



Expenditure Framework and Partnership

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Preface

Despite the potential benefits of globalization and technological change, world poverty has increased and growth prospects have dimmed for developing countries during the 1980s and 90s. The Comprehensive Development Framework (CDF) was launched by the World Bank in January 1999 in response to these difficult circumstances. It has evoked considerable interest throughout the development community as an approach that can address the increasingly intertwined challenges faced by development practitioners. Its basic elements are not new. What is new is their joint articulation as a framework to guide development assistance. The first point is that development constraints are structural and social, and cannot be overcome through economic stabilization and policy adjustment alone—they require a long-term and holistic vision of needs and solutions. Second, policy reform and institutional development cannot be imported or imposed; without domestic ownership, reforms and investments are not sustainable. Third, successful development requires partnership among government, local communities, the private sector, civil society, and development agencies. And fourth, development activities must be guided and judged by results.

In this context, the *1999 Annual Review of Development Effectiveness* (ARDE), authored by Nagy Hanna under the guidance of Robert Picciotto, set out to examine development experience through the lens of CDF principles. A number of papers were commissioned to support the ARDE by providing in-depth review of evaluation and research findings that assess the relevance of the CDF principles and constraints as well as promising approaches to their implementation.

Introduction

The medium-term expenditure framework and sectorwide approaches are two new approaches to development cooperation that focus on donor-government partnership in the budget process. The budget is a crucial instrument for operationalizing the objectives of the Comprehensive Development Framework (CDF) at the country level. How can the principles of partnership be brought to bear in this area? How can a new form of conditionality work in practice? This chapter focuses on the key concerns of achieving a holistic approach to a budget process owned by government, supported in a spirit of partnership, with a strong emphasis on achieving results.

In the past, instruments of cooperation, such as the policy framework paper, tended to be standardized documents, reflecting mainly the concerns of the World Bank or the International Monetary Fund (IMF). Today, a new approach focuses on an overall development vision, with a strong emphasis on poverty reduction, as translated into a medium-term expenditure framework tied to specific performance targets, with authority and responsibility cascading down through the civil service. This chapter reviews attempts to develop the budget process at macroeconomic and sector levels as a framework for coordinating government and donor efforts more closely in support of agreed objectives, in order to derive lessons for the CDF. Most of the examples of recent policy innovations are drawn from Africa, though many of the lessons should be relevant in other aid-dependent countries.

After looking at several countries that have sought to inform the budget process and resource allocation decisions with a clear view of the role of the state, the chapter discusses their efforts to introduce a medium-term expenditure framework, emphasizing attempts to integrate donors within the budget framework. The chapter also examines experience with sectorwide approaches to coordinating government and donor efforts under the leadership of government. Throughout, the chapter focuses on the key CDF concerns of achieving a holistic approach, owned by government, supported in a spirit of partnership, with a strong emphasis on achieving results. The new approaches offer scope for government ownership, but only if supported by donors. On this basis, sectorwide approaches offer an attractive instrument for partial implementation of the CDF.

A Wider Context for Integrating Government and Donor Efforts

A key insight motivating the search for a CDF is that “there is much too little coordination of effort, much too much suspicion between participants and in many cases a simple absence of a framework to coordinate and bring together under government guidance an agreed set of objectives and effective and accountable programs” (Wolfensohn 1999, 21). The budget process provides one key focus for better integration of government and donor efforts (Foster and Merotto 1997).

Other donors are also engaged in strategic efforts to improve donor coordination and coherence. In promoting the CDF, the Bank needs to acknowledge and link up with these other donors and the processes they have initiated. One of the most important of these experiments is the attempt to achieve greater coordination among elements of the UN development system through country-level UN Development Assistance Frameworks. (Annex 1 explains the basic rationale of the UN approach and offers some early conclusions about its effectiveness.)

Country Experience

Both government and donor efforts need to be set in the context of a clear vision of the roles of the state, the private sector, nongovernmental organizations (NGOs), and civil society. In the 1970s this context would have been provided by national development plans. In the 1980s and much of the 1990s, the policy framework paper, negotiated with the government through a process of dialogue with the World Bank and IMF on behalf of donors, has often set out the agreed program of policy reform in many of the poorest countries. But in the view of many ministers and senior officials “it has become a rather routine process whereby the Fund brings uniform drafts (with spaces to be filled) from Washington, in which even matters of language and form are cast in colorless stone ... the [policy framework paper] document has become so uniform—it is difficult to distinguish one from the other” (Botchwey and others 1998, 40). Furthermore, the process is dominated by the World Bank and IMF, with no representation of development partners such as civil society, the private sector, and NGOs

These criticisms have evoked a constructive response from the IMF and the Bank. Both institutions are placing increased emphasis on evidence of ownership and commitment and are promoting a more participatory approach in a number of countries on a pilot basis. There is also greater recognition of the need for a broader process of national consensus building on where the country is going and what the government’s role should be in helping it get there.

