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Title “Demonstrating National Ownership and Leadership in Policy Reform under Donor Support”

Studying points

Students are expected to experience the decision-making methods of the top leaders of a state and to learn through this case discussion, thereby further elaborating their sense of state leadership for the future.

Basic information

- Region: Sub-Saharan African countries
- Issue: Development cooperation
- Key words: Development cooperation, ownership and leadership of the development countries in the area of development cooperation
- Country: Kantehara Republic (A fictional country)
- Year: 2019

Characters

Characters	Description
Antony (Main character)	<ul style="list-style-type: none">● Permanent Secretary of the Ministry of Economy and Finance (MOEF) of the Kantehara Republic● Responsible for the national development plan, fiscal policy management, and the external relations of donor development cooperation
Dr. Terloy	The President of the Kantehara Republic
Dr. Sagan	Minister of Economy and Finance. Immediate boss of PS Antony
Taro Kokusai	Head of JICA Office in Kantehara
Donor group	Consists of several donors led by an international financial institute
Astoria	Director of Planning, MOEF
Archibelt	Director of External Relations, MOEF

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Abbreviations

FDI	Foreign Direct Investment
GOK	Government of Kantehara
GNI	Gross National Income
MOEF	Ministry of Economy and Finance
PS	Permanent Secretary
USD	US dollars

Summary

In early June 2019 an unofficial proposal was made to Mr. Antony, the Permanent Secretary (PS) of the Ministry of Economy and Finance (MOEF) of the Kantehara Republic, a country located in the East African region, suggesting that there would be new policy support for the improvement of the Country's business environment from a donor group. PS Antony was requested to respond to the donor group on whether Kantehara would accept its unofficial offer by the end of September 2019. Against this situation, PS Antony needs to prepare a draft position paper for the Government of Kantehara (GOK), and subsequently submit it to Dr. Sagan, the Minister of Economy and Finance, and Dr. Terloy, the President of Kantehara, for their approval.

Key questions in reading this case

The students, who will assume the position of PS Antony, are required to come up with a position paper on the donors' proposal of new policy support for the improvement of the national business environment for the approval of the President. The students are recommended to discuss the following:

1. The possible conclusions on whether GOK should accept the donors' proposal of policy support for enhancing the business environment in the country;
2. The points that GOK should bear in mind prior to making a decision, as well as those relating to the identification of the driving forces and restraining forces in receipt of the proposed donor support, e.g. by using Field Force Analysis (Attachment 4);
3. The lessons learnt by PS Antony and how these should feedback into the donors' proposal for new policy support, the role that the GOK should play in the preparatory and implementation processes of the proposed donors' policy support to avoid a donor-led process from beginning to end, how GOK can demonstrate national ownership and leadership; and
4. From the viewpoint stated in Question 3 above, what should PS Antony request from the donors when the PS gives donors an answer on their proposal?

1. Background

Kantehara is an East African country with a GNI per capita of 930 US dollars (USD), and is in a transformation stage from a low-income to lower middle-income country. In this situation, the Government of Kantehara (GOK) is pursuing the achievement of an economic transformation from agrarian economy to semi-industrial or industrial economy in the near future. However, that is not an easy path. According to the World Bank *Doing Business Indicator*, Kantehara is ranked 144th out of 169 countries in the world in relation to the ease of doing business there. This is a lower rank than other Sub-Saharan African countries such as Ethiopia, Ghana, Kenya, Mozambique, and Uganda. This lower rank reveals to external parties that the business environment of Kantehara is generally not favorable for either domestic or foreign investors. This will affect foreign direct investment (FDI) negatively; eventually impeding further economic growth and the stability of the macro-economy. This is not a welcome situation for Kantehara. In reality, the foreign investors operating in Kantehara have expressed dissatisfaction with the current situation for a long time, more specifically about the cumbersome rules, regulations and procedures relating to various licensing, custom clearance, taxation, labor (e.g. work permits), and land acquisition issues. Furthermore, problems caused by uncertainty, unpredictability and inconsistency have been raised by foreign investors. In addition, the diplomatic corps and domestic and foreign investors have submitted requests every year, calling upon the GOK to take action to improve the business environment based on the requests of their business communities (from countries like Japan, European, American, China and India). Seeing this situation, donors have increasingly recognized the necessity of taking action, and have raised these issues in the GOK-Donors annual dialogue held every December.

