PRS Monitoring & Synthesis Project
Briefing Note 4[1]
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Costing Poverty Reduction Strategies – Early Experience

Summary

A review of approaches to costing in 10 full PRSPs and 4 Progress Reports reveals that:

- All the PRSs provide some estimate of the cost of implementing PRS objectives and the size of the subsequent financing gap. In most cases costings cover priority actions and core sectors for a 3 to 5 year period. Costing exercises focus mainly on the cost of achieving intermediate indicators rather than final outcome targets.

- A few PRSs attempt a comprehensive costing of priority actions (Malawi, Rwanda) but a number also only cost the 'additional' activities to be financed by HIPC funds and include only HIPC resources in funding estimates (Burkina Faso). Some provide a breakdown of recurrent and capital costs (Uganda, Malawi, Rwanda); others give basic unit cost information (Uganda. Mozambique).

- Most costing is carried out 'bottom-up' using activity-based unit cost estimates. Problems in coming up with credible estimates stem from generally weak prioritisation, limited unit cost data, inadequate links between programmes and indicators/targets (including in sector programmes) and over-ambitious medium term targets.

- Credible costing depends on clear links between individual programmes and intermediate indicators/targets, realistic medium term targets based on past performance rather than politically determined aspirations and a closer integration of PRS objectives with an MTEF (or similar forward budgeting framework).

- Some confusion exists over whether the role of costing is to work within financial constraints imposed by the available resource envelope (as in the MTEF) or to estimate the full extent of the fiscal gap between a country's poverty reduction needs set out in the PRS and available resources.

Coverage

Ten full PRSs (Burkina Faso, Mauritania, Mozambique, Malawi, Uganda, Tanzania, Rwanda, Honduras, Nicaragua, Bolivia) and 4 Annual Progress Reports (Burkina Faso, Uganda, Tanzania & Mauritania) were reviewed. Main Questions: How many PRSs contain costings? How complete are they? Any good examples of method? Any examples of best practice? What is useful/what is the required level of detail? What would be useful for Governments to know in order to cost PRSs?

Caveats

The level of detail on costing found in most PRS documents is modest. Much relevant important information remains outside of the document and is hard to get hold of within the confines of a short review exercise. Limited information is provided on method. Cost estimates are only briefly commented on by JSAs. Costing issues are also hard to treat

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[1] **Other Briefing Notes in 2001:** Briefing Note 1 - *PRSC - Vietnam and Uganda ;* Briefing Note 2 - *Experience with the PRS process in South and South East Asia;* Briefing Note 3 – *Board Responses to PRSPs.*

separately from how targets are set, how indicators are chosen and the current state of PEM/MTEF reforms.

Background

A crucial element of the PRS approach is assessing the fiscal implications of reaching medium and long-term poverty reduction targets. This is important in at least three ways:

(i) At the macro level, evaluating proposed poverty reduction measures in the light of the expected resource envelope, including increments provided by HIPC;

(ii) Evaluating the fiscal viability of long run PRS targets and hence the fiscal sustainability of the overall strategy;

(iii) At sector level, assessing the 'relative' cost effectiveness of alternative interventions in contributing towards a specific policy outcome (or target), and aiding prioritisation between them (although not in isolation from an analysis of demand and supply conditions/market failures etc), including making the case for extra funds where appropriate.

Three alternative approaches to costing PRS goals are:

(i) *Average Costs*: The cost of achieving a subset of goals using estimated average costs of service and estimated population lacking access to priority services. Data sources include: activity based budgeting and census/DHS/LSMS data for unserved populations.

(ii) *Multivariate Analysis/Determinants Analysis*: Determinants of key poverty outcomes (e.g. infant mortality) are used for sensitivity analysis with respect to different policies. Alternative policies can be translated into unit costs, with total costs calculated for attaining certain goals.

(iii) *Cost Effectiveness*: Ranking of existing projects and programmes according to the relevance of their objectives to the PRS. Priority services and target groups identified. Information obtained from sectors and donors about the most cost effective designs for priority social services, including the costing of main and complementary inputs required.