GHANA. Ghana (1995) has established a clear policy framework for the country, based on its “Vision 2020” policy statement. “Vision 2020” was approved by Parliament and is widely known and quoted throughout the country. Though the statement itself is ambitious and is not linked to resources, it has provided the policy framework for civil service and budgetary reform, which are both linked to resource allocation through the medium-term expenditure framework.

The Civil Service Performance Improvement Program has involved a careful review of the role of each government ministry and department, informed by a series of beneficiary assessments to determine what the public wants and what it currently gets from government. This exercise is also linked to the medium-term expenditure framework, which sets out a rolling three-year framework for the budget. The medium-term framework asks departments to set out what they want to achieve and how they will achieve it, formalized in performance contracts, with the promise—and threat—that resources will be linked to performance. This cost center approach works its way down to individual cost center managers within each line ministry or agency.¹

The medium-term expenditure framework is also working to bring all donor funding within the budget process, ensuring that donor flows are taken into account when resources are allocated. The process establishes the overall resource envelope within which sectorwide approaches are developed and implemented with government and donor resources (Booth 1999; Muggeridge 1999; Robson and others 1999). This resource allocation process is also supported by one of the most developed poverty monitoring systems in Africa, featuring both household expenditure surveys and large core welfare indicator questionnaire (CWIQ) surveys that give feedback on critical welfare indicators and views of the population on government services (Booth 1999; Strode 1999).

Ghana’s experience, though encouraging, should not be oversold. The run-up to elections has been associated with inflationary increases in public expenditure, which can undermine the credibility of medium-term budget planning. There have been disagreements between the government and donors on spending priorities, notably over regional hospitals. Poverty monitoring data have not so far been central to policy decisions, though actions are in hand to improve the relevance and timeliness of evidence-based policy analysis. The medium-term expenditure framework and the sector programs are still struggling with how to link resources to meaningful indicators of achievement. The focus on service delivery needs to be strengthened.² Yet there is much to be learned from bringing together various levels of policy from the macro level to delivery at the sector level and using the medium-term expenditure framework and sector programs to ensure that all actors are pulling in the same direction.

UGANDA. Uganda also has a clear vision of the public sector’s role in poverty eradication, linked to a well developed process of consultation. The Poverty Eradication Action Plan involved wide consultation inside and outside government. Consultation has been extended directly to the poor through the Participatory Poverty Assessment Program of the Ministry of Finance Planning and Economic Development, which aims to institutionalize participatory planning and monitoring down to the district level (Goetz and Jenkins 1998). Uganda was also one of the first countries to attempt to implement the public finance management guidance of the Special Program of Assistance for Africa (SPA)^{3,4}. This involved the introduction of a medium-term expenditure framework incorporating govern-

ment and donor flows, as in Ghana. The main innovation since 1998 has been to include a process of annual consultation on the medium-term budget framework with the donor community and with civil society (Tumusiime-Mutebile 1998).

One positive consequence of this open process was a dialogue with the IMF on the extent to which donor flows could be incorporated into higher government spending.⁵ At the 1998 meeting the government set out a “high” scenario, showing how additional donor commitments would be used to fund higher spending on poverty programs. Donors responded with increased commitments of on-budget support, multiyear support in some cases.⁶ Though no direct causal link can be proved, the IMF did agree to a more accommodating fiscal stance that allowed larger donor flows to be spent on the poverty programs.⁷ The poverty programs have been largely protected, despite pressures for higher defense spending. Resources freed through the Heavily Indebted Poor Countries (HIPC) Debt Reduction Initiative have been used to create a Poverty Action Fund, which will direct additional resources to the poverty-focused budgets of the line ministries (Goetz and Jenkins 1998).

Uganda has also developed a number of information systems for feeding policy relevant information back to decisionmakers, and its record in taking action on them is good. When a tracking study revealed that resources for primary health and primary education were not being used as intended (Economic Policy Research Centre and Management Systems and Economic Consultants Ltd 1996), the government acted vigorously to combat the problem, mainly by increasing transparency. Fund transfers to the district level are publicized in the press. Schools have to display the financial and other resources received, together with a list of staff employed there. Though it is too early to assess the impact, the increased access to information should empower intended beneficiaries to work to see that funds are not diverted. Placing the poverty unit within the Ministry of Finance and giving it responsibility for conducting the participatory poverty assessment have reinforced ownership and helped to ensure that the unit is consulted on policy issues.

While problems remain—the quality of public expenditures is weak and corruption is widespread, reflecting in part the legacy of low salaries—the structures for identifying and addressing problems is now in place and can yield lessons for others.

RWANDA. The difficult political, social, and economic conditions following the genocide required that the new government deliver quick improvements to hasten reconciliation. A traditional IMF approach would not have permitted the growth of spending required to achieve such rapid change, especially in recurrent spending, given fears of sustainability. The UK Department for International Development (DFID), led by Secretary of State Claire Short, made a long-term commitment to support Rwanda with flexible finance over a 10-year planning horizon. In a protocol agreed between the two governments, the UK committed to providing £30 million in flexible assistance over 3 years and “to remain engaged at least at the same financial level” for at least 10 years; Rwanda agreed to continue its commitment to national reconciliation, good governance, macroeconomic stability, and actions on poverty reduction and human resource development.⁸ Several indicators are identified for joint review of progress and commitment.

