents who spend a long time with the students. There are a wide range of indicators in education projects. In setting such indicators, the perspective of measuring the educational effects is emphasized, and the perspective of poverty reduction is subsidiary.

3-4 Poverty monitoring

3-4-1 What is poverty monitoring?

(1) Definition

Poverty monitoring, in a broad sense, is referred to as measuring whether national efforts taken by a developing country under its poverty reduction strategy or a long term development plan are contributing to improvement of the situation of the poor. It also represents accurate and timely data collection and provision activities that are required to monitor whether development resources are being effectively and most efficiently used and for policy decision makers to adjust and revise the plan in order to achieve the goals set by the overall plan⁸⁸.

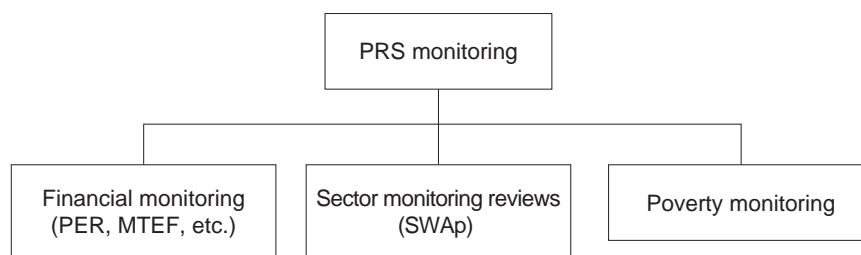
On the other hand, when poverty monitoring is defined in a narrow sense in relationship to the PRSP, no documents provide a definition that can be universally applicable to any country implementing a PRS. In some cases, poverty monitoring is, in the same way that PRS monitoring is, recognized as one that covers all monitoring that is required for PRS implementation. In other cases, poverty monitoring is recognized as one of the forms of monitoring that make up the PRS, such as financial monitoring and sector monitoring or process monitoring of various administrative and financial reforms. When PRS monitoring and poverty monitoring are used synonymously without a clear distinction, this is because many PRS countries have adopted the existing monitoring and evaluation mechanisms and various review processes as their form of poverty monitoring. These existing mechanisms and processes were used in these countries since before the introduction of the PRSP, and they were reconstructed and adjusted to fit the PRS framework in order to be used as a form of poverty monitoring.

This report tries to systematically review the APR by dismantling and going over various monitoring frameworks that relate to PRS implementation, such as poverty monitoring, financial monitoring, sector

⁸⁸ United Republic of Tanzania (2001) and the website of the World Bank

monitoring, etc. and reviews their respective roles. Here, as a coordination mechanism⁸⁹ to measure poverty reduction results focusing especially on outcomes and impacts, poverty monitoring is intentionally distinguished from the other forms of monitoring and is subordinated to PRS monitoring. The characteristics of poverty monitoring will be assessed in the case of Tanzania (see Figure 3-2).

Figure 3-2 Main monitoring mechanisms related to the PRS



Source: Prepared by the author

(2) Objectives and activities

The principle objective of poverty monitoring is to measure how far poverty reduction is progressing toward its goal based on the national strategy documents, such as the PRS. It is also expected that a cross-cutting assessment of poverty by poverty monitoring is effectively used in the policy decision process of the policy makers and parliaments. Another objective is that disclosing the results of the investigations and assessments widely to the stakeholders and citizens, poverty monitoring raises individual awareness of poverty issues and prompts people to start positive activities by themselves.

In poverty monitoring, the following activities are mainly carried out:

- i) Measuring the degree of poverty reduction at the outcome and impact levels of PRS implementation, through continuous or regular data collection for the adopted indicators;
- ii) Proposing a policy as needed concerning the measures and budgets based on the results of an assessment of the collected data and data obtained through cooperation with various related institutions;
- iii) Disclosing the assessed results widely to the related persons such as the citizens and parliaments by summarizing them into a report in an appropriate form.

(3) Characteristics of the indicators

Poverty monitoring is not designed to report on the progress of policy implementation in detail, whether the set of indicators is comprehensive or not. Rather, it has the characteristic of evaluating the nationwide state of welfare. Accordingly, poverty monitoring focuses on selecting indicators that change moderately over a longer span than that of a PRSP, or indicators of the outcome and impact levels, rather than looking at poverty measures such as the PRS, which is formulated and implemented every three to five years.

On the other hand, monitoring of the implementation progress of a PRS with a shorter perspective requires additional indicators that are able to reveal the details of the changes and that are easy to measure.

⁸⁹ Poverty monitoring was originally referred to as a coordination mechanism (interface) that consists of all agencies and persons that are related to the achievement of this goal. Accordingly, monitoring activities that were coordinated under poverty monitoring were to be conducted by the respective agencies in charge, including the statistics bureau, sector line-ministries, and local autonomous bodies. Looking at the current status of Tanzania, investigation and assessment activities are actually conducted by the donors or consultants employed by the donors. It is pointed out that the original role of the competent agencies has been limited.

Accordingly, when required, the PRS adopts input and output level indicators including sector monitoring and evaluation (M&E) and investigations of the level of satisfaction with public services provided by local autonomous bodies and others, so that comprehensive monitoring can be carried out in the PRS.

However, it is not too much to say that there are few indicators that can measure the improvement of the terminal level of poverty annually. Accordingly, PRS monitoring in various PRS countries adopts not only indicators to measure the degree of poverty reduction (progress or improvement indicators) such as sector M&E and poverty monitoring, but also indicators that can measure the extent of various administrative and financial reform efforts required for poverty reduction and those to measure the extent of the formulation of various policy measures that induce poverty reduction effects (process or engagement indicators). In these countries, the APR mainly reviews changes in input and output level indicators, engagement indicators, or the outlook for the overall macroeconomy. Of the data that is required for overall PRS monitoring in this way, poverty monitoring focuses especially on outcome and impact level effects. Poverty monitoring is aimed at assessing how the overall citizens' poverty conditions are changing.

It is said that each level of the indicators in PRS monitoring is required to be linked in the order of an input, output, outcome, and impact chain⁹⁰. Accordingly, PRS monitoring includes various existing monitoring frameworks.

Box 3-2 Example of a monitoring chain

(1) Input

An example is the construction cost of a well. It is monitored by the expenditure plan (MTEF, etc.) in the SWAp of the relevant sector and the PER.

(2) Output

This is derived as a direct effect of the input. An example of this is the number of safe wells. In the same way as the input, it is monitored mainly by M&E of the SWAp of the relevant sector (figured out using administrative data reported by local autonomous bodies) and the PER.

(3) Outcome

When the population that can use safe well water increases as a result of 1. and 2., this is an outcome of poverty reduction policy implementation. The outcome is monitored by the M&E of the relevant sector's SWAp. It is also confirmed as a positive change in poverty reduction by poverty monitoring through statistical surveys conducted every few years.

(4) Impact

When the mortality rate among infants, which is regarded as closely related to safe water, falls over the medium and long term as a result of the positive change in 1, 2, and 3, this is called an impact of poverty reduction. At the level of impact, various sub-sectors even inside the same sector or various sectors often contribute to the manifestation of an impact in a complex way. As impacts cannot be measured correctly only by monitoring each sector or sub-sector in the same way as 1 to 3, it is effective to measure impacts by poverty monitoring through statistical data analysis and other methods.

Box 3-3 Progress indicators and process indicators

In order to achieve poverty reduction, not only activities to improve the citizens' welfare, but also the government's practical plans and policy actions required for poverty reduction should be promoted. For example, improvement of the enrollment rate in primary education is regarded as a progress indicator. Policy measures of providing primary education free of charge and securing the budget according to the priority for arranging a good environment for learning by improving the school facilities are essential actions of the government to induce the effects, and are regarded as process indicators. In PRS monitoring both of these two aspects need to be measured.

(4) Locus of ownership

The philosophy of the PRSP advocates country ownership. The PRSP is also a developing country's

⁹⁰ Booth and Lucas (2002)

own poverty reduction strategy, so that its formulation, monitoring, and evaluation should be carried out on the initiative of the relevant country⁹¹. Accordingly, the main ownership of poverty monitoring, as a part of PRS monitoring, is also by the relevant country and its citizens.

At the same time, it is desirable that the PRSP should be formulated with the participation of a wide range of stakeholders including donors, civil society, international organizations, NGOs, and the academic world. Accordingly, participatory methods such as workshops are adopted and dialogues with donors and other stakeholders are held at the time of PRSP formulation in many countries. One of the PRSP's characteristics is that not only do donors and international organizations have considerable interests at stake, but their intervention is also extensive on the pretext of partnership.

Furthermore, at the time of PRSP implementation, donors tend to demand advanced information that is sufficient for them to decide if budget support is to be provided or not since many countries, especially in Africa, are being benefited by debt reduction measures or provided with comprehensive support through budget support by the donors. Accordingly, poverty monitoring also involves double responsibilities: it should be accountable to the citizens of the aid donors' country as well as the principle users, or the recipient government and its citizens.

(5) Participation of the citizens and parliament, and accountability

1) The citizens' participation and accountability

As the principle users of poverty monitoring are on the partner country side, ensuring the participation of the citizens in the monitoring process in various forms is regarded as representing accountability to the citizens. The possible forms of participation are the following:

- i) Providing the information required for poverty monitoring;
- ii) Participating directly in the activities of indicator collection, analysis, evaluation, discussion, etc.; and
- iii) Starting collective action (direct action by CSOs, etc. or indirect action through elections) in response to the disclosed poverty monitoring results.

In Tanzania, consultation activities, including PRS awareness raising activities and the provision of the necessary information on monitoring, are carried out targeting the related persons within and outside the government at the time of the APR. While these efforts are evaluated as being able to promote certain citizens' understanding of the PRS and the PRS process, it is not always clear how the collected information was used for the final decisions on policy formulation.

In Tanzania, a Participatory Poverty Assessment (PPA) was carried out. This investigation focuses on interviewing the citizens and trying to determine the current poverty conditions in order to communicate the opinions of the citizens to the decision makers. In addition, qualitative surveys to monitor and evaluate the government's actions are carried out through investigation of the level of the beneficiary's or the citizens' satisfaction with the policy measures carried out by the government and the services provided by it in consideration of their own living conditions and problems.

In Tanzania, the citizens' participation in poverty monitoring is promoted by securing opportunities for not only government-related persons, but also a wide range of members from the academic world, civil society organizations, NGOs, and donors to participate in the four working groups of the poverty monitoring system, so that they can directly join in the indicator collection, analysis, and evaluation work. The future challenge is to strengthen empowerment of the citizens so that they become able to

⁹¹ JICA (2001)

take autonomous action based on their own decisions using the abundant information.

As a form of poverty monitoring accountability to the citizens in Tanzania, the government holds a Poverty Policy Week every year, so that the statistical survey results, analyses of poverty monitoring, and other policy measures related to poverty reduction can be discussed. However, the main policy measures and analysis reports are often formulated only in English and most of the themes of the discussion concern the national capital. There is plenty of scope for improvement on the issue of the participation of a wide range of citizens.

2) Participation and accountability of the parliament

Sharing the results of various monitoring measures concerning the PRS in parliament not only deepens the engagement of the parliament in the policy decision-making process, but also leads to a strengthening of the commitment of the parliament and politicians to PRS implementation. Accordingly, particularly in recent years, discussions on the participation of parliament in the PRS process and on the desirable accountability of government's administrative institutions to the parliament have come to be frequently held.