MOEF is primarily responsible for drafting the national development plan, economic policy management and the overall coordination of external assistance. In the latest plan, the GOK puts a high priority on private sector development and the creation of an enabling environment. Thus, MOEF is very keen to see an improvement in the business environment and feels the necessity to take some action also.

2. Proposal from donors on policy assistance

Now it is early June 2019. The time is coming when the MOEF and donors need to start preparing for the annual GOK-donor dialogue in December. PS Antony called upon donors to come to a kick-off discussion and he listened to the views of donors on agenda setting and the expected deliverables of the coming dialogue. During the meeting, many donors insisted that the issues relating to the business environment should be dealt with. In addition, a group of donors showed

their willingness to offer new policy support for improvement of the business environment, in which financial support of 300 million USD would be included, and said that they would possibly make a pledge in the dialogue (See Attachment 1). They also stated that the GOK needs to give donors an answer on the acceptance of this offer by the end of September 2019 for the pledge in the dialogue to be made if GOK is interested in this. According to the decision-making rules of GOK, PS Antony is required to take the following steps and finally get the President's approval (See Stakeholder relations in policy support in Attachment 2):

- Step 1 MOEF to draft a position paper on whether or not GOK should accept the donors' proposal along with a summary of the proposal;
- Step 2 MOEF to hold an inter-ministerial meeting (expert level);
- Step 3 MOEF to hold an inter-ministerial meeting (director level);
- Step 4 MOEF to hold an inter-ministerial meeting (PS level);
- Step 5 MOEF to prepare a revised draft position paper;
- Step 6 PS of MOEF to submit the draft paper to the Minister of Economy and Finance;
- Step 7 MOEF to prepare the final draft paper based on the Minister's comments;
- Step 8 The Minister of Economy and Finance to submit it to the President for approval.

It takes around six months to complete this whole process. MOEF was sounded on this proposal from the donors in early June and needs to respond to donors by the end of September. The time remaining for the process within the government is only four months. This is much shorter than the designated time framework. Therefore, if PS Antony intends to accept this donor proposal, he needs to process this matter urgently, and decide on its fast-track treatment.

As of early June 2019, PS Antony assumed that GOK would accept the donors' proposal to fill in the financial gap in the state budget. Kantehara's financial situation has been deteriorating in recent years. The fiscal deficit is 4.5% in relation to gross domestic product (GDP) and the amount of the public debt to GDP was 40.8% in 2018. The financial supports by donors would be very helpful indeed. Moreover, creation of an enabling environment is one of the top priorities in the agenda of the national development plan. The donors' proposal on the improvement of the business environment is coherent with the national priority laid out in that planning document and he assumed that it is intended to be supportive in the achievement of this priority outcome.

3. The Worries of PS Antony

Meanwhile, the PS has a bitter memory of the failure to achieve policy reform with

donor support of just one year before, when the parties adopted a similar modality for accepting policy support. Then, the GOK accepted policy support by a group of donors for governance sector reform. However, the reform did not produce tangible outputs and was judged as “failed”. As a result, MOEF and PS were criticized by the President and the Parliament as seen in the following comments:

<u>Critics</u>	<u>Contents</u>
<i>The President</i>	<i>There was no doubt that the governance reform targeted in the donors’ policy support was inevitable for GOK. However, the process of consensus building between GOK and a group of donors was problematic. MOEF did not formulate a clear position but simply followed donor-led processes from the beginning to the end of the negotiations. How GOK should have demonstrated its national ownership and leadership was left as a serious lesson for the future. It would have been acceptable if the reform were successfully undertaken. However, it failed in reality.</i>
<i>The Parliament</i>	<i>The negotiation process was mainly led by a group of donors, and the national ownership and leadership of MOEF were not observed. The reform outputs were invisible. The donor fund was not utilized effectively and wasted. It is inevitable that GOK should set up a committee under the Parliament and investigate if the 300 million USD provided by donors was spent appropriately and who should take responsibility for the failed situation.</i>

Against these severe criticisms, MOEF had a review meeting within the government when the failure of governance sector reform became clear, and summarized the achievements and lessons learnt from the reform process and donor policy support with the financial assistance of 300 million USD as the following (See Attachment 3):

- (1) The GOK did not demonstrate national ownership and leadership fully. The entire negotiation process of the reform package was led by the donors. Consequently, reform agendas and actions points, which did not meet the demands of GOK and were not of benefit to GOK, were included in the reform package;
- (2) The involvement of the line ministries and organizations concerned was not appropriate. As a result, their voices were not fully reflected in the reform package. Inevitably, those ministries and organizations did not have a strong commitment to the reform process and did not implement the agreed action points with their ownership;
- (3) MOEF was excessively highly motivated by the short-term interest of reducing

the fiscal deficit in accepting policy support from donors, not the reform in itself. Consequently, MOEF attention on reform implementation and its outputs was too weak to allow the reforms to progress or to reap the benefit of its achievements;

- (4) MOEF should have recognized the importance of the reform process and taken the initiative in monitoring activities more seriously, including engagement in those activities and in the timely submission of the monitoring report. As a result, those activities were not executed fully as expected, and the report was not submitted by MOEF and the organizations concerned as initially agreed upon with donors. Also, even if the organizations produced monitoring reports on the overall reform agenda, those reports often did not cover the necessary information in terms of quality and quantity because the organizations did not have a basic understanding of the reform agenda and the action points that they were primarily responsible for.

Recalling these results from the reviews, PS Antony assumed with high probability that the same pattern would repeat itself this time even though the target reform agenda would be different, because there were many common elements in the framework of the proposed donor assistance, in the nature of the reform area, and in the involvement of a wide range of ministries and organizations.

Furthermore, PS Antony considered it necessary to bear in mind that the President's Office had already obtained information about the donors' offer of policy support to MOEF; and that it had expressed interest in accepting this support. Kantehara will have a Presidential election two years from now, in which President Dr. Terloy will seek re-election. To this end, his office seeks to find stories that appeal his achievements during his present 4 year tenure of the position. Thus, his Office has managed to obtain the coming donors' expression of policy support, and is trying to give voters a strong impression of his positive attitude to reform and to put heavy pressure on PS Antony to realize this donor support at any cost.

Against this situation, PS Antony increasingly feels that he cannot repeat the same failures this time.

4. Start of discussion within GOK

First, PS Antony called upon Astoria, the Director of Planning and Archibelt, the Director of External Relations of MOEF, who are his right-hand men, and asked for their views on whether or not GOK should accept the donors' proposal. Their answers were very positive: GOK should accept it.

Then, PS Antony instructed them to follow the necessary steps designated by GOK rules and regulations for obtaining President approval. Subsequently, PS

Antony held a series of inter-ministerial meetings at the level of experts, the Directors in charge and the PS respectively. The agenda in each meeting was as follows:

Meeting agenda

- a. Review of the previous policy support for the governance sector reform;
- b. Presentation of the donors' proposal for future policy support;
- c. Discussion on their possible position on the proposal.