Though not an unconditional commitment, the UK’s willingness to make this unprecedented long-term pledge has helped persuade the IMF to relax fiscal targets, with donor funds sustaining higher levels of recurrent spending than would otherwise be feasible. Other donors including the European Union have also responded. This is an example of a

holistic approach that jointly considered political and development factors. The process has been high risk on all sides, in a situation where low-risk alternatives were not available. The key point has been the need for transparent dialogue to sustain long-term commitment and for donors to provide support in ways that assist the rebuilding of state capacity while delivering early poverty reduction.

The problems of accountability for donor funds loom large in Rwanda, where state capacity is weak. They are being addressed by developing capacity within government, rather than by setting up parallel structures. Accountability for the use of funds is secured by supporting government accounting and audit capacity. The importance of results orientation is also recognized by supporting poverty surveys, studies of expenditures, and customer surveys on access to services and evidence of their quality (DFID 1998).

PROBLEMS AND LESSONS OF COUNTRY EXPERIENCE. Moving toward a more strategic and medium-term approach to policy and resource allocation is not without difficulty. In some countries, expenditure does not follow even the annual budget closely, much less a medium-term expenditure framework. Tanzania's attempt to introduce a medium-term framework has yet to gain credibility (Moon 1998), and even in Uganda development of the first year of the budget framework has tended to dominate the discussion. Sector program managers have not always respected the medium-term expenditure framework discipline. While the 1998 Uganda education sector investment plan was linked explicitly to the medium-term framework (Government of Uganda 1998; Ratcliffe 1999), Tanzania, as of the March 1999 appraisal, had not yet succeeded in submitting a funding proposal for its education sectorwide approach consistent with the medium-term expenditure framework. This despite having been four years in gestation and having had four consultant-supported financial projection consultancies (Chijoriga and others 1999).

One of the key lessons from this experience is that a comprehensive framework only becomes meaningful when it is linked to the budget constraint and forces choices about priorities and sequencing.

The Medium-Term Expenditure Framework and the Role of Donors

By bringing donor resources within a clear framework of priorities, the medium-term expenditure framework puts the government in control. Successful government-donor coordination to implement a medium-term expenditure framework thus requires strong domestic backing for the policy, as well as active donor support for government ownership.

Since responsibility for the overall budget usually rests with the ministry of finance, donors should support the ministry's role in establishing national priorities and not push for their own projects outside the agreed framework. Line ministries may try to circumvent fiscal discipline by seeking donor support outside the medium-term expenditure framework. Donors can avoid undermining national priorities by keeping the finance ministry fully informed and by ensuring that program design and approval is integrated with the budget. Donors need to provide accurate and timely information on their financing intentions and disbursements, something they have almost uniformly failed to do well.⁹

Greater respect for the budget process is critical if public spending goals are to be met and sustained. Donor support is more likely to be forthcoming if national expenditure priorities

Box 1. Donor Discipline and the Budget Process in Uganda and Tanzania

<p>Uganda and Tanzania have both worked to bring donor funding into the budget process. Sector working groups coordinate between center and line agencies and will prepare draft sector frameworks for the medium-term expenditure framework. Government will lead the groups, with donors providing technical advice where needed. The public expenditure</p>	<p>review, a donor-driven process before 1998 unlinked to government decisionmaking, now involves coordinated budget workshops on preparing medium-term budget submissions, a process that also helps raise awareness of intersectoral allocation issues. Donors and consultants were encouraged to act as facilitators of a process fully integrated with the budget cycle, rather</p>	<p>than as lobbyist for particular sectors or projects (Moon 1998, 15). The intention is to involve both partners in a process that leads to expenditure programs with that have strong government and donor support. The government cedes some influence to donors, but gains greater influence on its own budget by avoiding the fragmentation of numerous donor-driven projects in-</p>	<p>consistent with the framework. (See Joeques 1999 for a discussion of Benin, where high aid dependency and the absence of donor coordination undermines the budget process.) The jury is still out on whether governments can succeed in disciplining donors in this way: Uganda's experience is encouraging, Tanzania's less so.</p>
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can be shown to be the outcome of an accountable and participatory process for reaching agreement on objectives, linked to the resources needed to achieve them (box 1).

Sectorwide Approaches

Sectorwide approaches aim to establish a single policy and expenditure program for a sector under government leadership, moving eventually to a system in which government procedures account for all funds and their disbursement. The approach emphasizes a holistic (sectorwide) approach and government ownership, partnership, and outcomes rather than inputs. Experience with sectorwide approaches should therefore yield lessons for the still more ambitious CDF approach.