A PRSP Monitoring and Synthesis Project by the ODI of the UK was conducted in four developing countries that are implementing PRSs, including Uganda, in order to clarify the relationships between the political system, the PRS process, and long term political development. The survey tried to determine: i) if the political system of the country has had an impact on national development; and ii) if the development opportunities brought about by the PRS process have promoted the reform of the political system and organizations. As a result, some changes have been seen. For example, coordination within the government has improved and the policy formulation process has come to be disclosed. However, information on improvements in implementation coordination among the government agencies or information that confirmed the continued sharing of the policy making process in the future was not obtained⁹². ODI points out that a political dialogue between the donors and the developing country concerning not only the PRS, but also fields that include the issues of human rights, corruption, and conflicts leave much to be improved. The above issues are not clearly related to aid but are fields that form the foundation of national development. At the same time, these are extremely political and delicate issues, so it is difficult for them to be positioned as the central challenges in the poverty reduction strategy, and they are thus given a low priority. On this point, ODI concludes that donors have come to the difficult stage of considering what kind of aid they should provide.

Regarding the participation of parliaments and their members in poverty monitoring, Tanzania has set up a ministerial committee, which is directly linked to the cabinet, as the highest decision making institution in the poverty monitoring framework. However, it is only for form's sake. It is extremely doubtful if poverty monitoring is well known to and discussed in the cabinet and parliament. One of the reasons is that there is a traditional Tanzanian political culture that may prevent policy measures from practically becoming policy measures⁹³. In addition, most of the documents reporting the results of poverty monitoring activities are not compiled in a useful form that will attract the interest of parliament members. On this point, there is room for improvement. In contrast, Tanzania tried making a nationwide poverty distribution map based on data from the family budget survey in 2000/01 as part of poverty monitoring activities. This was a case that drew much attention from some senior officials of the government, since these kinds of results had the potential influence positively or negatively the

⁹² See newsletter (February 2004) of PRSP Monitoring and Synthesis Project.

⁹³ For more details refer to Booth (2005).

fulfillment of some politicians' policy commitments to their constituencies⁹⁴.

In other countries that have a PRS, there have been cases in which the PRS and the budget were changed dogmatically without following democratic procedures⁹⁵. It is not easy for members of parliament and the political framework to ensure national ownership and commitment as well as to ensure proper participation in poverty monitoring as representatives of the citizens who democratically elected them.

Box 3-4 Statistical data and administrative data

There are mainly two methods of data collection in poverty monitoring. One is statistical data collection using sample surveys conducted under the leadership of the ministry or agency in charge of statistics. The other is administrative data collection conducted by local autonomous bodies based on their own decision or by following central sector line-ministries' instructions.

(1) Statistical data

The characteristics of the statistical data are: the values are estimates as a result of sampling assessment; in most cases, the data is collected through questionnaire surveys in which the inquirer obtains answers to a questionnaire prepared in advance from the respondents in a single visit; and the interval of each survey (5-10 years) is longer than that for administrative data collection. Statistical data collection is likely to be preferred by donors since the experts from institutions specializing in statistics and the donors can establish the investigation framework, and so it is easy to ensure the quality of the surveys compared with administrative data collection. The cost of statistical surveys is not low at all. In many countries that have a PRS, however, data collection through statistical surveys is the principle means of monitoring since it is more reliable than administrative data for obtaining comparatively accurate nationwide data in a short time. On the other hand, data collection in many statistical investigations depends only on a single visit survey, except for some investigations. Accordingly, there are various problems, including the difficulty in following seasonal changes accurately and mismatches between the 5 to 10 year survey interval and the implementation cycle (see Annex 1).

(2) Administrative data

The characteristics of administrative data are: it is collected as part of administrative affairs by the officials of each local autonomous body more frequently than statistical data; and data collectors (administrative officers in local autonomous bodies) often know the target area and residents very well; it is possible to collect detailed data that would be financially impossible to collect through statistical surveys. There are various forms of administrative data. Some data is collected monthly using a fixed format through local health posts and primary schools. Others are collected on ad hoc basis in a certain field directed by the central ministries. Administrative data is actually collected by extension workers, teachers, and nurses who see residents at the grassroots level. This is information that they deal with in their routine work. In a way, ideally it is possible that their work operations can reflect the data depending on the way the data is used.

On the other hand, in almost all developing countries, administrative data is too poor in quality to be reflected in policy measures. Although it is quite often collected regularly, its utilization is extremely limited. Among the reasons why administrative data is not effectively used are that the data collectors are not aware of the significance of data collection and are not motivated and that the objectives of the data collection are not clearly defined not only at the local level, but also at the upper levels or central competent ministry level. In addition, administrative data is often no better than a heap of papers that gets higher annually, or is lost, as it is not appropriately managed using certain methods, such as compilation in a Management Information System (MIS).

Quality improvement in administrative data is a challenge in many countries that have a PRS. There are too many limitations in not only the non-physical aspects, including the capacity and attitudes of the administrative officers, but also the hardware aspects, including the availability of PCs that would make it easy to manage the data appropriately and to smoothly run data flows between the central government and local governments. Accordingly, a practical decision is required as to what degree the ideal should be pursued regarding effectiveness taking into consideration the time taken to arrange the administrative data, the cost, and the labor required.

⁹⁴ It is considered that both the fact that a certain region suffers more serious poverty than another is too clear and the fact that it is too ambiguous an influence on the budget allocation decision for the constituency in a positive and negative sense.

This survey analysis was not at first welcomed by the top officials of the government for unclear reasons.

⁹⁵ ODI/DFID (2004)

3-4-2 Institutional framework of poverty monitoring

There are many PRS countries that have newly established or reorganized the institutional framework of poverty monitoring subordinate to the PRSP framework. The poverty monitoring framework tends to be influenced by the existing framework of the poverty measures of each country. Accordingly it is very difficult to describe the poverty framework in general. The case of Tanzania, which has adopted a comparatively functional poverty monitoring framework, is introduced below.

(1) History of the construction of a poverty monitoring system

In Tanzania, before the current poverty monitoring master plan was introduced, indicator guidelines called National Poverty and Welfare Indicators were formulated in 1999. Monitoring indicators presented in the first PRSP and indicators of the poverty monitoring master plan basically took up and developed these guidelines. As the guidelines did not stipulate the institutional framework of the government for carrying out monitoring, however, practical implementation capacity was lacking since the commitment of the related ministries and agencies was not obtained.

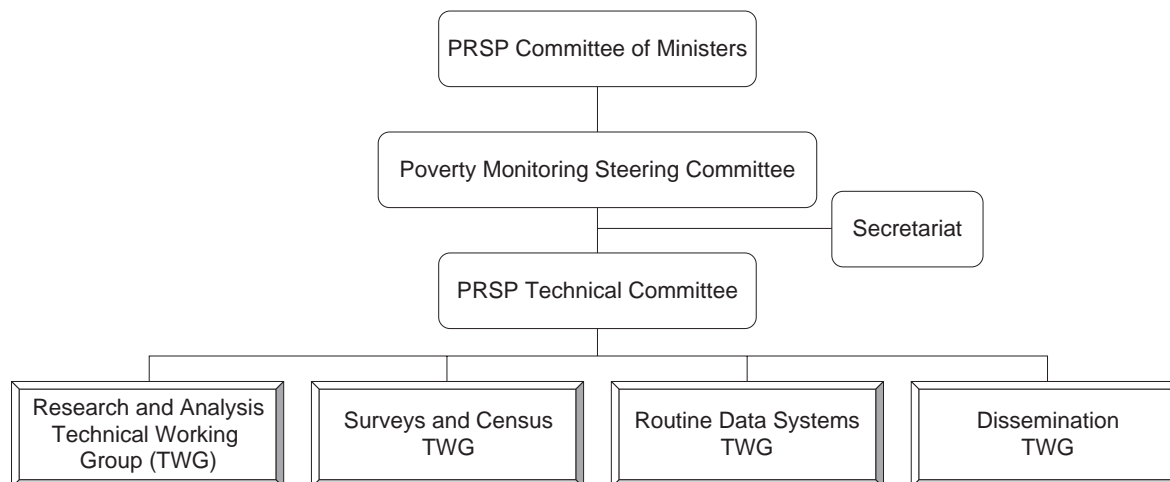
At the same time, discussions on the monitoring of social and economic indicators were held in a data subgroup, which was established around 1999 as a working group for preparing the Tanzania Assistance Strategy (TAS). However, this data subgroup was eventually dissolved in order to start construction of a more advanced PRSP monitoring system. Since the PRSP was decided on in March 2000, the establishment of a PRSP monitoring system had been demanded by the World Bank/IMF as a conditionality for reaching the PRSP completion point. The construction of the monitoring system started to be rapidly prepared for the visit by the first Joint Staff Assessment (JSA) team of the World Bank/IMF in October 2000. The first concept was discussed by a few stakeholders, including Tanzania's Deputy Permanent Secretary of the Ministry of Finance in charge of the PRSP, the World Bank, DFID, UNICEF, UNDP, etc. behind closed doors. As the practical preparations for the poverty monitoring master plan progressed, they gradually involved a wider range of stakeholders, such as ministerial officials in charge and donors, in carrying out writing and coordination work. Finally, in December 2001, Tanzania's poverty monitoring master plan was completed receiving the approval of the PRSP Committee of Ministers.

(2) Framework

In Tanzania's framework, the PRSP Committee of Ministers and the Poverty Monitoring Steering Committee are included. The PRSP Committee of Ministers forms the overall PRSP executive and is made up of the cabinet members. The Poverty Monitoring Steering Committee consists of the Permanent Secretaries of the ministries and representatives of the donors, and is chaired by the Vice President's Office, or the superintending ministry of poverty reduction. These two committees are the so-called approving organizations, which do not routinely carry out any practical activities. The actual highest decision making at the operational level is made by the PRSP Technical Committee chaired by the Ministry of Finance, which consists of officials at the Permanent Secretary or Deputy Permanent Secretary level. Subordinate to the PRSP Technical Committee, there are four technical working groups on poverty monitoring and they carry out their activities on a daily basis. The members of the Technical Working Groups include a wide range of the sector line-ministries, donors, learned persons, NGOs (especially those familiar with the fields of environment and gender are given priority), and civil society organizations. According to the objectives of poverty monitoring listed in 3-4-1 (2), these four working groups are engaged in the following subjects respectively: i) Research and Analysis; ii) Surveys and Census; iii) Routine Data Systems; iv) Dissemination. Furthermore, a Secretariat has been established in order to carry out operations, including

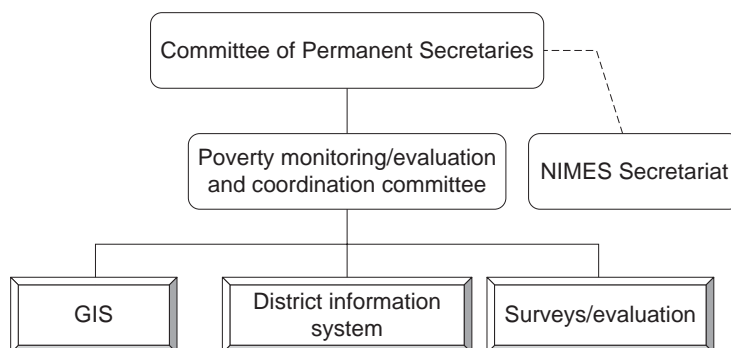
summarization of the annual activity plan of each Technical Working Group, budgeting, overview reports, and other necessary coordination. The Secretariat operations are carried out by the Poverty Reduction Department of the Vice President’s Office (See Figure 3-3).