During the meeting, the following voices were collected by the ministries and organizations concerned:

<u>Name of Ministry</u>	<u>Voices</u>
<i>Ministry of Industry</i>	<i>Donors pushed their views unilaterally, and did not respect our voices at all. We are very concerned that donors would repeat the same thing. In addition, GOK should not accept a reform that GOK does not want to undergo. If GOK allows donors to be involved in the reform process, this would create cumbersome outcomes, thus we do not want to take a seat at the same table.</i>
<i>Custom Agency</i>	<i>We encountered terrible experiences in the previous policy support plan. Our Agency was requested to come up with a reform plan and actions by donors at the time. We prepared the paper and submitted it to MOEF. However, our ideas were not included in the final version of the reform package. We did not understand why they were rejected. We wondered if MOEF actually negotiated with the donors based on our paper.</i>
<i>Ministry of Health (MOH)</i>	<i>The reform agenda and actions laid out in the reform package were all important for GOK. However, only MOEF benefitted financially. Despite the efforts made by MOH, extra-budget allocations could not be expected. Thus, MOH was less motivated toward the reform. We shared the necessity of monitoring activities, but we hesitated to work hard because there was little incentive. The donors' reporting format was excessively detailed and demanding. Was it essential to produce such as a detailed monitoring report for donors? Donors should have prepared a budget and outsourced the production of the report to external consulting firms.</i>

Even after these meetings PS Antony does not change his preliminary thought that there is no choice but that GOK should accept the donors' proposal given the

budget situation of Kantehara. In addition, from the viewpoint of the goals set in the national development plan, the acceptance of donor policy support would be conducive to the achievement of business environment reform. He assumes that external pressure would be effective in this case for moving forward. Various ministries and organization, some of which are very conservative and against the reforms, are involved in the business environment issues and their interests are tangled together in a complicated fashion.

Meanwhile, PS Antony recognizes that criticism and frustration persist in the memories of the ministries and organizations who were engaged in the previous reform process. Thus, PS Antony is now having trouble in finding a way to deal with their conclusion to resist the donors' proposal this time.

5. Consultation with donors

PS Antony has thus not yet been able to reach a conclusion even after the discussions within GOK. Then, he decided to consult with Taro Kokusai, Chief Representative of the JICA Office in Kantehara, with whom he has found he can have a frank discussion.

In the meeting with Taro Kokusai, PS Antony explained the sentiments within GOK, and asked him to share the sentiments among donors and sought his views on how to deal with the proposal by donors. Taro Kokusai answered as follows:

Sentiments of the major donors

<u>Name of donor</u>	<u>voices</u>
<i>Donor A</i>	<i>Improving the business environment in Kantehara is a very urgent issue. Meanwhile, the standalone approaches of technical cooperation by individual donors are less effective and do not function in terms of the leverage for holding dialogues among the GOK, the donors and the business community. Thus, by using the planned policy support, we can manage to realize the opportunities for dialogue. Otherwise, the GOK is less motivated to listen to our voices. As for the reaction from GOK, it seems to be natural;</i>
<i>Donor B</i>	<i>We agree with the views of other colleagues. If I can add one more thing, MOEF should have played a more active role in the reform process. Their coordination capability was not enough to enable them to do so. The primary goal of MOEF toward the policy support seemed to be to fill in the financial gap in the short-term, and</i>

policy reform including its implementation and the results seemed to be of little interest. MOEF did not understand the importance of monitoring activities. Monitoring activities were essential to see the outputs and the sustainability of the outputs of the reform. Furthermore, as far as they received support from the external actors, fulfilling accountability responsibility and submitting the monitoring reports to donors was inevitable. Otherwise, even if the country office of the donors wants to continue with similar assistance relating to financial resource transfer next time and subsequent times, we would not be able to get approval from our headquarters.

Next, PS Antony asked Taro Kokusai about his personal views. Taro Kokusai answered:

If I were in your position and needed to consider the current budgetary situation of Kantohara, I would desire to receive 300 million USD from donors. In addition, I would try to realize the improvement of the business environment even by submitting to external pressures. The proposed policy support would contribute to achieving the creation of the enabling environment, which is a top priority in the national development plan. However, this cannot be realized by GOK efforts alone because of the complex nature of the target issues.