A good example is the Ethiopian Education Sector Development Program. The government decided to implement an education sector program without pressure from the donor community. The government asked for donor support only after the decision was made, and retained ownership throughout program preparation. Most of the relevant documents were written by Ethiopians. Technical specialists from donors contributed advice but did not impose their views on the program design.¹⁰ There were no predetermined policy prescriptions; in the words of the Ethiopian Head of the Regional Education Bureau: "Nothing was imposed. Advice and ideas were provided by the mission members, but the Regional Education Bureau took the decisions. The only thing that limited our freedom was our own capacity." "We had the right to say 'No' at any point." (Martin, Oksanen and Takala 1999, 32) The program also illustrates the tradeoffs between local ownership and openness to dialogue with funding partners. The government has been reluctant to allow donors to influence the policy and resource allocation process, especially on the current budget, and some key issues on the quality of education have yet to be adequately addressed.

Building a broad base for program ownership is crucial for the sustainability of reforms, as the contrasting experience of Ghana and Zambia with health sector reform shows (box 2). Communication alone will not lead to action unless the message is clear and credible and accompanied by positive incentives, as in Ghana (which also had a fortunate combination of rising budgets and increased delegation of authority, which empowered and motivated district staff).

Box 2. Health Sector Reforms in Ghana and Zambia Demonstrate the Need for Ownership

Reforms in Ghana's health sector benefited greatly from broad local participation and ownership. There were regular consultations with stakeholders from all levels of the central ministry and the district level, and with key representatives of central government agencies. These extensive two-way communication with staff at all levels have been sustained and constitute a major strength of the program.

The May 1999 annual review involved a wide cross-section of staff, and field visits confirmed strong understanding and commitment down to district level and below. To keep the process manageable, large twice a year meetings with strong involvement by local stakeholders had to be supplemented with smaller business meetings at which concerns of government and donor partners could be raised openly and addressed in greater detail.

Zambia's new health sector program had strong high-level political and administrative backing; it even survived a change of minister. The Ministry of Health was involved with donors in determining conditionality and used the conditions to protect key reforms and health expenditures against domestic opposition. However, participation in the preparation of the program was weak. Other ministries and even some Ministry of

Health staff, nongovernmental organizations, private health providers, and local communities were left out of the consultations (Jones 1997b). As a consequence local ownership was not broad enough to prevent reversals in policies. When the sectorwide approach then appeared to fail to deliver, government expenditures switched back from primary health to hospital funding (Jones 1999).

Source: Observations on Ghana based on author's participation in 1999 health sector investment program review.

The Bangladesh Health and Population Sector Program has also devoted considerable effort to explaining the objectives and new procedures to staff. However, the messages were more mixed, and delays in resolving staff concerns about staff retention may have undermined confidence in other measures. Powers have been redistributed within the line ministry, but without significant delegation down the line. Procedures have been changed but remain subject to interdepartmental dispute, and the new structures and procedures are quite complex. The reported lack of staff understanding of the program may thus reflect a reluctance to absorb a message perceived as complex and preliminary, bringing few benefits to staff or their work, more than a failure to properly communicate.¹¹

Ghana's health sector program is another good example of partnership between government and donors. In taking a sectorwide approach, the Ministry of Health became more assertive in controlling and coordinating donors. It urged donors to work within existing government structures, rather than creating parallel systems. At the same time key donors such as the World Bank, DFID, Danida, the European Union, and USAID were becoming more flexible in their funding, more aware of sector concerns beyond narrow project interests, and more willing to give time for government commitment to develop.¹² A sectorwide approach has to be built on the foundations of previous work. Before the sector program in health was started Ghana had already gone through "10 years of institutional development, 4 years of major policy/strategy work, 3 years of strengthening of core management functions, 2 years of negotiations, planning and design, and 1 year of slippage and delays" (NORAD 1999, presentation by Smithson, p. 14).

A sectorwide approach should not be conceived of as a blueprint, with all activities defined in advance and all starting from day one. Premature implementation of complex components can be self-defeating. The sectorwide approach should be thought of as a process. The definition of the policy framework and the commencement of institution building need to start early. So does the definition of expenditure priorities. Progress toward common procedures should be sequenced to take place as capacity and confi-

dence allow. Expenditure planning should occur within the medium-term expenditure framework, with only first year spending firm, and with the planning horizon rolled forward each year. The sectorwide approach should be viewed as a new way of doing business, with neither start nor end date, though it will have time-bound objectives and indicators for measuring progress.

A consensus between government and donor partners on the policy framework is the one critical precondition. Capacity to implement can be built, but there is no substitute for agreement on aims and instruments. Where this agreement on policies is absent, scepticism about the sectorwide approach is inevitable. A lesson for the CDF is the need to allow time for local consensus on policy to develop, without too strong a push toward closure. The process often takes longer than anticipated, and the initial agreement requires constant maintenance through further discussion and promotion as participants and events change. This can be a problem if donors become tied too early to an inflexible approval schedule. Stakeholder participation can be formulaic. True partnership fails to develop, which often results in an ill-defined role for the state, a failure to win the backing of senior officials, and little or no representation of the poor (Jones 1999).