Figure 3-3 Tanzania’s poverty monitoring implementation system



Source: Prepared by the author

As the PER had been already operating and some sector M&E frameworks had existed when the framework of poverty monitoring was designed in Tanzania, poverty monitoring is especially focused on the activities of the collection and analysis of indicator data at the output and impact levels and its dissemination among the citizens. In Tanzania’s system, the Vice President’s Office that is supervising poverty reduction is engaged in cross-sectoral poverty monitoring activities. Accordingly, the advantage is that an understanding can easily be obtained from a wide range of ministries and agencies on the points of the integration, coordination, and promotion of the stakeholders’ participation. On the other hand, Tanzania’s poverty monitoring framework does not have a very strong liaison with the Vice President’s Office, Planning and Privatization section and the Ministry of Finance. The Planning and Privatization section is dealing with a long-term economic plan. The Ministry of Finance, which is managing the overall budget, is the central figure in particular that has carried out negotiations with the donors since the introduction of the PRSP. Accordingly, the framework lacks coercive powers that will ensure that the results of poverty monitoring activities are reflected effectively in policy formulation.

Box 3-5 Comparison with Uganda's framework

GIS=Geographical Information Systems

In Uganda, the Poverty Eradication Action Plan (PEAP is Uganda's version of a PRSP), which placed importance on the three sectors of healthcare, education, and water, was being implemented before the introduction of the PRSP. The framework of monitoring and evaluation that follows the progress of these three sectors also existed. The follow-up survey conducted in 2002 pointed out the data collection burden in these three priority sectors and the expected improvements. Based on the results of this survey, the government emphasized the need for the function of coordination among the Prime Minister's office and the other related ministries. Under such a coordination framework, a new monitoring strategy paper, the National Integrated Monitoring and Evaluation Strategy (NIMES), was formulated in 2004. NIMES was not designed to construct a new framework, but provide a coordination mechanism that covers all the existing monitoring/evaluation systems at the national, sectoral, and local government level. On this point, Uganda's system is similar to that of Tanzania. The aspect in which Uganda is superior to Tanzania from the perspective of reflection of the monitoring results in policies is that the Ministry of Finance, Planning, and Economic Development (MFPED) is deeply engaged in the poverty monitoring and analysis unit. Accordingly, Uganda's system is different from Tanzania's in that poverty monitoring is carried out under the leadership of the MFPED in the same way as an APR, the implementation of which the MFPED also plays the central role in. In the monitoring framework before the introduction of NIMES, its success was led by the fact that the poverty monitoring and analysis unit played a highly centralizing role in the policy aspects and analysis aspects. In the future, the challenge for success is the maintenance of a good relationship and coordination between the MFPED and the Prime Minister's Office through the reconstruction of a coordination function with its center in the Prime Minister's Office under NIMES.

At the local level, the characteristics of Uganda's monitoring system are that efforts for the coordination of the balance of relationships between the central and the local governments influences the PRS indicator performance and its monitoring. The balancing efforts in Uganda are made between the limitations of the central government's engagement in local sector operations due to the more advanced decentralization than in Tanzania and the high dependency on various subsidies (with/without conditions) from the central government. In many African countries, decentralization as well as PRS adoption is advanced, so similar challenges can arise. Under the circumstances in which the amount of subsidies from the central government is far higher than the amount of the local government's own financial resources, however, it will actually be a long time before they have such a serious problem as Uganda has.

Table 3-5 Budget for Tanzania poverty monitoring

(Unit: Tshs.)

	FY 2002/03	FY 2003/04	FY 2004/05
Total	1.1 billion (110 million yen)	7.8 billion (780 million yen)	4.7 billion (470 million yen)
Government's share	1.1 billion (100%)	1.1 billion (14.1%)	1.5 billion (31.9%) ³⁹
Pooled funds	—	6.7 billion (85.9%)	3.2 billion (68.1%)

Note: the percentages in parentheses are the ratio of the share of the government/donors to the total

Source: Ministry of Finance, United Republic of Tanzania

(3) Budget and financial framework

The trend in the annual budget for Tanzania's poverty monitoring over the past three years is shown in the table 3-5.

In FY 2003/04, the government's special account for the Poverty Monitoring System Pooled Fund was established. The system was almost the same as the existing pooled fund for the SPs. In addition to Japan, the UK, the Netherlands, Norway, Denmark, the EU, Switzerland, and the UNDP are contributing funding to the Poverty Monitoring System Pooled Fund. The amount of the annual budget for poverty monitoring is also around 800 million yen in the future although it fluctuates a little depending on the PRS review and other factors. The proportion of the amount of contributions to the total amount required has remained unknown, since the pooled fund is still in the early days after its establishment, and the latest sum of the FY 2004/05 pooled fund has not been announced. The largest donor in the first year of pooled funding, FY 2003/04, was the UK, which contributed about 57 million yen. The UK promised to contribute funding of around 130 million yen annually for three years from FY 2004/05. The other donors are contributing about the same amount of funds. Japan contributes funding of about 50 million yen each year using non-project grant assistance.

The Poverty Monitoring System Pooled Fund is managed by the secretariat. Each Technical Working Group submits a biannual activity plan and its budget in addition to the annual activity plan to the secretariat. After the poverty monitoring steering committee's approval, funds are transferred to the bank account of each Technical Working Group. The activity report is formulated quarterly. The report of the last but one quarter is formulated by the beginning of the current quarter to be approved by the poverty monitoring steering committee.

For the purpose of proper fund management, quarterly internal audits and external audits at the end of the fiscal year are to be conducted. The Poverty Monitoring System Pooled Fund, which had been operating on a full scale since FY 2003/04, formulated an MTEF as a part of the activities of the secretariat, or the Vice President's Office. This enabled them to have a medium-term perspective.

(4) Monitoring indicators

As Tanzania's poverty monitoring indicators, 39 indicators were originally set in concert with the priority sectors of the first generation PRS. However, the number of indicators was increased to 60 in 2003. This is because most of the 39 indicators were not able to follow the long-term changes, and more detailed indicators were required in the fields of agriculture and governance. Among the 60 indicators, half were indicators for which annual monitoring could theoretically be conducted. The data sources of the annual monitoring were mainly the output level indicators obtained from administrative data. Actually, the quality of the indicators for annual monitoring in the healthcare, water, and hygiene sectors is not sufficient. The gap between the theory and the reality has resulted in the poor quality of the APR report (see Annex 2, which represents Tanzania's poverty monitoring indicators, at the end of this chapter).

(5) Concrete activities of poverty monitoring and their achievements

Each of the four Technical Working Groups on poverty monitoring formulates an annual activity plan with a budget. After receiving approval, it starts actual activities. Reports are made quarterly and submitted to the Secretariat, which is functioning as the coordinator. The Secretariat collects and reports these to the superordinate committee.

The main activities of poverty monitoring are: promptly conducting statistical and social surveys for the year planned in the poverty monitoring master plan; analyzing the results of the conducted surveys;

holding Poverty Policy Week from September to November every year in order to issue the Annual Poverty and Human Development Report formulated mainly by the Research and Analysis TWG. This is the result of the current year's poverty analysis based on the data collected through the above-mentioned activities. In addition, advocacy activities on Tanzania's budget allocation and policies are carried out as part of poverty monitoring (see Box 3-6). Establishment of a harmonization strategy concerning administrative data collection (see Box 3-4) and a PRS dissemination strategy targeting a wide range of citizens is one of its roles as an interface between the related ministries and other related persons, which has been expected of poverty monitoring from its beginning. Poverty monitoring increased the number of indicators of the master plan from 39 at first to 60 for the purpose of harmonization with international agreements such as the MDGs and the primary domestic goals. It served as an intermediary response to the needs of both sides.

Box 3-6 Case of policy advocacy – Impacts that the resident's sharing of Tanzania's basic healthcare services have on the poor

In Tanzania, the sharing of the basic healthcare service costs by the residents has been introduced since the middle of the 1990s. Pregnant women, children and the poor are exempted from making payments. Actually the exemption system did not work due to the difficulty in measuring the level of poverty. The results of the survey on satisfaction regarding administrative services showed that the poor who could not pay the medical and technical service fees were not able to receive basic healthcare services. Citizens' organizations appealed for the abolition of charging residents for basic healthcare service costs during Poverty Policy Week in 2003. Responding to this, the Research and Analysis TWG announced the results of research that showed the adverse impact on accessibility to healthcare services by the poor. At the same time, it demanded reconsideration of the healthcare system of the Ministry of Health and Social Welfare. This point became the focus of policy discussions in the second generation PRS. The Ministry of Health and Social Welfare decided to continue conducting their own surveys on the residents' burden, and the PRS did not adopt the abolition of cost sharing by the residents.

Box 3-7 Achievements of Uganda's poverty monitoring

In Uganda, the National Policy and Programme Performance Status Report and Poverty Status Report (PSR) have been formulated three times so far, and a PRSC was provided by the World Bank for three consecutive years from 2001. In only some sectors, priority indicators for the PEAP were set in the Poverty Monitoring and Evaluation Strategy, which was the predecessor of NIMES. In NIMES, three year and ten year policy measures matrices for the PEAP were newly formulated and attached to PEAP3. Monitoring annual progress in the policy matrices ideally enables monitoring of the input and output levels, such as the PER, and makes up for the lack of indicators⁹⁶ in poverty monitoring, which has a medium- to long-term perspective and makes it difficult to present annual changes.

⁹⁶ This is called the "missing middle," which has been regarded as one of the challenges of PRS monitoring.

Box 3-8 Case of Tanzania – the Annual Poverty and Human Development Report

The Annual Poverty and Human Development Report, which is an annual summarization of poverty monitoring activities, is published around May or June every year. Reports for the past three years have been produced. Their contents have been shared and discussed among government officials and non-governmental stakeholders including donors, academics, and NGOs/civil society organizations during the past three Poverty Policy Weeks. The report covers an outline of the poverty conditions for the year, the results and analysis of the main statistical surveys conducted in the fiscal year and the results of analysis on the poverty-related topics set every fiscal year.

For example, the Annual Poverty and Human Development Report for FY2003 has the following structure.

Chapter 1: Introduction

Chapter 2: The Status of Poverty 2003 (across priority sectors)

Chapter 3: Vulnerability and Social Security

Chapter 4: Benefit Incidence (with a case study of water sector)

Chapter 5: Governance Aspects the Key to Poverty Reduction Vulnerability Containment

Chapter 6: Agriculture

The Annual Poverty and Human Development Report, however, is written in English, not in Swahili, so that it is actually shared by only a limited number of stakeholders such as the central ministries in the capital. Furthermore, the report is designed to be announced in July or August. Accordingly, the analysis has little impact on the budget and policies of the new fiscal year starting in July. The earliest budget the report results are reflected in is that two years ahead.

Tanzania's poverty monitoring releases these documents to the public on its website.

URL: <http://www.povertymonitoring.go.tz/>

3-4-3 Sector monitoring and evaluation, and poverty monitoring

Sector monitoring and evaluation (M&E) is referred to as monitoring and evaluation of the activities planned in an SP. Sectoral M&E is specialized with respect to a certain sector. It is also different from poverty monitoring in that it focuses particularly on indicators at the input, output, and outcome levels. In Sector M&E, monitoring and evaluation is conducted upstream from basically annual inputs to outcomes that can be identified after several years. It is mainly used for discussing the validity of inputs of the fiscal year and making a plan for the succeeding fiscal year. On the other hand, poverty monitoring looks downstream from outcomes or impacts, and analyzes their causal factors at the input and output levels⁹⁷.