Meanwhile, I assume that PS Antony needs to bear in mind sentiments stemming from previous policy support. The critical view that GOK did not demonstrate national ownership and leadership and that the negotiation process for policy support was led by donors from the beginning to the end, seems to get to the point and is understandable. Meanwhile, the donor view that there was a mechanism and opportunities for GOK to show its ownership and leadership but did not, is also valid.

From my own experience, a recipient country's government tends to be able to jump to these kinds of opportunities easily. However, this is a kind of exchange transaction between reforms and financial assistance. Whether this would be good medicine or bad medicine is finally up to the GOK's intention and capability. Only GOK can find the answer. Expatriates like donors cannot be substituted for GOK's role in decision-making.

I would like to suggest that you have discussions within GOK on the following matters prior to the start of the negotiation with donors, and come up with a position of how to deal with this proposal:

- (1) The role GOK should play in the negotiation processes, e.g. coming up with the reform package;*

(2) *The way GOK should demonstrate national ownership and leadership and the types of actions necessary for ensuring the following points are considered*

- *The preferred way to demonstrate national ownership and leadership*
- *The way to involve of the ministries and organizations concerned*
- *The way to obtain the commitment of those ministries and organizations*
- *The way to deal with donors*
- *The expected process of drafting policy packages within GOK*
- *Institutional arrangements within GOK for a solid implementation of reforms*
- *The way to ensure accountability to the domestic stakeholders such as the parliament and the media*
- *The way to conduct monitoring activities (including the submission of monitoring reports).*

In addition, I would also like to suggest to you that GOK should not give a negative reaction to donors on the requested timely submission of monitoring reports with sufficient information. In general, donors need to mobilize their taxpayers' money and provide it to GOK for policy support through financial transfer. Thus, the submission of the reports to describe the reform progresses and outputs is a very valid request for donors, as is the responsibility in which GOK should be held accountable for the receipt of such monies. Free and easy money does not exist anywhere.

6. What to do next

One day in the middle of June 2019 Antony is in front of his PC and is thinking. He needs to prepare a position paper urgently to meet the timeframe designated by donors based on the series of discussions held. He also needs to arrange another inter-ministerial meeting at PS level, followed by a meeting with the Minister of Economy and Finance and the President as early as possible to finalize the revised draft position paper. If he misses the deadline for the GOK response, GOK would not be able to get the pledge of 300 million USD from donors in the forthcoming December annual dialogue meeting. It would then not be able to fill in the financial gap in the state budget and present the reform outputs to the President prior to the coming Presidential election.

However, still PS Antony has not yet reached a conclusion. Thus, he decided to take the following steps to organize his thoughts at first:

- (1) Analyze the current situation of Kantehara (priority agenda of the national development plan, challenges of the state budget, etc.);
- (2) Detail the main points of the policy support proposed by donors;

- (3) List the possible options for the conclusions of the GOK on the donors' proposal;
- (4) Set criteria for the decision making by GOK;
- (5) Seek the draft conclusions of the GOK
- (6) Determine the expected actions by GOK that are necessary in the process of policy support, including the way to demonstrate national ownership and leadership);
- (7) Analyze the requests to donors in the process of policy support based on the experiences of the previous policy support cycles.

[END]

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Samuel Smiles. 1858. 'Chapter 1 Self-help national and individual', *Self-help; with illustrations of conduct and perseverance*, pp 17-21. New York: Oxford University Press (a PDF version is prepared for the lecture).

Attachments

1. Stakeholder relations in policy support;
2. Framework of donors' policy support including an image of the policy package;
3. GOK's ownership and leadership in the previous policy support of governance sector reform;
4. Force-Field Analysis.