Zambia's agriculture sector program is a case in point (Jones 1997b). The absence of genuine partnership was evident from the beginning. Technical assistance consultants funded by USAID drafted the original Ministry of Agriculture policy document. At the same time the government was announcing contradictory policies implying a substantially large role for the Ministry of Agriculture. Later, during the appraisal stage, there was a sense within government that the World Bank was dominating the proceedings, with an enormous number of staff participating in appraisal missions and Bank and other donor staff writing all the aide-memoires for supervision missions.

Partnership can also suffer because the government fails to take charge, as in the Education Sector Development Program in Tanzania. During 1996 and 1997 a strong government-donor partnership seemed to be developing, but after a common sector development work program was endorsed and many donors had signed on to a sector development partnership paper in early 1998, the partnership began to unravel. No steps have been taken on implementation. Government failed to lead government-donor meetings, which were often chaired by mid-level technical staff. Turnover in policymaking staff was rapid, potential reformers in the ministry became marginalized as vested interests recognized the impact of reform, and hard decisions on education expenditure and policy were delayed (Ratcliffe 1991, 41). It is worth waiting to implement a sectorwide approach until senior management has internalized the process, as Uganda's experience shows.

The key lesson? There is mutual benefit from genuine partnership, but the pace of reform needs to be set by government, so that capacity constraints can be taken into account.

Country Circumstances and the Choice of Program or Project Aid

The matrix in annex 2 classifies country situations according to the quality of macro-economic and budget management, degree of aid dependence, quality of sector level policies (including whether they are realistic given available resources), and quality of sector level management. This yields the 4 by 4 matrix with 16 possibilities (cells) shown in the annex.

An aid-dependent country with good policies and good sector management (cell 1), for example, should be supported with general program aid, which enables higher spending on priority programs and allows government to prioritize its use of all the resources available to it. This situation is also suitable for the World Bank's proposed public expenditure reform credit, which simplifies the aid relationship to a single annual transaction to support the overall budget. It is also the direction in which the Swedish International Development Cooperation Agency (Sida) is moving. Under program aid, donor earmarking does not distort government budget priorities, and the transactions costs of dealing with donors are minimized. The problem? Few if any countries qualify.

More common in aid-dependent countries is to have reasonably good macroeconomic management and sector policy, but weak civil service management capacity (cell 2). Most sector programs in Africa operate in this kind of an environment. The case for a program approach does not, at the macroeconomic or sector level, rest on a need for policy dialogue and conditionality. Rather, it rests on the need to improve planning and management by minimizing the problems caused by uncertain donor support and multiple donor projects with different approaches and procedures. But where administrative capacity is weak, donors may be concerned about the loss of direct control without project-based support. The country needs financial transfers, but it also needs capacity building support so that it can deliver effective services and properly account for resources. Here, the suggested approach is to provide program support at the sector level with extra support for capacity building, additional safeguards on accountability, and close monitoring and evaluation. The transition to government procedures for disbursing aid may be gradual, as capacity and confidence are built, though there are advantages to early commitment to disburse some funds this way. Gaining access to donor funds can provide an incentive to improve financial management; in Ghana's health sector program districts had to meet specific criteria before they could manage donor funding. Most sector programs are still hybrids, following common procedures for the use of some donor flows, especially support to local services (often with additional financial checks), and following donor procedures for the use of other flows, especially technical assistance and off-shore procurement.

Where sector policies are weak but macroeconomic and sector management is stronger (cell 3), there is a case for donor technical support and policy dialogue, working with ministry of finance and sector officials to facilitate sector policy development. A medium-term budget framework approach can be helpful in clarifying the need to make policy choices to bring aspirations in line with resources. Project support could be used to develop pilot projects demonstrating the potential of new approaches to service delivery. Program support could follow the development of a supportable policy package, but would depend on whether pro-reform forces in the sector are strong enough to implement improved policies. The Pakistan social action program, supported by a consortium of donors including the World Bank and DFID, was in part an attempt to encourage better government policies, with donor funds conditional on additional government spending to avoid the risk of fungibility. Deciding whether to support a sector program can be difficult in situations where poor policies in the past reflected political pressures or the influence of corruption.

If both sector policy and sector management capacity are weak (cell 4), significant sector finance of any kind, whether program or project, is unlikely to yield sustainable benefits, even where the macro framework is sound. Limited development assistance, mainly technical assistance, might facilitate policy and capacity development.

Where policy and management are good but aid dependency is low (cell 5), government may nevertheless welcome general program aid linked to an agreed policy program, because, in addition to the direct value of the finance provided, World Bank and IMF endorsement may help to restore investor confidence following a financial crisis—as in the case of program lending to countries affected by the Asian financial crisis.