Most of the PRSs reviewed rely on a simplified variant of the cost effectiveness approach. None have attempted the more complex determinants analysis, presumably because of the considerable data requirements and technical complexity.[2]

Developing realistic and comprehensive cost estimates presents a number of methodological challenges for national authorities. The information requirements are substantial and often complex (especially in the social sectors where inputs and outputs are hard to measure), made more so by the fact that few of the parameters determining the cost of public actions are constant over time i.e. input prices change as do delivery systems making estimating the costs of reaching medium to long run targets complicated. Wage costs also tend to loom large in recurrent costs especially in priority sectors such as education and health, hence the need to be explicit about assumptions made regarding public sector wages and pay reform (see **Uganda**). Other reform processes, such as decentralisation, can also affect the cost of reaching a target, often during the life of the PRS itself.

[2] It is not clear how much more value-added such an approach would provide to policymakers in the short run, although it is an approach that can offer more in terms of the identification of trade-offs and key inter-linkages within the overall strategy i.e. that the cost of reaching a target in health may lie equally with interventions in water as with those directly in health.

These challenges are not insurmountable. As this review finds a number of countries already have reasonable cost estimates for priority programmes because of existing SWAp arrangements and/or sectoral PER/MTEF processes. However there is still some way to go before all PRSs contain a complete estimate of the fiscal cost of medium and long-term development targets.

Experience

Table 1 (Annex 1) summarises the information available on costing from 9 full PRSs, 1 draft PRS (Rwanda) and 4 PRS Progress Reports (PPRs) (Burkina Faso, Uganda, Mauritania and Tanzania). This section summarises some of the main points.

How many PRSs contain costings? All of the 10 PRSs include some cost estimates. Of the 4 PPRs, two (Uganda and Tanzania) include quite detailed costing exercises that add important information over and above what was initially available in the full PRS.

How complete and detailed are they? Coverage varies.

- Most give broad cost estimates for selected poverty reduction measures or programmes in priority sectors that are to be financed, at least in part, from HIPC resources (Mauritania, Burkina Faso, Bolivia).

- Some attempt an overall estimate of the cost of the PRS covering existing and new programmes (Uganda PPR, Honduras, Malawi, Rwanda), or priority/selected sectors (Tanzania PPR, Burkina Faso, Nicaragua, Bolivia). **Annex 1 Table 2.**

- In a number of cases, cost estimates are disaggregated into recurrent and capital costs for key sectors (Mauritania, Bolivia) or individual programmes/activities (Uganda PRS & PPR, Malawi, Rwanda).

- Basic unit cost information is provided mainly for sectors with SWAps or SWAp-like mechanisms (Mozambique, Uganda). In Tanzania the cost of health and education programmes is based on an estimate of the 'basic unit of service'.

- None of the current round of PRSs makes a direct link between the cost of programmes and the cost of directly achieving PRS targets. Most specify programme costs relating to broad PRS themes or objectives such as "opportunities" or "protection and security" (Bolivia, Malawi). Some PRSs limit the presentation of public expenditure to 'incremental activities' to be financed by HIPC debt relief and external financing (Burkina Faso, Honduras). This 'new project' approach precludes consideration of how the existing expenditure programme might be reshaped, even at the margin, to improve its cost effectiveness and impact on poverty reduction.

What information is provided on method? Only a few PRSs provide a description of the method used to arrive at cost estimates:

- In Uganda, costings are based on ongoing work by the MFPED and line Ministries to develop medium term poverty reduction targets, costings and priorities based on sector plans. Final prioritisation is by Cabinet through the annual budgeting process. Making fiscal costs fit within the available resource envelope calls for prioritisation and revision of targets on an iterative basis. In the PPR the total cost of the PEAP is considered unrealistic (resulting in a 37% financing gap!", largely because of the cost of the proposed pay reform. The PEAP programme is therefore under further revision and reprioritisation to bring the estimated fiscal cost more in line with budget constraints.

- In Tanzania the costing of priority interventions is based partly on the analysis of recurrent cost implications of sector programmes, and inputs from the PER and

MTEF. Technical studies defined 'basic units of service' in health, education, water and transport and their estimated costs. From these financing requirements were derived for the medium term, subject to the available resource envelope. Special attention was given to non-wage current outlays and development expenditure for key interventions needed to attain PRS objectives.