Attachment 1: Framework of donors' policy support including an image of the policy package

- Duration: Three years
- Amount: 3 million USD in the initial year

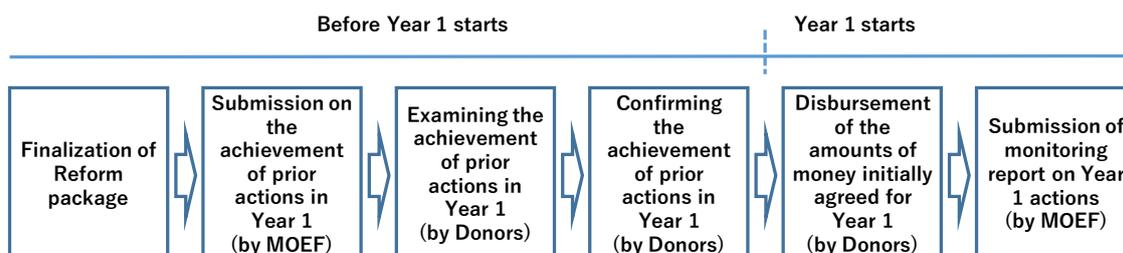
Basic framework of policy support

GOK and donors draft a three-year policy package jointly and finally reach a consensus. The reform actions with high-level impact that GOK needs to implement are included.

Disbursement mechanism by donors under policy support

Year 1

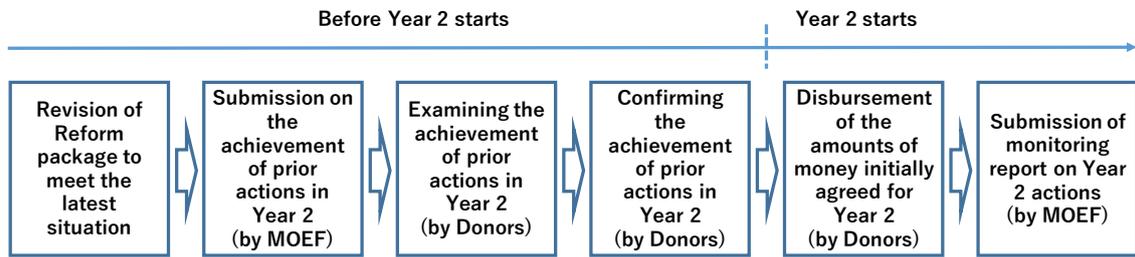
Even if GOK and donors agree upon the reform package, donor money will not be disbursed automatically. After the agreement, MOEF needs to present evidence that the GOK will implement the reform actions agreed in the policy package on the agreement document. Upon receiving this evidence, donors will examine the status of the achievements. If donors confirm the evidence of GOK fulfilling the agreed actions, donors will disburse 300 million USD to the general budget account of GOK's state budget in accordance with the agreement. This money is the form of general budget support. Thus, the method of usage is not to be designated by donors for specific development purposes. Decisions on allocation are left to MOEF and it is strongly requested to follow fiduciary issues.



Year 2

GOK needs to prepare monitoring reports on the latest situation of the Year 1 reform outputs and the status of the achievements of Year 2 reform actions as of the end of Year 1. Reflecting the latest concerns of the critical issues in the business environment, GOK and donors will revise the reform package, and build a consensus. After that, in the same way as in the Year 1 process, GOK will submit the status of the achievements in relation to the revised reform actions in Year 2. Donors will make a disbursement of 300 million USD to GOK's general account. Prior to the end of Year 2, GOK will prepare and submit a monitoring report to donors. The report include the latest situation of the Year 3 reform