Except when in crisis, countries with low aid dependence are likely to prefer project aid to policy-conditioned program aid. Arguments for program aid based on the distorting effect of project support are less likely to be made where aid is low relative to the size of the budget, while government is more able to resist unwelcome donor influence on policy. China has used project aid to pilot new activities that are later taken up through local finance. If aid dependence is low, and sector policy or management is weak (cells 6-8), project support and technical assistance are still likely to be the most appropriate instruments to facilitate policy development and pilot new approaches, possibly in tandem with civil service and budget reform.

Where the overall macroeconomic and budget management framework is weak, the most useful donor intervention may well be to support the overall macroeconomic reform process with general program aid, possibly including reaching agreement with the ministry of finance on the share of budget resources to be spent on specific sectors. In practice, good sector performance (cell 9) is unlikely to be sustained in a weak macroeconomic environment (cells 10 and 11). Policy is unlikely to be effective where fund releases are unpredictable, while capacity will be eroded by falling real salaries and personnel policies that fail to reward effort. The sustainability of sector programs depends on the budget resources the government is able to commit. If the macroeconomic policy environment is weak, it will be especially important for sector programs to take a conservative view of the future growth of budget resources. Overoptimism about the government's contribution was one of the problems affecting sector programs in Zambia, an early leader in developing the approach. If support is to be provided to the sector despite the weak macroeconomic context, the sector program will need to make optimal use of limited resources, which argues

for the flexibility of program support, preferably as longer term commitments. It may also argue for support for ways to increasing the budget autonomy of the sector, by supporting greater clarity for the public sector's role and increased cost recovery, as long as the poor are not thereby excluded from services.

If both macroeconomic and sector policies and management are weak (cells 12 and 16), no support is likely to yield sustainable benefits, no matter what its form, so the donor role should be limited to policy dialogue and analysis.

Lessons for the Comprehensive Development Framework

Interaction between government and donors occurs at the level of the policy framework, the overall budget, the sector programs, and project interventions.

Making a CDF effective will require government to articulate a clear vision of the role of the state, linked to resources through a medium-term budget process, as in Ghana and Uganda. Donor support can facilitate and provide technical support, but government must lead and own the process.

With the vision for state action established, the medium-term expenditure framework can be used by government and donors to prioritize expenditures. In return for a transparent dialogue that provides scope for donor concerns and influence, donors should ensure that interventions are fully in accord with the budget process. To enable governments to make optimal use of resources, donor funding should be longer term and in flexible form.

Prioritizing expenditures within a medium-term expenditure framework is a political process, but donors will want to assess success by the effectiveness of government actions to reduce poverty. There is no general guidance on how best to allocate resources between sectors, such as between roads and health. Even the reallocation of resources to poor regions can be problematic: it may be more effective to invest in regions of higher potential and to help people relocate there. It may be easier to shift the budget than to shift well motivated staff able to make effective use of it. Studies often fail to find any clear relationship between funding levels and the quality or quantity of services provided.¹³

For making the budget process more pro-poor:

- Leadership commitment is essential. This could be encouraged by actions to bring poverty to the attention of the political leadership in ways difficult to ignore. One way is by making good information and analysis widely available and allied to a political process in which power is contested and the poor have a voice. The election process, for example, clearly had an impact on the commitment to universal primary education in Malawi and Uganda.
- Transparency is important. Alone, however, it may not help the poor since better-off groups can organize more readily. Trade unions may represent the well off formal sector workers, while local Rotary or other charities may prioritize secondary over primary education. There may be good returns to training groups representing the poor, to enable them to make more effective demands on government resources, at national and local levels.
- Poverty spending is most likely to be effective when those who spend are directly accountable to those who are supposed to benefit. This works best at the community level—for example, with power over resources vested in parent committees for schools or in local water committees. It can also be made to work for health services, though market

failure due to asymmetric information and less regular contact causes problems. The formal local government structure may be less responsive than the national government to poverty concerns, with fewer protections against financial malpractice—one reason why Uganda opted for conditional grants and wide publicity about how they were intended to be spent. Even without the transfer of financial power, transparency along with clear information on entitlements and on actual financial transfers, as in Uganda, can enable the general public to enforce accountability.

The national budget process needs to strike a balance between prioritizing resources and remaining responsive to local needs. Centralized detailed allocation should be avoided. Local managers need a clear strategy on what they are expected to deliver and a hard budget constraint to force choices, with flexibility on how best to use the resources. In more sophisticated systems, it may be feasible to hold budget managers accountable for achieving specific outcomes or outputs, perhaps linked to a service standard defined in affordable terms. Essential services packages defined in health sector programs, for example, have too often been beyond the scope of the budget.

Donors too may need to adapt their procedures to enable them to support a process in which detailed budget allocation is delegated. Donors should:

- Support the ministry of finance in its efforts to secure a single framework.
- Exercise restraint, avoiding whenever possible the temptation to work independently with line ministries (which may try to circumvent the budget process).
- Adopt sectorwide approaches, based on plans prepared by government officials.
- Encourage participation and a broad base of ownership. Decentralization and delegation within ministries may play an important role.
- Allow time for these processes to occur and to generate results and for trust and respect to be built on both sides.
- Be flexible in the implementation of sectoral programs (a recommendation in keeping with the advocacy of process planning).
- Invest in capacity building.