- In Mozambique the JSA notes that cost data are not centralised, not uniform and not easy to obtain outside of multi-donor funded sector programs (SWAps). In this context the proposals for financing the PARPA have mainly relied on the establishment of budget targets for the priority areas, based on a projected budget envelope for 2001-5. Unit costs are provided for those sectors that have them (education, health and infrastructure) as an illustration of future work to be undertaken rather than as underpinnings of the expenditure programme.

- In Bolivia estimates of the financing required by the BPRS were performed on the basis of the current structure of public investment programmes and projects, projected revenues and expenditures and disbursements and grants. For the base year 2001, projects in the PIP were classified according to the components and sub-components of the BPRS and priority projects were identified for each component. Financing requirements were then estimated for each component. The JSA notes that the cost estimates are very general and relate only to the four pillars of the strategy with no clear link to targets. Costing of the BPRS is also complicated by the fact that municipalities will have considerable discretion to finance activities that are of high priority at the local level, financed by both revenue-sharing funds and HIPC resources. Unit cost data at the municipal level is currently only partial.

- In Rwanda the priority programmes for the PRS are a subset of the programmes used in the MTEF. For each programme, the relevant agency identified and quantified sub-programme activities, outputs and inputs. The specification and unit costing of these was expected to be the same as for the MTEF. Unit costs were defined for each input. The costing was to be guided by what was physically feasible, not by the financial constraint (as in the MTEF). Hence the costing for the PRS was expected to be much larger than the existing resource envelope.[3] The final costing also included information on existing donors projects within priority programmes.

Are PRS costings linked with/to MTEFs? It is difficult to tell to what extent cost estimates presented in PRS documents are closely linked to those prepared as part of MTEF exercises. Not all of the countries included in the sample have MTEFs (Mauritania, Honduras, Nicaragua, Bolivia don't) and of those that do, few are fully functioning (Uganda is the exception). Few PRS documents are clear about the linkages with the MTEF, although JSAs frequently mention links with the MTEF where they are relevant.

- Cost estimates are linked to an existing MTEF or preparations for an MTEF in 6 cases (Uganda, Tanzania, Burkina Faso, Mozambique, Rwanda and Malawi).

- In Tanzania the PER/MTEF process has been used to identify sector unit costs, which are the same as those presented in the Progress Report. In Rwanda the specification and unit costing of each activity was expected to be the same as for the MTEF.

- In Malawi the PRSP costing was linked to the budget classification so that PRSP expenditures could be easily tracked through the budget.

[3] This approach raised a number of difficulties with the IFIs. The final version of the PRS now contains two 'costed scenarios' – one subject to financial constraint the other unconstrained by the gross resource envelope. However the Rwandan approach invites the question of the role of the costing exercise. Is the role to match the policy priorities with current resources or to identify the overall fiscal gap between current resources and what is required to support a fully comprehensive poverty reduction strategy?

A recent review of MTEFs in Africa by the Africa Region of the World Bank[4] found that only a subset of countries produce costings with data on programmes or activities and, of these, many are at an aggregate level (for example, the Mozambique health sector costs only three general programs 'improving health service provision quality, improving health institutions and developing human resources') and some only include recurrent costs. In practice in most countries only a subset of sectors have produced costings to date, many of these are covered by SWAp type arrangements, although progress is being made (gradually). Examples from the review include:

- In Uganda sectoral objectives are presented in the PRS but sectoral expenditure frameworks (SEFs) vary considerably in quality, and only some SEFs include performance targets.
- In Tanzania, SEFs include strategies, objectives and priorities but again vary considerable in quality. Some don't present detailed programme costings others don't present any costings. There is no standardised format.[5]
- In Rwanda three sectors present some costings of different quality and there is currently no standardisation.
- In Mozambique, five priority sectors present SEF costings based either on activities or programs but there is no standardised format and most non-priority sectors present costings according to their internal organisational structures.

Any examples of good practice? It is too early to comment on examples of best practice. However, in most cases countries are making the best of the information they have available and there are some examples of what might be called 'improving practice'.