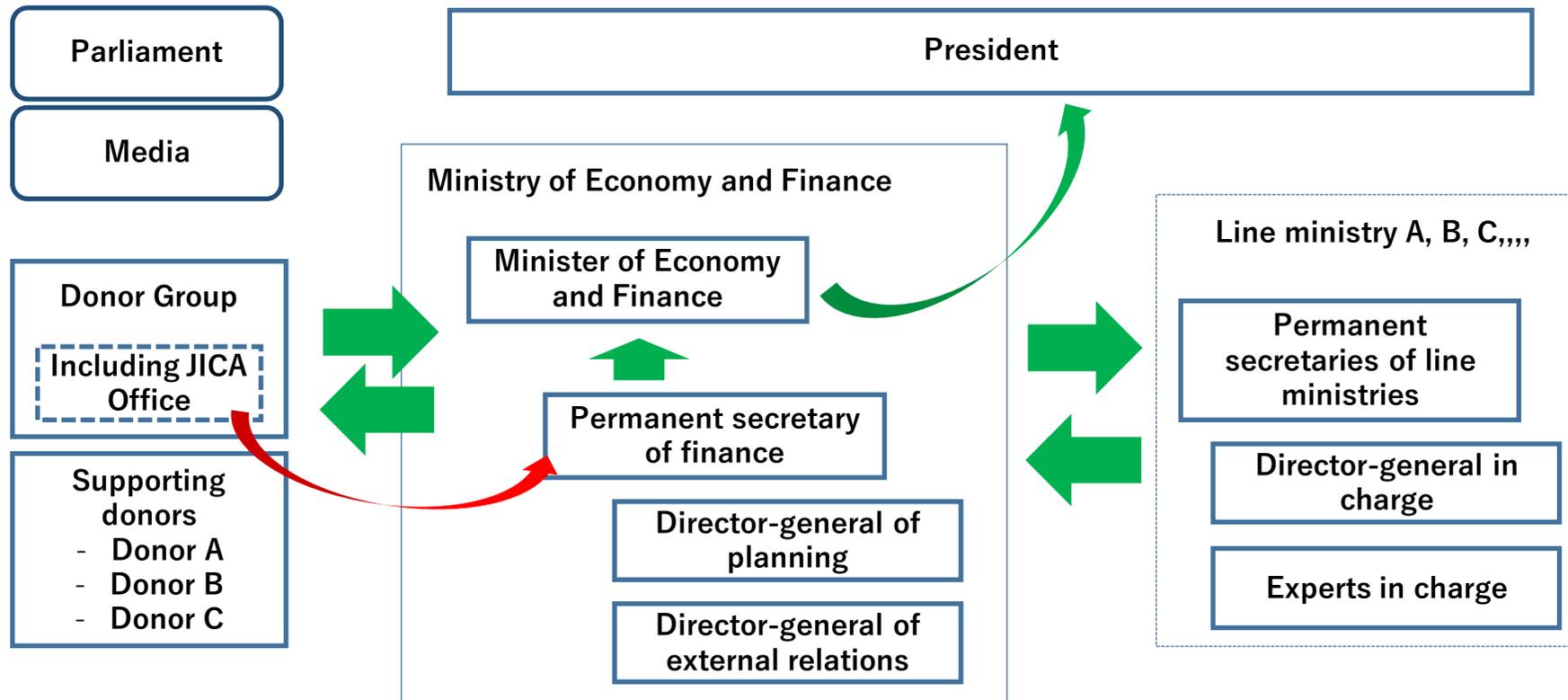
agenda.



Year 3

Same as Year 2, GOK and donors agree upon the revised reform package of Year 3. Following the same processes, 300 million USD is disbursed by donors. In addition, the monitoring report is submitted to donors before the termination of Year 3.

Attachment 2: Stakeholder relations in policy support



Attachment 3: GOK’s ownership and leadership in previous policy support for governance sector reform

The situations that occurred in the previous policy support cycle are summarized as follows:

	Desired Situation	Reality
Drafting process of reform package for GOK-donors joint discussion	The initial and subsequent revised draft reform package should be produced by the GOK side under the leadership of MOEF	MOEF could not come up with the draft reform package. Instead, donors did this. As a result, the GOK side including MOEF attending meetings with donors had little understanding of the reform package
Discussion in the meetings between GOK and donors	The line ministries and organizations concerned understand the significance of each reform agenda and action. Then, they attend the donor meetings and include the responsible officials in charge of those issues in their team	The line ministries and organizations concerned attended the meetings with donors with little understanding of the reform package
The reform agenda and its actions is included in the final version of the reform package	The line ministries and organizations concerned come up with reform actions that they really want to implement and they really can do given sufficient understanding of the significance and contents of the reform package	The line ministries and organizations concerned agreed upon the final version of the reform actions with little understanding of the reform package
The GOK’s attitude to implementing the agreed reform package	The line ministries and organizations concerned take actions on the agreed reform actions with a sense of ownership. If problems arise, they will solve them with strong leadership	The line ministries and organizations concerned did not implement the agreed actions actively