For complex development processes to be sustained, ownership needs to be broad as well as committed. Some sectorwide approaches have run into problems by underestimating the time required to build and sustain the broad consensus needed to implement programs successfully. The ambitious CDF approach will require herculean efforts in consensus building if it is to be more than a top-level exercise unconnected to the realities of implementation.

A meaningful CDF will need to be informed by good evidence and analysis, especially on poverty and what is needed to reduce it. A more effective response to poverty concerns may be encouraged by centrally locating poverty analysis in the finance ministry, with stress on linking analysis to budget decisions and on encouraging transparency to empower people to hold government to account. There may be too much of a lag for outcomes to directly inform policy performance reviews, but there are good examples of the use of core welfare indicator questionnaire surveys, participatory poverty assessments, service delivery surveys, and tracking studies designed to generate proxy indicators likely to be correlated with ultimate outcomes.

Finally, while similar principles can be applied to other aspects of development policy, like the regulatory framework, the sectorwide approach on its own is not enough. Not all aspects of development cooperation are amenable to the structured approach of the me-

dium-term expenditure framework and sectorwide approach tools, but they nonetheless require systematic thought in order to define basic partnership principles and guides to good practice. There are areas that will not be reached by these new procedures and where codes of good practice may be required.

Annexes

Annex 1. An Inclusive Comprehensive Development Framework: Learning from the UN Development Assistance Framework Process

The theme of partnership and the need for donor coordination emphasized in the CDF is also central to the evolution of the UN Development Assistance Framework approach¹⁴. There are differences between the goals of the World Bank and those of the UN Development Group. The UN Development Assistance Framework is to a greater extent than the CDF first and foremost a tool for strategic planning at the country level. It also responds to a slightly different set of institutional problems (the need to coordinate the generally disparate work of a range of UN organizations, particularly through the harmonization of program cycles). Nonetheless, there is a great deal of common ground between the two initiatives, particularly with regard to the concept of partnership, and much potential for cooperation and mutual learning.

This potential can be addressed at both global and country levels. The people who are devising Development Assistance Frameworks in pilot countries should be able to contribute to the development of the CDF. In two of the 18 Development Assistance Framework pilot countries (Mali and Vietnam) the Bank and UN have already cooperated closely on the development of country-level coordination mechanisms. These cases might provide a basic template for UN–World Bank cooperation in the CDF pilot countries.

Comments from Mali and Vietnam (and, to a lesser extent, from other pilot countries) identified the following elements as contributions to the effectiveness of the UN–World Bank partnership at the country level (Malik and others 1998, 10)¹⁵:

- Close ongoing working relationship and mutual respect (Consultative Groups, roundtables, sector and thematic coordination groups, statistics and analysis)
- Shared recognition of added value brought by each party and of the added value that a stronger partnership brings to government
- Joint and reciprocal contribution to situation analysis (bringing the mandate and comparative advantage of each partner to bear)
- Flexibility and commitment to a transparent working relationship by all parties.

As important, the evolution of the Development Assistance Framework approach in parallel to the evolution of the Bank-led CDF approach can be addressed at the conceptual and global levels. It is highly desirable that the Bank and the UN, two of the most important actors in the international development system, develop their ideas in partnership rather than isolation or competition.

Annex 2. Quality of Macroeconomic and Budget Management, Aid Dependence, and Sector Level Policies and Management

		Good Sector Policies, Linked to Resources		Weak Sector Policies, Not Linked to Resources	
		High Sector Management Capacity	Low Sector Management Capacity	High Sector Management Capacity	Low Sector Management Capacity
Good Overall Macroeconomic and Budget Management	High Aid Dependence	1. Government-owned sectorwide approach, using government procedures; aid role mainly finance. No examples.	2. Sectorwide approach with extra safeguards on accountability, support for capacity building, close attention to monitoring and evaluation, transition to using government procedures. Examples: Ghana and Uganda	3. Work with ministry of finance and sector officials to facilitate policy development, possibly linked to medium-term expenditure framework, to force policy choices. Finance sectorwide approach if enough change agents are present for realistic prospect of success.	4. Sectorwide thinking:-support ministry of finance, medium-term expenditure framework, explore interests in debate on direction, support donor coordination around the budget, use aid to facilitate policy and capacity development. Defer major sector finance, whether sectorwide approach or project.
	Low Aid Dependence	5. General program aid to restore private sector confidence by endorsing policies, as in the East Asia crisis. In noncrisis situations, aid provides project support, managed by government using its own procedures, possible aid role in underwriting innovation, promoting stronger poverty focus. Example: China.	6. Potential aid role for technical assistance support to build capacity, within a framework set by ministry policymakers.	7. No case for sectorwide approach but possibly technical assistance to facilitate national consultation on policy, project support to demonstrate new approaches and support drivers of change within the sector. Support reform processes led by ministry of finance.	8. Absence of sector leadership or capacity suggest support for central economic ministry reform processes is the best option: build sector policy and capacity through technical assistance support to medium-term expenditure framework and civil service reform processes.