The PRS is a strategy to deal with poverty, a multi-dimensional and cross-sectoral challenge, so that ideally the APR, under the PRS system, covers most of the principle sectors, including education, healthcare, water, roads, agriculture, and manufacturing, as sectors contributing to poverty reduction. However, there are actually few countries where sectoral M&E is functioning to contribute to the APR process. The history of sector M&E accompanies that of SPs, and it is longer than that of poverty monitoring based on the PRSP. Therefore, sector-related persons among the donors and governments are proud of this⁹⁸. At the same time, sector-related persons in the partner country are cautious about a reduction in the flow of basket funds that are specialized for the sector due to the introduction of general budget support, which is achieving recognition as a PRS aid modality. For the sector-related persons, the basket fund flows are easily dealt with according to their conditions. Accordingly, they are not willing to share information and data with poverty monitoring-related persons and persons related to other sectors. Furthermore, as poverty monitoring is an analysis from a cross-sectoral perspective, it requires a wide range of unspecialized information from the sector. However, in order for the sector to give instructions to the

⁹⁷ Enoki (2003)

⁹⁸ Booth (2005)

terminal level of the local autonomous bodies and to formulate sector policies, analyses based on expert knowledge of the sector are required. Unless information provision to poverty monitoring is directly linked to benefits, including budget allocation, there is no motivation for the officials who conduct sector monitoring to rearrange their data and make it into more comprehensible information. It is more difficult than expected to adjust the gaps between the attitudes of both sides and to develop a liaison between the two monitoring systems that contributes to poverty reduction.

3-4-4 Monitoring of general budget support and poverty monitoring

In many countries, the PAF for general budget support has been constructed mostly through the donors' leadership after various measures for the PRS have been structured to some degree. The direct objective of the PAF is to provide information for donors to decide whether or not they should give disbursements to the general budget from the succeeding years. Accordingly, the PAF is essentially different from poverty monitoring, which monitors PRS implementation with the citizens and the government as its central players. The PAF is also different from poverty monitoring in that it basically places emphasis on the conditions of the government's policy engagements (process indicators) in a wide range of sectors, including strengthening of the private sector, stabilization of the macroeconomy, environmental protection, and strengthening of governance, while poverty monitoring places emphasis on the changes in overall national welfare. In many cases, however, the PAF actually was established as a framework that covers various progress monitoring frameworks that had existed before, including poverty monitoring, depending on the country. Tanzania's case is an example of this. Although Tanzania's PAF intentionally avoids direct engagement with M&E with one exception⁹⁹, it comprehensively covers the same coverage of PRS monitoring itself as well as the donors' interests for the purpose of holding a policy dialogue (items that are difficult to clearly describe such as eradication of corruption, conflict prevention, etc.). Accordingly, it is pointed out that the PAF overlaps with the desirable state of the APR to a large degree. Responding to this, discussion on the revision of the PAF has already started from the perspective of transaction cost reduction for both the government and the donors. In the second generation PRSs, a Policy Matrix, which includes indicators for the government's policy engagement that were not adopted by the first generation PRSs, has been formulated. By incorporating process monitoring, which was lacking in the APR, the PAF can be integrated into the APR, so that the existing review framework in which each monitoring system had parallel relationships has started to be reconsidered. In Uganda, the Policy Matrix of PEAP3 formulated in 2004 was harmonized with the PRSC Matrix. This is designed to be monitored by a new monitoring system (NIMES). This Policy Matrix is a huge list occupying 52 pages, and is a challenge for a new monitoring framework.

As mentioned before, the issues that the government do not welcome interventions, such as those of governance, will be likely to slide out of sufficient monitoring in the centralized review framework. Some donors do not prefer the complete centralization of reviews, so that they are trying to continue using the existing monitoring system as well or securing a different auditing framework for politically sensitive challenges such as the issue of governance. Complete harmonization is difficult to realize. Although the government is afraid of the PAF interfering with ownership, it feels that tackling the priority challenges listed in the World Bank's PRSC conditionalities as scheduled is difficult without a policy matrix such as the PAF¹⁰⁰.

⁹⁹ In Tanzania, individual and specific indicators at the input and output levels were once adopted in the agriculture and regional road sectors.

¹⁰⁰ Booth (2005)

Box 3-9 Case of Uganda - difficulty in monitoring concerning governance

In May 2004, a donor group opposed the budget plan that included a large increase in military expenditures in the same way as in 2003/2004 and a reduction in the social sector in Uganda's FY2004 PER process. Donors established a working group on military expenditures in order to discuss military expenditures. In response to the increase in military expenditures, donors did not cut the amount of budget support. However, Ireland changed its aid modality from general budget support to a Poverty Action Fund.

Source: Africa-chiiki PRSP/ kokyozaiseikanri-ni-kakaru-kisochosa dai4-ji-genchichosa (Uganda) katsudo-hokoku (PRSP in Africa - the 4th basic field study report (Uganda) on public finance management)

3-4-5 Decentralization and poverty monitoring

While the PRS is so-called centralized approach, decentralization is advancing in most countries in Sub-Saharan Africa, where PRS implementation is progressing. Accordingly, two different approaches are causing a discrepancy in the process of PRS advancement. If a local autonomous body has a flexible capacity to deal with policy implementation and management, it is ideally able to let the two divergent approaches coexist by setting its own targets in accordance with the national level targets set by the PRS, or by formulating its own concrete policy measures required to achieve these targets through a citizen's participatory approach. However, it takes an extremely long time for such approaches to mature.

Under the current trends in which PRS promotion and achievement of the MDGs are international agreements on a temporary basis, their achievement will be out of the question unless priority is first given to the adoption of top-down approaches for the purpose of PRS goal achievement. Under the decentralization scheme, the following efforts are accumulated: responding to the citizens' grassroots level needs; formulation by local autonomous bodies of an implementation plan according to these needs; and setting of their own goals. However, it is clear that these do not always correspond to the PRS plans and goals set at the national level.

Accordingly, if poverty monitoring, which is a part of PRS monitoring, should be accountable to the partner government and its citizens first, one of the possible ways is to break up the national-level PRS indicators into the levels of the subordinate governing structures (regions, districts, wards, villages in the case of Tanzania), allocate the funds to each level of indicators as a set for motivation purposes, and decide on the budget allocation of the succeeding years depending on the performance, as described in 4.(3). Setting indicators and allocating the budget more closely to the residential areas leads to enhancing the local autonomous body's willingness to make efforts to provide practical administrative services that will directly benefit the residents' lives and to secure the accompanying budget. In order to insist on the reasonability of the plan and budget, the local autonomous body will actively collect data and utilize it. This will eventually lead to building the autonomous body's policy formulation and implementation capacity and data collection capacity. Furthermore, through a deepening of the residents' understanding of the indicators and policy measures at the level of daily living, it is expected that the residents will participate in the autonomous body's APR activities more enthusiastically. In the future, poverty monitoring achievements will be able to contribute to the segmentation of the targets into smaller divisions from a wide range of aspects.



Chapter 4

**Outlook on PRS monitoring
with APR as its core element**

Chapter 4 Outlook on PRS monitoring with APR as its core element

Points of this chapter:

- In comparing APR with various other monitoring mechanisms discussed in the previous chapters, there are overlaps in the implementation status of priority policy/reform and administrative activities. On the other hand, all of the monitoring mechanisms cover little indicator monitoring at the outcome and impact levels. In particular, it is necessary to clearly identify the functions of the APR, poverty monitoring, and the PAF.
- This paper proposes the following two points concerning the above issue: i) regard poverty monitoring as the parent source that delivers data at the impact level; ii) integrate the PAF and the APR, and regard it as a mechanism to view progress in the policy actions/reform of the PRS and some output indicators.
- The following three items are future improvements that may be required with regard to the APR: i) separate indicators according to the feasibility of annual monitoring, obtaining indicator data to observe the implementation status of administrative activities and available output indicator data every year and formulate regular reports at two to three year intervals separately from the annual reports for many other output indicators; ii) improve domestic accountability through utilization of the media, etc; iii) adjust the APR formulation timetable according to the budget formulation cycle in order to align the APR with the policy review and budget formulation processes.

Chapter 1 introduced features of the APR (expected roles and current conditions). Chapter 2 outlined the background trends in the preparation and implementation of PRSPs in order to gain a new understanding of the significance of PRS monitoring. Chapter 3 introduced the current monitoring tools and mechanisms that actually exist and are being used, and structured the challenges that need to be faced.

The above chapters are an attempt to contribute to an understanding of the significance and challenges of monitoring the progress of the PRS process. This chapter briefly reviews the relationship between the PRS process, the APR, and various monitoring mechanisms, and indicates some possible directions for the future of the APR based on a discussion of the features of each mechanism and their mutual complementarity.

4-1 Relationship between the various monitoring mechanisms of PRS process and APR

4-1-1 PRS process and APR

As Chapter 1 described, donors have expressed that the APRs are poor in quality and do not fulfill their requirements not only in Tanzania, but also in many other PRS partner countries. The civil society of the partner countries as well as the donors are concerned that the report is not reflected in the policy measures and policy implementation for the succeeding years. The partner government is required to make efforts to raise the quality of the APR, since the APR, which covers a wide range of unbiased data on poverty monitoring, financial monitoring, and sector monitoring, as well as data on the current state of

administrative and financial reforms, should be accountable to the citizens. On the donors' side, the factors that they require the APR to consider are not clear. Donors should reconsider the fact that they themselves, not just the partner country, should be accountable to their own countries' citizens. They should also not seek to intervene in the PRS process to the extent that the partner government's ownership is impaired. These issues also originate in the paradoxical double accountability for PRSs. It is also suspected that the APR is not always functioning fully because monitoring framework of PRPS has not been sufficiently formulated.

4-1-2 APR and PER

PER is used at least as a tool of the World Bank. In some cases, the PER plays an important role in the budget formulation process of some countries, including Tanzania. It is sometimes difficult to distinguish the contents of the PER from those of the APR, especially when the PER for the whole country is formulated by integrating the PER for each sector. Such reports mainly indicate the implementation status of each sector's administrative activities and the state of formulation/revision of priority policies. For the ministries related to the sector, there are incentives to cooperate with the PER because it is linked to securing the budget for the following year. However, the APR provides little incentive for this since the APR as it is currently proposed is not reflected in the succeeding year's policy revisions, as was expected. The ministries related to the sector are required to carry out similar work twice, for the PER and the APR. Predictably, the APR is sometimes formulated simply by duplicating the PER.

4-1-3 APR and PAF

Direct Budget Support (DBS) is a major means of support for a PRS. Donors providing budget support require some indicators that can be monitored for their decisions on annual disbursements. As the contents of the APR are not sufficient as a monitoring framework, the donors have established the PAF as an independent monitoring framework. The PAF has been criticized for its tendency to include an increasing number of indicators and for its exclusiveness of the formulation and monitoring process involving only the government and the donors. As most of the PAF indicators are related exclusively to policy actions (establishment/revision of policies, laws and regulations), the contents of the PAF overlap with many of the items of the contents of the APR, which reports on the implementation status of policies and administrative actions at the input and output levels. A challenge for the future will be for the contents of both the APR and the PAF to be sorted out and responsibilities clarified.

4-1-4 APR and sector monitoring

If indicators of output and outcome levels can be obtained by annual monitoring through reviews in each sector, such indicators can be provided and utilized for APR. On the other hand, in reality, monitoring indicators established for the sectoral programs (in many cases in later stages of implementation) are not compatible with those of PRSP. It is technically difficult to reflect the results of the sector reviews on APR as the timeframe of compilation of sector reviews and APR are not linked.