<p>GOK's attitude to monitoring activities</p>	<p>The line ministries and organizations concerned capture the latest status of the implementation of the reform agenda and actions, and in due course prepare the monitoring reports with agreed coverage of the information and submit these to MOEF. MOEF produces a GOK's monitoring report as initially agreed with donors</p>	<p>The line ministries and organizations concerned were not engaged in monitoring activities in accordance with the agreement with donors and did not prepare and submit the report with sufficient information as scheduled. Moreover, MOEF did not show interest in monitoring activities and reporting after receiving the donor money</p>
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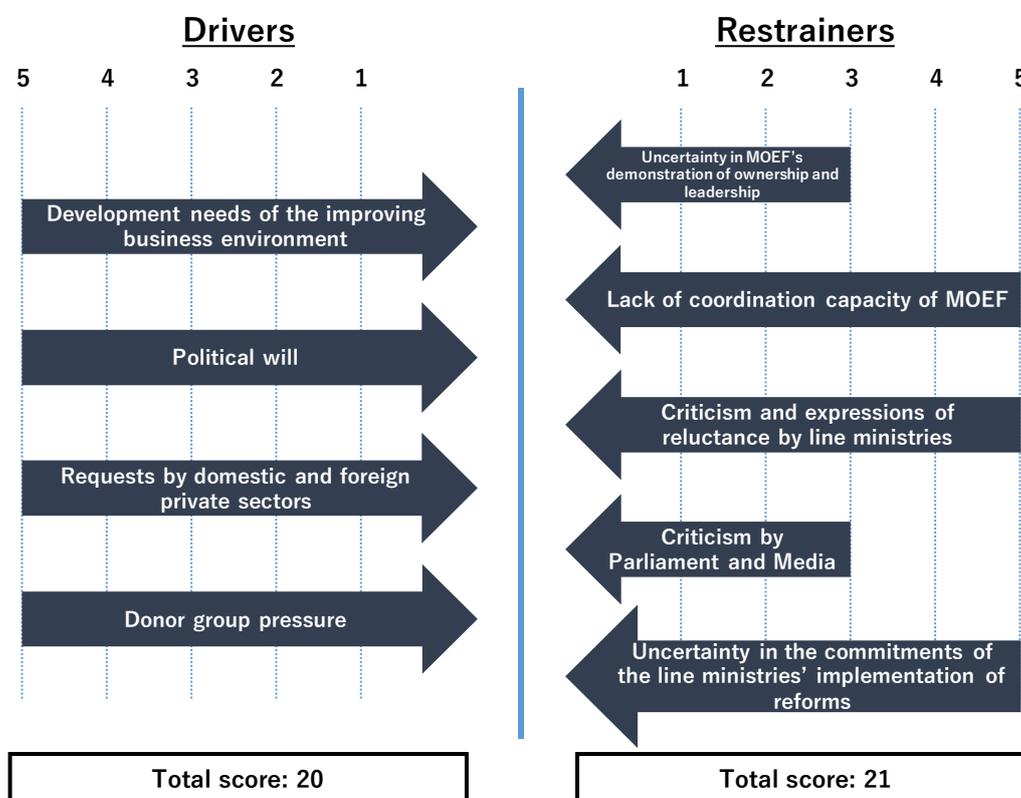
Attachment 4: Force-Field Analysis Force-Field Analysis

(NOTE) See the relevant site

https://en.wikipedia.org/wiki/Force-field_analysis

Example

Example: Force-Field Analysis



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