- The Tanzania PPR shows how much can be done between the preparation of a full PRS and the first annual progress report, particularly where there is a fairly comprehensive PER/MTEF process in place. Much of the work for the cost estimates in the PPR was done in the context of studies prepared for the MTEF. However, as the JSA on the PPR notes, links between budget inputs, outputs and final outcomes need to be further investigated, and further advances in the costing of achieving proposed targets will require the finalisation of sectoral strategies as well as new information not currently available.
- The Uganda PEAP and PPR present between them probably the most comprehensive set of costings for a PRS, with disaggregation by recurrent and capital costs for a number of key sectors. The quality of the estimates is variable, however, with some program costings giving significant detail and others providing only rudimentary estimates. The estimated shortfall between the total cost of the PEAP and available financing (37%) illustrates the importance of a strong prioritisation process and setting realistic sector goals and targets. A key implication is the importance of basing medium term targets on existing information and past performance rather than on politically determined 'aspirations'.
- The Malawi PRS gives a comprehensive costing of priority activities (and resources), with targets and costs adjusted in the light of current implementation capacity. Costing covers all Government and development partner activities except for a number of large-scale infrastructure development projects that are treated separately because they are generally funded by development partners and have high lumpy costs. Inadequate information about some areas of donor activity is a problem.

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[4] *Medium Term Expenditure Frameworks in the Africa Region: Preliminary Lessons from Experience*. **Draft** August 2001. Phillipe Le Houerou and Robert Taliercio World Bank.

[5] This has shifted somewhat with the work carried out for the PPR in November 2001. All priority sectors now include costings, except for agriculture which is still waiting for the finalisation of its sector strategy.

Costings are provided within each *pillar* of the MPRS, at goal and sub-goal level by recurrent and development expenditure. A major weakness is that there is little indication of how the gap between the gross resource envelope and the total cost of the MPRS will be financed (as much as 10% of the total cost of the MPRS in 2002/3 and 2003/4).

Analysis

While national governments have generally made the best of limited data and experience in costing PRSs, there is clearly still some way to go before cost estimates can be considered a reliable assessment of the fiscal impact of achieving PRS targets.

Among the issues affecting the quality of cost estimates include:

- Unclear rationale for prioritisation of interventions within or across key sectors
- Absence of sector strategies/plans or sectoral PERs providing credible unit cost information
- Non-standardised formats for calculating costs within sector and donor programmes
- Limitations of unit cost data, particularly where complex services are being provided
- Over ambitious medium-term PRS targets

In addition there is some confusion in PRS documents as to whether the role of costing is to ‘constrain’ priority actions to the gross resource envelope or to estimate the full scale of the fiscal gap between the country’s poverty reduction needs and available resources (a much larger figure). The Rwanda PRS is the clearest example of adopting the latter approach but one that subsequently ran into difficulties with the IFIs because of conflicts with crucial macroeconomic targets. The final document now contains two costing scenarios, one constrained by assumptions about future donor flows and domestic revenue growth, the other unconstrained by any financial limit.

Even where cost estimates are of reasonable quality, as in the case of Rwanda and Uganda, coming up with an overall estimate of the fiscal cost of reaching medium term targets is a major challenge requiring reprioritisation and reformulation of activities and programmes over time. It is therefore important not to view the process of costing in isolation. As Uganda has found, even if programmes are fully costed and embedded within the MTEF, there are still weaknesses in government capacity that prevent the implementation of programmes necessary to attain the targets. As the Uganda progress report explains in relation to a number of performance targets missed at the end of the first year “In several cases they represented costed input or output targets under the MTEF, where it is normal to assume that fiscal resources will be converted efficiently into inputs and outputs… In retrospect it is not surprising that the fast expansion of social services has caused implementation problems…” The issue is two fold: first, although it may not be appropriate to impose too heavy a financial constraint on the initial costing exercise (so that the full extent of the fiscal gap can be fully revealed), constraints on physical implementation need to be taken full into account. Second, PRS targets are often highly ambitious and rarely based on evidence of past performance. This places huge stress on implementation and renders the costing process less than useful to serious policymakers.