4-1-5 APR and poverty monitoring

In some countries such as Tanzania, the APR is publicized during Poverty Policy Week, and its contents are based on the "Poverty and human development report" produced by the Poverty Monitoring Working Group (Box 4-1). However, poverty monitoring, which requires medium- and long-term activities to measure changes in cross-cutting issues of poverty at the outcome and impact levels, is different from

sector M&E and financial monitoring. Sector M&E places the focus on the monitoring of inputs, outputs, and outcomes in the specific sector. Financial monitoring, such as the PER, is aimed at confirming the status of annual budget implementation. It should be noted that reporting annual trends is not always the primary goal of poverty monitoring. Considering these characteristics of poverty monitoring, it is very difficult for poverty monitoring to annually provide the comprehensive monitoring indicator data required for the PRS process.

Box 4-1 Relationship between APR and poverty monitoring in Tanzania and Uganda

In Tanzania, poverty monitoring is regarded as a mechanism to be carried out in order to provide monitoring evaluation of the overall PRSP. Accordingly, based on the results of the implementation, assessment, and outcome announcement of surveys carried out nationwide, including the national census, household income and expenditure surveys, and statistical surveys of each sector as well as statistical data given by the ministries related to the sector and local governments, poverty monitoring also provides the APR and the PAF with information on progress in the actual reduction of poverty. Tanzania's priority plan for the succeeding year is formulated using combined data on poverty monitoring, the PER, the METF, sector plans, etc. by the PRS technical committee, headed by the Deputy Minister of Finance, through coordination with the sector and the Ministry of Finance.

In Uganda, two reports are regarded as comprising the APR: the Uganda Poverty Status Report (PSR) by the Ministry of Finance, Planning and Economic Development, which is formulated every two years; and the Budget Background Paper, which is formulated in the year when a PSR is not formulated. This means that Uganda is not formulating APRs of a uniform quality. This is because the preparation of these papers is aligned to the monitoring framework of the PEAP. The PSR is formulated every two years since there is little change in the data to be reported on every year, and it requires a considerable amount of work. Accordingly, the World Bank has formulated PRSC matrices, through which monitoring has been carried out in order to collect the data required for the APR.

On the other hand, it is possible for poverty monitoring to indicate the regional maldistribution of poverty and the regional features of poverty. This enables the government to allocate a larger proportion of the budget to poorer regions, or enables local public entities to meet more flexibly and effectively the needs related to poverty conditions that are unique to the region.

Poverty monitoring can also contribute to some degree to the segmentation of the PRS goals, which are still at the national level, into the regional level. Setting regional, or desirably the smallest possible regional level of poverty reduction goals, such as town or village level goals, will require local public entities to be clearly and more strictly accountable to their residents. The residents will possibly be able to take more interest in targets which are familiar in their daily lives. Furthermore, by attaching the required budget to the regional poverty reduction goals as a set, local public entities will more easily have the incentive to implement the PRS. However, sufficient consideration in advance is required in case this increases the dependency of local public entities by attaching subsidies to the PRS goals, as seen in some places in Uganda, contrary to the original purpose of the "clarification of targets" and "management for results."

While the APR emphasizes the monitoring of the status of policy implementation and the status of the provision of administrative services, poverty monitoring provides outcome and impact level data on these activities. Poverty monitoring can also measure progress in cross-sectoral outputs. In some countries, information and data are provided to the APR only by the ministries related to the sector. However, data dealt with by poverty monitoring, which is important cross-sectoral data, should be actively utilized in the APR.

To summarize the above discussion, Table 4-1 below structures the targets of PRS-related monitoring or evaluation mechanisms, such as the APR, the PER, the PAF, sector monitoring, and poverty monitoring. At the same time, it outlines each mechanism's contribution to the budget formulation and policy decision processes, which is a role expected of the APR.

As shown clearly by this table, many mechanisms other than poverty monitoring cover the status of the formulation of new policy measures, the progress of reforms, and the status of the implementation of administrative activities. Rather, there are too many opportunities to report on these matters. On the other hand, monitoring of the outcome and impact level indicators is not sufficient, and reporting opportunities for these indicators are extremely limited.

It seems that adjusting the coverage is difficult for the PER and sector monitoring since monitoring is carried out within each sector. However, the clear structuring of the coverage of each of the three mechanisms of the APR, poverty monitoring, and the PAF is required based on the characteristics of each, as together they are all supposed to monitor the overall poverty reduction strategy. In particular, an extremely limited number of mechanisms provide input into the budget formulation and policy decision process, thus these mechanisms need to be reinforced.

Table 4-1 Report/utilization status of PRS-related monitoring mechanisms

	Implementation of priority policies/reforms	Implementation of administrative activities	Outcomes (net enrollment ratios, etc.)	Impacts (income poverty reduction, etc.)	Input into the budget formulation process	Input into the policy decision making process
APR						x
PER				x		x
PAF		x	x	x	x	x
Sector monitoring				x	x	
Poverty monitoring	x				x	

Note: Coverage of the report : Covered (if available) : Mostly covered : Partly covered x : Not covered at all
Degree of utilization : Serving : Partly serving x : Not serving

Source: Prepared by the author

4-2 Roles to be played by APR

When reviewing the monitoring of the overall PRS process, the expected role of various monitoring mechanisms and information provision by domestic and foreign stakeholders can be represented in the following table.

Table 4-2 Stakeholders' expectations for various PRS process monitoring mechanisms

Stakeholders	Interests	Background to the interests
Partner government officers	<ul style="list-style-type: none"> - Proper execution of the government budget - Budget distribution to own ministry/sector - PRS progress - PRS outputs (public service improvements) 	<ul style="list-style-type: none"> - Professional responsibility as administrative officers - Decision making data for continuation/changes in policy implementation - Start/continuation of policy actions of own ministry/sector
National assembly/local councils	<ul style="list-style-type: none"> - Proper execution of the government budget - PRS outputs (poverty reduction) 	<ul style="list-style-type: none"> - Monitoring of the administration and realization of benefits of the public by the representatives of the citizens
NGOs/civil organizations	<ul style="list-style-type: none"> - PRS outputs (public service improvements) - PRS outputs (poverty reduction) 	<ul style="list-style-type: none"> - Monitoring of the administration by the organizations supporting specific public interests - Advocacy of specific ideas
Citizens	<ul style="list-style-type: none"> - PRS outputs (public service improvements) - PRS outputs (poverty reduction) 	<ul style="list-style-type: none"> - Expectations for administrative activities as collateral benefits in return for the payment of taxes
Donors	<ul style="list-style-type: none"> - Proper execution of the government budget - PRS progress - PRS outputs (public service improvements for poverty reduction) 	<ul style="list-style-type: none"> - Donor accountability to the donor's country (including the tax payers)

Source: Prepared by the author

It is very important that the monitoring of the PRS process should ensure the establishment of a mechanism that is open to the recipient country (local councils, citizens, NGOs) considering the following two factors: the PRS is positioned as a strategy that should be formulated with the participation of the citizens and its implementation process and the results should be shared by the citizens; and furthermore, aid is expected to fulfill accountability requirements not only for the donor's side, but also for the recipient's side.

Many stakeholders are interested not only in the progress of the PRS, but also in the proper execution of the government budget with respect to the PRS implementation costs and the results that the PRS brings. Considering this, it is necessary to provide information to the stakeholders through an appropriate combination of various mechanisms related to PRS monitoring.

In this case, donors should pay close attention to saving the recipient country from the heavy burden of reporting requirements according to the international commitments concerning the harmonization and alignment of aid. More specifically, donors should align the timing of their domestic reporting/disbursement decisions with the partner country's timetable for submission of the APR and budget formulation.

Depending on the position of the stakeholders there are various expectations for overall PRS

monitoring. What role should the APR in particular play within such expectations? As discussed above, the APR has the following weaknesses: i) The APR is insufficient in description as it is required to meet multilayered expectations, from the status of PRS policy implementation to the status of the achievement of poverty reduction; ii) Although the APR is reported annually, there is little change in the output indicator data that is obtained, or it is difficult to obtain the changes in the data. Accordingly, it is not clear what really needs to be checked every year; iii) In the present circumstances, the results of the APR are not reflected in the succeeding policy measures or budgets. On the other hand, the APR has the following advantages over the other mechanisms:

- The stakeholders' wide recognition that the APR is the only monitoring mechanism for the PRS;
- Regularity in that the APR is generally carried out every year
- There is a possibility that the APR can be used as a tool for fulfilling the requirements for accountability to the citizens.

Table 4-3 presents some tentative ideas on the desirable complementary coverage of various mechanisms concerning PRS monitoring in order to respond to the various expectations of the stakeholders. For this, utilization of the above-mentioned characteristics of the APR, effective role sharing between the APR and the other monitoring mechanisms, and consolidation of the existing mechanisms were taken into consideration.

Table 4-3 Ideas concerning role sharing among the mechanisms concerning monitoring of PRS process

	PRS progress (reform/policy implementation status)	Government budget execution status	PRS outcomes	PRS impacts
Sector level				
PER				
Sector monitoring	(Progress status of sectoral reforms)			
Overall poverty reduction				
PAF				
	(including improvement proposals)			
Poverty monitoring				

Source: Prepared by the author

The PAF, the APR, and poverty monitoring are mechanisms for monitoring overall poverty reduction. Regarding the coverage of these mechanisms, it is possible to structure them so that the PAF/APR can report on progress at the reform/policy level of the PRS together with some output indicator data by regarding poverty monitoring as the parent source that provides impact level data obtained from routine data and national statistical surveys. It may be difficult in reality, but nevertheless desirable, to integrate the PAF and the APR from the point of view of the simplification of procedures.

It is also necessary to strengthen the relationship between sector reviews and sector monitoring, so that they can provide information to the APR.

4-3 Improvements required for APR

How should the APR be improved in order to play its expected role according to the proposed role sharing within the overall PRS monitoring process?

4-3-1 Improvements from the perspective of regularity

Regarding the targets of monitoring, it is appropriate to select indicators with values that are likely to change every year or that need to be checked annually. To be more precise, considering that the progress of the PRS should eventually be publicized to the stakeholders both inside and outside the country, it is appropriate to monitor outputs mainly of the implementation status of administrative activities (public service delivery status, etc.) as far as this data can be obtained annually. The following items can be included in the implementation status of administrative activities:

- i) Report on the reform process and policy formulation status in the main sectors of the central ministries
- ii) Report on progress in the status of each region's development and administrative service provision by local governments
- iii) Implementation status of the administrative activities of each sector

Regarding the output level reports, it is desirable to strategically select a few priority indicators and to compile progress reports on them. At the same time, the report should preferably include proposals on priority items in order to contribute to the succeeding year's budget formulation. It is also possible to compile a report of the output level results in addition to the annual progress report at two- or three-year intervals called, for example, a "PRS Periodic Report." For this purpose, it is important to prepare for reporting the necessary indicator data at the appropriate time by strengthening the relationship between the APR and the various other monitoring mechanisms, including the PER, sector monitoring, and poverty monitoring.

It is also necessary to improve the contents of the PRS, especially the monitoring framework and the indicators, as the contents of the PRS form the basis for monitoring. More specifically, it is important to improve the indicators as well as to formulate PRS policy action matrices (including annual targets) in each country's PRS taking logical links to the output indicators into consideration.