Annex 2. Quality of Macroeconomic and Budget Management, Aid Dependence, and Sector Level Policies and Management (Continued)

		Good Sector Policies, Linked to Resources		Weak Sector Policies, Not Linked to Resources	
		High Sector Management Capacity	Low Sector Management Capacity	High sector Management Capacity	Low Sector Management Capacity
Weak Overall Macroeconomic and	High Aid Dependence	9. Sustainability of sectorwide approach requires policy dialogue on macro framework and budget shares; conservative view of resources available; general program aid a likely instrument. Long term donor commitments, possible support to cost-recovery from non-poor to preserve good sector performance despite weak macro framework.	10. Capacity constraints not likely to be solved without macro level reform to ensure predictable budgets, staff incentives. sectorwide approach requires both macro and sector reform process to be in place. Cost recovery from non-poor is an option if quality of services is high enough.	11. Weak sector policies, despite high sector capacity may be caused by a macro framework which does not provide secure budgets or impose priorities. No sectorwide approach unless commitment to a credible program can be built, including ministry of finance ability and willingness to finance it. Support macro reform process, facilitate policy development at macro and sector level, possibly support increased sector autonomy through cost recovery	12. No sector support is likely to yield sustainable benefits, in whatever form it is given; technical assistance, project. or sectorwide approach; donor role limited to policy dialogue and analysis.
Budget Management	Low Aid Dependence	13. Most useful donor role will be for technical assistance support to overall reform process, not sector level. Possible technical assistance role to support cost-recovery, reduce dependence on macro policies	14. Weak capacity at sector level is probably a symptom of overall budget and macro policies, not possible to achieve much with sector level technical assistance unless linked to increased autonomy including financial resources and personal policies. Macro-level technical assistance the priority	15. Possible case for modest technical assistance to facilitate policy development at macro and sector level. Support increased autonomy at sector level.	16. No case for aid at any level, other than policy dialogue.

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Endnotes

1. Earlier experience of performance contracts in the context of public enterprise reform in low-income countries is not especially encouraging, however (see World Bank 1997, 90).

2. For a health sector example, see Asamoah-Baah and Smithson (1999).

3. *Now called the 'Strategic Partnership with Africa'.*

4. The SPA 5 (1999) document places considerable emphasis on implementing the SPA public finance management guidance and discusses the Uganda, Tanzania, and Ghana cases. For discussion of the evolution and application of the guidance, see GTZ (1996); SPA (1997); Moon (1998).

5. On the issues surrounding the treatment of future aid flows in the budget projections for the IMF programs, see Foster and Thomas (1998). For the specific Uganda case, see Bevan (1998).

6. For example, DFID shifted general budget support to a two-year time frame and made a five-year commitment of budget support to the education sector.

7. Tumusiime-Mutebile (1998) explains that the inclusion of future donor funding was vital in the IMF agreement to increase the sustainable budget deficit ceiling. It is probable that Bevan's (1998) macroeconomic analysis of the Uganda IMF program was also influential. This suggested macro stability was consistent with using future aid flows to finance an increase of the budget deficit by 2 percent of GDP over the previous IMF ceiling.

8. Government of the United Kingdom and Government of the Republic of Rwanda (1999).

9. This is reflected, for example, in donors' unwillingness to disclose information on their funding intentions on recent consultancy work in Tanzania carried out by Kessy.

10. For more details on the Ethiopian Education Sector Development Program see Martin, Oksanen, and Takala (1999) and Norad (1999). The Ghana health sector provides another example where government leadership in the reform process was vital. In managing the transition to a sector program, it was essential that the Ministry of Health maintain leadership; otherwise, as Asamoah-Baah and Smithson (1999, 20) argue "the strategic direction would have been quickly obscured by competing [donor] agency interests."

11. Observations based on participation in the April 1999 Health and Population Sector Program Annual Review.

12. For more details on partnership in the Ghanaian health sector see Asamoah-Baah and Smithson (1999).

13. For example, there is evidence from South Africa that some districts receiving increased funding did not deliver more or better services, while those losing funds often maintained or in some cases improved services discussions at DFID-financed seminar on “Good Practice in public expenditure management,” Oxford, July 1999).

14. The UN Development Assistance Framework is defined by four criteria: it is a strategic document sensitive to the needs of the partner country; it is jointly owned by the UN and the partner government (explicitly identified as the dominant partner); it should help the UN to identify areas in which it can contribute the most in any given country and program cycle; and it should provide the means of operationalizing at the country level resolutions and initiatives passed at the global level (Adedeji and others 1998).

15. Other UN Development Assistance Framework pilots include (as of November 1998) Guatemala, India, Kenya, Malawi, Morocco, Mozambique, and Romania.