4-3-2 Improvements from the perspective of domestic accountability

It is necessary for the PRS's original principle of participation to be put into practice through the active utilization of the APR for the purpose of ensuring domestic accountability and improvement in the APR's visibility. In order to enhance accountability, not only to the national assemblies, but also to the wider public as a whole, the translation of the APR into local languages, utilization of the media, and other measures should actively pursued. It is also possible to consider reinforcing the system in order to draw the media's attention so that they will continue to publicize the actual review process. However, excessive efforts at communication will miss the timing of the announcements, or increase costs and the burden of the work involved. Accordingly, it is necessary to think of practical ways to schedule the appropriate time and provide the labor involved.

4-3-3 Improvements from the perspective of ensuring that APR is reflected in policy improvements

In order for the APR to be linked closely to the policy revision and budget formulation process, the timetable of APR formulation should also be aligned to the budget cycle. If it is difficult to propose policy

improvements at the same time as the output level report every year, carrying out a review of the output achievement status and the review/improvement proposals for policy measures at the same time is possible by synchronizing the implementation period with the output level reports.

In the above, the recommendations for improvements were made assuming the average circumstances based on the cases of the target countries of this study. However PRS formulation/implementation processes vary depending on each country's history and particular conditions. Accordingly, it is necessary to discuss and negotiate individual cases among the stakeholders according to the respective country's circumstances when consulting on the above proposals.

Chapter 5

**Significance of engaging in PRS monitoring
and the desirable forms of aid**

Chapter 5 Significance of engaging in PRS monitoring and the desirable forms of aid

Points of this chapter:

- Engaging in PRS monitoring has advantages: it provides a picture of how the project aid has contributed to the overall PRS impacts; it makes it possible for Japan's input to be reflected on the recipient government's policy measures and administrative activities; and it helps Japan to plan for aid to be aligned with the PRS. Aid for PRS monitoring can be regarded as aid that is aimed at improving the partner country's policy implementation capacity and system.
- It is now necessary for each donor to make efforts to transform its own aid style from the perspective of respect toward local ownership. Japan also needs to find ways to improve the effectiveness of the overall development assistance system, which includes various modalities, while reforming its project-type aid.
- Feasible PRS monitoring aid includes: i) Construction of an overall PRS monitoring framework. ii) Establishment of frameworks and capacity building in various monitoring mechanisms including financial monitoring, sector monitoring, and poverty monitoring. It is also necessary to secure local support systems and competent human resources in order for Japan to actively make an intellectual contribution through engaging in such PRS processes and monitoring.

The previous chapter discussed the desirable state of the future APR, identifying the position of the APR, the characteristics of various monitoring mechanisms under a PRS regime, and their relationship to the APR. This chapter will summarize how JICA and Japan should engage in PRS monitoring, including the APR, by the partner country and the significance of aid to improve the partner country's monitoring capacity.

5-1 Significance of Japan and JICA's engagement in PRS monitoring

5-1-1 Participation in the monitoring process

The PRS is reviewed annually through the APR and through the compilation of the review report, so that a new annual plan can be prepared and implemented. The poverty reduction process, which is regarded as one carried out by the government as a whole, should be supported through partnerships with a wide range of stakeholders under the open participatory system in order to cut transaction costs and improve accountability. The main significance of aid coordination in the PRS process is to engage in the work of PRS monitoring and check its progress and direction, which are carried out in collaboration with the stakeholders, such as the government, NGOs, and the civil society. In order to participate in discussions on the PRS as a whole, needless to say, engagement in its monitoring process is an important prerequisite.

Japan's participation in PRS monitoring makes it possible to see the picture of the contribution of the project aid, which is Japan's main aid modality, to the overall PRS impacts from the perspective of the contents, targets, and monitoring indicators. Not only this, Japan's participation in discussions on the overall PRS also makes it possible to express Japan's views within the government and the donor community. Accordingly, participation in PRS monitoring enables Japan to play a certain role among

various stakeholders, such as the partner government, the civil society, and donors. As Japan's partnership matures, its development into a more advanced poverty reduction process can be expected.

5-1-2 Formulation and evaluation of projects that are aligned with the PRS

While the Japanese government has conventionally mainly adopted the project-type aid modality, effective macro evaluation of the contribution of this project-type aid to the partner country's development strategy has not been conducted. If our development projects are not fairly evaluated by the recipient country's monitoring system (PRS monitoring), they will be regarded as marginal in the PRS regime and the financial system. In order to prevent this, it is necessary to carry out JICA's project-type aid as a part of a PRS by formulating projects with the aim of improving the targets and indicators of PRS monitoring. At the same time it is necessary to establish project objectives that are aligned with the PRS monitoring indicators and the PRS monitoring chain. It is also important to deepen mutual understanding with the government and other stakeholders through discussions on project formulation and evaluation monitoring.

5-1-3 Improvement of policy implementation capacity and systems of the partner country

PRS monitoring is referred to, in brief, as a process of checking if each PRS policy and system is effectively improved in an open participatory framework. In this process, aid for the partner country's monitoring activities and improvement of its monitoring capacity are regarded as support toward the partner country's improvement of its administrative capacity based on country ownership. For example, when PAF monitoring that adopts policy process indicators judges that the goals have not been reached, identifying causal factors and resolving them through a review of the relevant sector and structure will lead to improvements in the administrative capacity.

5-2 Challenges for Japan's aid

Inclusion of an evaluation of Japan's project-type aid in the system for the overall evaluation of PRSs will prevent Japan's aid from becoming stand-alone aid. Clear positioning of this aid in the PRS system has various advantages.

Identifying the donor's own roles and contribution status in the overall PRS is important for checking and evaluating the methods and content of project-type aid. Furthermore, this will be useful in discussing the adoption of any new aid modality, such as financial support. In the past, the aid modality was determined solely by the donor. However, it has become necessary for each donor to transform their own style of aid by considering the opinions of the partner country's government and the civil society in order to respect country ownership. Considering this trend, Japan needs to find measures that can improve the effectiveness of its aid regime consisting of various modalities through the improvement of project-type aid. Such measures are grouped into the following two phases.

(1) Measures that can be taken to a certain extent using the current system

- Improving predictability by including the project costs within the budget through prior reporting of the project budget to the MTEF as well as reporting of the results such as the expenditure records to the PER
- Utilization of the PRS monitoring indicators and data by carrying out regular surveys of the sector and tasks in collaboration with other donors, or sharing the results of already implemented surveys among

the donors

- Seeking the most appropriate way to interact with the partner country for project-type aid from a medium-term to long-term perspective, taking into consideration the knowledge and experience of various stakeholders of the society (local experts, NGOs, politicians, other donors, etc.) through a continuous dialogue with them, rather than trying to find out the challenges and needs only within the limited life of the project

(2) Challenges that are difficult to overcome in the current system

Local leadership should be promoted with regard to the following affairs: consideration and formulation of country-specific aid plans including introduction plans for new modalities and proposals for a full scale revision of projects based on the results of a poverty monitoring evaluation; formulation of each aid case based on the above plans; and a commitment to an aid coordination framework, including the signing of a memorandum of understanding. This includes finding fast and flexible decision making measures required for the execution of agreements on site.

In order to put Japan's aid strategy into practice, it is essential to formulate a common understanding among local ODA taskforce staff by giving a certain level of authority to them. Under a PRS regime, the successful implementation of Japan's aid depends on the formulation of a common understanding among the Japanese stakeholders and then communication of this to the other stakeholders as soon as possible. This is because many discussions on modalities for aid coordination are being held and a memorandum of commitment is frequently signed in the partner country, while there is only a limited time for decision making. As the current PRS-APR process is still in its pilot stage, there are risks and limitations. However, Japan's synchronous participation in the process by sharing the costs and the risks will not only strengthen the confidence of other stakeholders in Japan, but will also increase the impact of Japan's viewpoint in the debate. Regarding the leadership taken by the local staff and the sharing of the burden of risk, the local ODA taskforce will mainly provide the submission of opinions, based on its preparation work, while the headquarters or the central ministry should present the overall direction.

5-3 Desirable forms of aid from Japan for PRS monitoring

Here are the examples such as Tanzania to show how the PRS monitoring support can be implemented by JICA or Japan as a whole. It is important to understand that the current situations of the systems of monitoring and organizational abilities are different in each country.

(1) PRS monitoring

- Assessment of the state of linkage among the indicators (the monitoring chain)
- Liaison and harmonization among monitoring mechanisms

(2) PER/MTEF¹⁰¹

- Support for Public Expenditure Tracking Survey (PETS) combined with PER

The Public Expenditure Tracking Survey (PETS), which is combined with the PER, shows how the expenditures are carried out at the final service points and if the funds are being effectively used through detailed surveys. Aid to a system that has enhanced its effectiveness through the citizens and participation of the civil society is important in that it will enhance domestic accountability and ensure

¹⁰¹ Assistance to PER/MTEF will eventually lead to assistance for the improvement of public financial management capacity.

sustainability in the partner country. In addition, it is also possible to design aid to improve the physical and non-physical capacity that is required for participatory budget planning.

(3) Sector monitoring

- Formulation of sector monitoring frameworks

As a first step, it is desirable to participate in the discussions on the formulation of a sector monitoring framework. Such discussions will be held on the basis of the selection of sector indicators that are based on the relationship between the PRS and other related strategies, the setting of quantitative targets according to the current baseline data and the administrative capacity, the formulation of policy action/indicator matrices, and other matters. It is desirable to establish monitoring systems in which representatives of the citizens and the civil society can participate.

- Enhancement of sector monitoring capacity

Capacity building of local administrative officials is an urgent challenge since plans and the evaluation of regional policy measures are important factors for the overall evaluation of the sector in a decentralized society. In many cases, the capacity of local administrative officials to collect, record, report, and utilize data is extremely low in developing countries.

(4) Poverty monitoring

- Enhancement of the capacity to conduct statistical surveys

It is possible to provide the statistical bureau with aid to enhance its support capacity in conducting statistical surveys (planning, implementation methods, statistical improvements, data processing, analysis, storage, dissemination, improvement of statistical libraries, etc.). Providing administrative officers with assistance in enhancing their support capacity is also possible.

- Assessment of poverty surveys

It is possible to provide aid for poverty surveys, the assessment of the impact of policy measures on the poor, and participatory poverty assessment. In particular, poverty surveys in which citizens and the civil society participate are very important in that the poverty groups themselves participate in PRS monitoring.

- Reporting and feedback

It is important to choose appropriate reporting modality depending on the audience. In particular, elaboration of the method of reporting is required from the perspective of accountability to the citizens. For example, compilation of a simpler version of a report, dramatization, using cartoons, adoption of music and other ways of elaboration are required. It is also possible to provide aid to structuring opportunities for a wide range of PRS stakeholders to exchange their views and to promote interactive communication, including feedback of the stakeholders' opinions through enhancement of the participatory process.

(5) General budget support monitoring

It is also necessary to provide aid to the secretariat that coordinates the overall monitoring and technical aid for the evaluation of overall monitoring indicators and the monitoring process.

(6) Securing the support systems and human resources required to provide aid

In order for the JICA's project formulation advisors and staff to participate in aid coordination and provide an intellectual contribution to the PRS process, which can evolve through the accumulation of

experience, and in a new field such as monitoring in each PRS partner country, establishing a support system is also important and effective. Such a support system includes responding to local needs through the conduct of research in the relevant sector both inside and outside Japan, providing opportunities for neighboring Japanese embassies and JICA branch offices to exchange information and views utilizing local aid offices. The UK DFID and the World Bank are actively engaged in research and advancing their expertise in each field of PRS monitoring. It is also necessary for Japan to conduct research related to the following fields in the priority aid recipient countries through an affiliation between the JICA/Institute for International Cooperation and universities/research institutions in Japan or through collaboration with other aid agencies. Regarding collaboration with other aid agencies, it is worthwhile considering for these fields the use of the PRS World Bank Poverty Reduction Strategies Trust Fund and Policy and Human Resources Development Fund (PHRD), to which Japan is contributing funding.

- Storage, assessment, and provision of information on PRS monitoring in each country
- Implementation of a household budget survey and participatory poverty assessment and providing feedback
- Surveys and research on vulnerability

It is also important to secure human resources that are able to contribute to these fields. PRS monitoring, which covers a wide range of fields, requires experts in various fields. According to each partner country's needs, people who have specialties in development studies, public administration/administrative evaluation, statistics, or economics/public finances as well as advanced communication skills in aid coordination are required.

Annex

Annex 1 Tanzania statistical data collection plan

The Tanzania poverty reduction monitoring master plan (PMMP) clarifies the statistical surveys to be conducted during the twelve years from 2000/01 as the following table shows in order to regularly and systematically collect data for poverty monitoring that is stipulated in the PRSP.

FY	00/01	01/02	02/03	03/04	04/05	05/06
Surveys planned in PMMP	Household budget survey Labor force survey	National census	Agricultural survey	Demographic and Health Survey	Labor force survey	Household budget survey
Implementation status	Report completion	Final report under preparation	Report under preparation	Field surveys completion	Implementation under preparation	
FY	06/07	07/08	08/09	09/10	10/11	11/12
Surveys planned in PMMP	—	Agricultural survey	Demographic and Health Survey	Labor force survey	Household budget survey	National census

Source: Prepared by the author based on United Republic of Tanzania (2001)

Annex 2 Comparison of the MDGs and the Tanzania PRS indicators

MDGs	Targets for 2015	PRS indicators
Eradicate extreme poverty and hunger		Income poverty
Target 2 To halve, between 1990 and 2015, the proportion of people who suffer from hunger	Proportion of the population below the food poverty line: 10.8% (21.6% as of February 1991/2)	Proportion of population below the food poverty line
		Proportion of districts reported to be with food insecurity
		Proportion of households consuming less than one meal per day
Target 1 To halve, between 1990 and 2015, the proportion of people whose income is less than a dollar a day	Proportional headcount of those below the basic-needs poverty line: 19.3% (38.6% as of February 1991/2)	Proportion of population below the basic-needs poverty line
		Proportion of orphaned children
		Proportion of chronically ill adults
		Proportion of the working age population unemployed
		Average number of days for adults reported absent from work due to sickness
		Proportion of unemployed 15-24 year-olds in urban areas
		Overall GDP growth per annum
		GDP growth of agriculture per annum
		Consumer price index for food items
		Roads
		Length of roads under periodic maintenance in a given year
		Length of roads under daily maintenance in a given year
		Agriculture
		Proportion of smallholders reported convenience or cost of transport as an obstacle for access to market
		Proportion of smallholders who wanted, but were unable to use credit in a given year
		Proportion of smallholders who reported satisfaction with the extension services from agricultural extension workers
Achieve universal primary education		Human capabilities - Education
Target 3 Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling	Target 3 Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling	Net primary school enrollment rate
		Gross primary school enrollment rate
		Proportion of children in the labor force and not attending school
		Percentage of cohort completing Standard VII
		Drop-out rate in primary school
		Percentage of students passing the Primary School Attainment Exam
		Literacy rate of the population aged 15-24
		Literacy rate of the population aged 15 and above
		Transition rate from Standard VII to secondary school level 1
Combat HIV/AIDS, malaria and other diseases		Human capabilities - Health
Target 8 Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases		Number of outpatient visits per capita per annum
		DPTHb3 coverage
		TB treatment completion rate (cure rate)
		Average life expectancy

MDGs	Targets for 2015	PRS indicators	
Target 7 Have halted by 2015 and begun to reverse the spread of HIV/AIDS		HIV infection rate in the 15-24 age group	
		Percentage of children born to HIV-infected mothers who are HIV positive	
		Proportion of the population reported to be satisfied with health services	
Human capabilities - Water and Sanitation			
Target 10 Have the proportion of people without sustainable access to safe drinking water by 2015.	Percentage of people who have sustainable access to safe drinking water: Baseline: 50% (1990) MDG target: 75% (2015) MTEF target: 53% (2003)	Proportion of households with access to piped or protected water as their main drinking water source	
		Proportion of households able to bring water home within 30 minutes	
		Number of reported cholera cases	
Survival			
Reduce child mortality Target 5 Reduce by two thirds, between 1990 and 2015, the under-five mortality rate		Mortality rate of children under five	
		Percentage change in the mortality due to malaria among children under five	
		Percentage change in the mortality due to diarrheal diseases among children under five	
		Incidence of diarrhea among children under five	
		Average number of infant deaths (per 1000 infants born)	
		Ratio of the IMR of the poorest class to the IMR of the wealthiest class	
		Total number of family planning acceptors (new and old)	
		Total fertility rate 15-49	
		Nutrition	
		Children with height lower than others in the same age group	
		Underweight children	
		Children with weight lower than others in the same age group	
		Improve maternal health	
Target 6 Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio		Proportion of births attended by a skilled health worker	
		Proportion of births taking place in public health facilities	
Ensure environmental sustainability			
Target 9 Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources		Poverty - Environment linkages	
		Number of joint forest management agreements	
		Number of wildlife management areas	
		Mean distance to firewood supplies	
		Proportion of smallholders with a planted area of less than 2 ha for staple crops	
Promote gender equality and empower women			
Target 4 Eliminate gender disparities in primary and secondary education by 2005 and at all levels of education no later than 2015		Gender	
		Girl/boy ratio in primary education	
		Girl/boy ratio in secondary education	
		Proportion of women among senior civil servants	
		Proportion of women among the Members of Parliament	
		Governance	
		Proportion of district councils with report of no corruption by the National Audit Office	
		Number of cases of corruption reported	
		Number of convictions for corruption	

Source: Prepared by the author based on UNDP (2003)

Annex 3 PAF of Tanzania

UNITED REPUBLIC OF TANZANIA
General Budget Support
Proposed Performance Assessment Framework (PAF) – DP Version 25th October 2005

NO	SUBJECT	QUESTIONS/ ISSUE TO MONITOR	MAIN PROCESS	UNDERLYING PROCESSES	TEMPORARY PROCESS ACTIONS	INDICATORS	INDICATOR VALUES	
							Baseline (2005) and Target (2010) Values	Actual This Review Period
1	NSGRP implementation: Cluster 1 - Growth and reduction of income poverty	Is broad based economic growth being effectively promoted? Are policy debates/decisions transparent?	NSGRP review	<p>i. Development of and dialogue on implementation of a growth strategy.</p> <p><u>To be developed</u></p> <p>ii. Infrastructure Review, encompassing Roads, Energy, Communication, and Transport sector in 2005/06.</p> <p>iii. Agricultural Sector Review in 2005/06.</p> <p>iv. BEST Programme Review.</p>	<p>(i) Put in place the agreed sector review processes, ensuring alignment of the next PRBS annual review in October 2006.</p> <p>(ii) Government amendments to the Civil Procedure Code (CPC) by October, 2006.</p> <p>(iii) Private sector views considered prior to second reading of the Business Activities Registration (BAR) Bill and the Regulatory Licensing Regime reformed.</p> <p>(iv) Draft Roads Act to be submitted to the Parliament by October 2006.</p>	<p>(i) Adopt a policy stance that leaves scope for an increase in credit extended to the private sector of at least 1 1/2 percentage points of GDP.</p> <p>ii) Enabling environment for private sector lead growth improved.</p> <p>iii) Reduction of Income Poverty in Rural Population (measured by Annual Agriculture. GDP growth).</p> <p>Improve rural market access.</p>	<p>(i) XXX</p> <p>(ii) Tanzania steadily moves up the World Bank "Doing Business" ranking.</p> <p>(iii) Baseline: 5.4% Target: 10.0%</p> <p>(iv) Rehabilitate 15,000 km of rural roads by 2010 from 4,500 km in 2003¹⁰²</p>	<p>(i) 8.6 % of the GDP in 2004</p> <p>(ii) Tanzania ranked 140 in 2005</p> <p>5.4%</p> <p>(iv) 8,500 kms of rural roads rehabilitated in 2004</p>

¹⁰² Before the Annual Review 2006, a Joint Task Force will identify a better indicator to capture market access, encompassing the Government's entire efforts in improving such access.

NO	SUBJECT	QUESTIONS/ ISSUE TO MONITOR	MAIN PROCESS	UNDERLYING PROCESSES	TEMPORARY PROCESS ACTIONS	INDICATORS	INDICATOR VALUES	
							Baseline (2005) and Target (2010) Values	Actual This Review Period
				<p>v. Second Generation Financial Sector Reforms Programme Review</p> <p><u>In Place</u></p> <p>vi. Per Macro Group</p> <p>vii. Privatisation Review</p> <p>viii. Tax Modernisation Programme (TMP) Review (to be replaced by a comprehensive NSGRP Cluster Review when developed.</p>	<p>(v) Draft Electricity Act to Parliament by October 2006.</p> <p>(vi) EWURA (Energy, Water, and utility Regulatory Authority) and SUMATRA (Surface & Marine Transport Regulatory Authority) fully operational and staffed.</p> <p>(vii) Amendment of Legislation for at least two crops Boards by November 2006.</p> <p>(viii) Survey of individual farms 11,693 and issue of CCROs.</p> <p>(ix) (Production and distribution of the Strategic Plan for the Implementation of Land Laws (SPILLS)).</p> <p>(x) Special studies on SGR, Input Trust Fund and Input subsidies conducted with Government position on their recommendations.</p>	Increase capacity of LGAs to support agricultural development	90 LGA meet annual performance criteria to access enhanced DADG.	0 LGAs accessing enhanced DADG

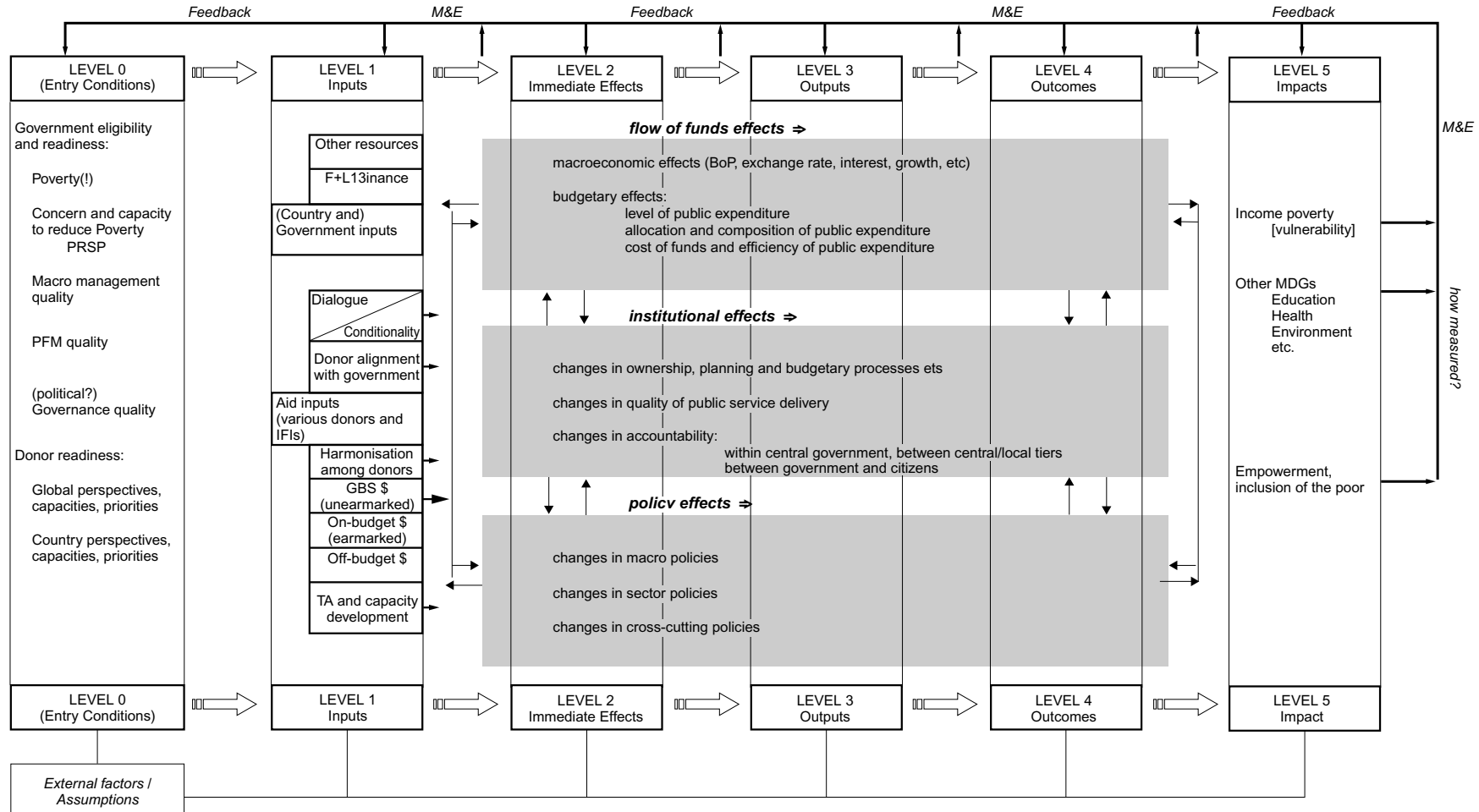
NO	SUBJECT	QUESTIONS/ ISSUE TO MONITOR	MAIN PROCESS	UNDERLYING PROCESSES	TEMPORARY PROCESS ACTIONS	INDICATORS	INDICATOR VALUES	
							Baseline (2005) and Target (2010) Values	Actual This Review Period
2	NSGRP implementation: Cluster 2 - Improvements of quality of Life and Social well being	Is there improved quality of life? Is service delivery improving?	NSGRP review	A comprehensive NSGRP Cluster Review when developed				
			NSGRP review	Implementation of the National Environment Management Act, 2004	Publication of the first State of the Environment Report.	To be identified from the State of the Environment Report.		
			NSGRP review		Action Plan for developing a National Social Protection Strategy adopted.	To be identified from the Action Plan.		
			NSGRP review	Health Sector Review		Proportion of children that receive three doses of vaccine against diphtheria, pertussis (whooping cough), tetanus, and Hepatitis B under two (2) years.	Baseline: ..% Target: 99%	..%
			NSGRP review	NMSF Bi-Annual Review		National HIV prevalence ¹⁰³ in the 15 – 24 years age group.	Baseline: 7.5% Target: 6.0%	7.5%
			NSGRP review	Education Sector Review		Net primary school enrolment. Transition rate from standard VII to Form I. Gross Tertiary Education enrollment.	NER Primary Average 94.8% Boys 95.6% Girls 93.9% Transition Rates: Average 36.1% Boys 36.6% Girls 35.6% GER Tertiary Education: Baseline: 0.5% Target: 6.0%	90% 50% 0.5%

¹⁰³ Target to be reviewed to take into account the effect of ARVs.

NO	SUBJECT	QUESTIONS/ ISSUE TO MONITOR	MAIN PROCESS	UNDERLYING PROCESSES	TEMPORARY PROCESS ACTIONS	INDICATORS	INDICATOR VALUES	
							Baseline (2005) and Target (2010) Values	Actual This Review Period
			NSGRP review	Water Sector Review	Satisfactory joint water sector review held in first quarter FY 2006/07. (Approval by the Cabinet of the National Water Sector Development Strategy).	Percentage of the population that has access to clean and safe water from a piped or protected source.	Baseline: Rural 53.5% Urban 73.0% Targets 2010 Rural 65% Urban 90%	Rural 53.5% Urban 73.0%
3	NSGRP implementation Cluster 3 - Governance and accountability	Is good governance and the rule of law ensured? Is government accountable to the people?	NSGRP review	GoT - DPs and other stakeholders' consultations on governance. NACSAP (II) PSRP Review (LSRP review) LGRP review	(i) Revised anti Corruption Legislation presented to Parliament by April 2005/2006. (ii) Develop review mechanism for NACSAP (II).	(i) Quarterly NACSAP Implementation Report published and discussed. (ii) Current pay as a proportion of government's pay target (PSRP). (iii) Percentage of Court cases outstanding for 2 years or more. (iv) Number of strategic plans of centre and sector ministries containing a strategic objective to implement decentralization by devolution.	Baseline: 4 reports Target: 4 reports Baseline: 86% Target: 100% Baseline: 70% Target: 40% Baseline 2005: One (PO-RALG) Target 2010: All	4 Reports 86% 70%
4	Resource allocation and budget consistency	Does the budget reflect national policy? Does spending reflect the budget? Are budgetary decisions questioned for consistency with policy and VFM?	PER MACRO Poverty Monitoring System	Budget Guidelines. Fiscal reports (BER, QDR) PEFAR review Annual Mkukuta Progress Report		Approved budget broadly in line with policy objectives (NSGRP, sector policies). Expenditure outturn consistent with approved budget.	Recurrent budget deviation reduced. Baseline: 18% Target: 10%	18%

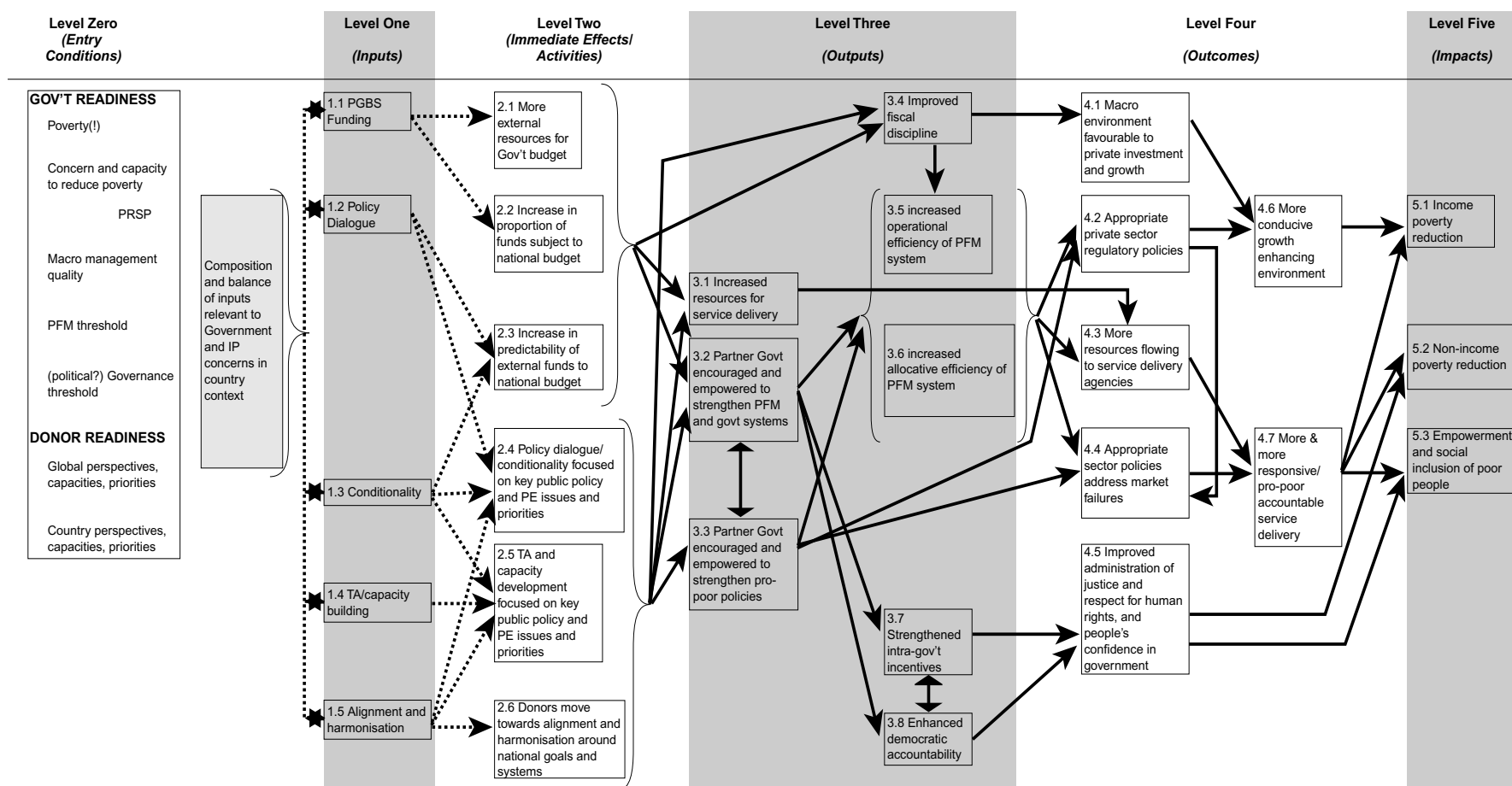
NO	SUBJECT	QUESTIONS/ ISSUE TO MONITOR	MAIN PROCESS	UNDERLYING PROCESSES	TEMPORARY PROCESS ACTIONS	INDICATORS	INDICATOR VALUES	
							Baseline (2005) and Target (2010) Values	Actual This Review Period
5	Public Financial Management	Are there systems in place within GoT to assess the regularity of expenditures? Is the procurement system open and transparent and provide value for money? Are these enforced?	Single PFM review instrument	PEFAR review which will need to look at (ii) annual procurement audit PFMRP JSC consultations	(i) Audit Reform priorities to be reflected fully in PFMRP - see attached table. (ii) PWC contracted to establish system for monitoring and checking compliance, start November, will end around March 2006	(i) NAO Audit Report is of international standard by 2010 and released within 9 months as required by the Public Finance Act 2001. (ii) Number of procuring entities complying with the Public Procurement Act 2004	2005: NAO starting to introduce INTOSAI and ISA international standards regarding formats, procedures and reports. 2010: NAO fully compliant with international standards. Baseline: 10% Target: 80%	10%
6	Macroeconomic stability.	Is the broad macroeconomic environment conducive for budget support?	PER MACRO	Budget Guidelines. Fiscal reports (BER, QDR) PRGF PEFAR review		Fiscal and monetary stability, reflected by: (i) Fiscal Deficit (after grants) as % of GDP consistent with PRGF targets. (ii) Inflation rate consistent with PRGF targets.	Baseline: 6% Target: per PRGF Baseline: 4.5% Target: per PRGF	6% 4.5%

Annex 4 OECD/DAC Enhanced Evaluation Framework



Source: IDD and Associates (2006)

Annex 5 OECD/DAC Causality Map for the Enhanced Evaluation Framework



Source: IDD and Associates (2006)

Annex 6 ODI Progress Reviews and Performance Assessment (2005) in poverty-reduction strategies and budget support A survey of current thinking and practice (March 2005) 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 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.

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