Implications

Unlike the development plans of the 1950s and 1960s, the value of PRSs is that they aim to link intentions with budgets. Without adequate attention being given to cost estimates for PRSs and without the preparation of a realistic medium to long term public expenditure programme, the chances of the new PRS approach succeeding are significantly reduced.

In addition, in order for donors to be more persuaded to increase programmatic support for PRSs, governments need to move rapidly towards providing credible fiscal cost estimates.

Implications that might be of use to Government's embarking on a costing exercise are:

- In the initial phase it is likely to be difficult to come up with the unit costs of attaining strategy targets, therefore in the short run use estimates of the overall financing requirement for existing and new programmes (preferably disaggregated by recurrent/capital costs) and aggregate these according to PRS objectives and goals. Be clear that these are estimates of aggregate financing requirements not based on detailed unit cost information.

- Commission technical studies on costing, preferably as part of an ongoing PER and/or MTEF review. Focus on priority sectors first and gather as much information as possible on service/activity unit costs, delivery system and sector demographic variables. This will eventually allow calculation of the unit cost of reaching key programme output/outcome targets. These can then be used to assess the cost of attaining the more ambitious sectoral targets contained in the PRS. Link costings to the budget classification in order to track future PRSP expenditures.

- As the full cost of attaining targets becomes known, it is vital to reconsider the cost effectiveness of programmes and activities proposed (drawing on line Ministries and external partners), *as well as evaluating the viability of the targets themselves given current and projected budget constraints*.

- In the long run, effective costing requires better links between programmes and intermediate indicators/targets, close integration of PRS objectives with an MTEF (or similar forward budgeting framework), a fully integrated PIP, and a process of target setting that is evidence based and transparent.

The limited evidence available regarding costings suggest that partner countries need assistance to improve the analytical basis of cost estimates. Given capacity constraints within partner countries and the technical difficulty associated with estimating costs and expenditures, it would be useful if the World Bank and donor community were to increase their support in this area. But considerable care is needed. External technical support should be relevant, appropriate and should not stifle or replace local efforts. Current guidance available in the PRS Sourcebook is not particularly helpful to capacity constrained national authorities. More intuitive guidance setting out key stages in the costing process, the types and sources of essential information, which stakeholders to involve and what stage and key linkages with MTEF/PER processes would be much more useful guide, particularly at the preliminary stages. Ultimately national authorities have to assume responsibility for producing robust and politically defensible estimates.

Annex 1

Table 1

PRS	Any Costing?	How Complete?	How Detailed?	What Method?	Any link with MTEF?	Good Practice?	Comments
Burkina Faso	Yes	(i) Table showing *additional* costs of poverty reduction measures in priority sector progs. to be financed largely by HIPC; (ii) Annexes giving overall cost of existing priority sector progs. and projected amounts for 2001-3; (iii) No clear link established between total programme costs and PRS targets.	No breakdown of recurrent/capital costs; no discussion of wage vs. other recurrent costs; sector programme costs include physical targets & unit costs but financial projections seem to assume stable unit costs except for annual 3% inflation adjustment.	Unit cost analysis prepared for existing sector programmes. No discussion of method or assumptions re: technical efficiency.	Costs based in part on preliminary work done for the 2001-3 MTEF.		JSA states ' The costing of the PRS action plan is considered reliable because it draws upon the long-term strategies under finalisation in priority sectors…..and on preliminary work done, with Bank staff, on the 2001-3 MTEF" PRS Progress Report June2000-2001 notes continued efforts to improve budgeting process/MTEF/PER but no further mention of costing.
Mauritania	Yes	(i)Table showing program of priority actions and additional costs 2001-4. Linked to broad objectives but not targets per se. (ii) Exposition of additional financing requirements to meet costs of 'additional' priority actions (presumably based on above unit costs)	Estimates of recurrent/ capital costs in social sectors are provided but not as part of costs of financing priority actions. Note: PIP separate. No MTEF.	Nothing on method Not clear what assumptions are being made re: technical efficiency, input prices etc.	No MTEF at time of PRS preparation.		JSA states 'The costs of the priority programmes appear realistic but will need to be reviewed as PRS implementation proceeds and more detailed sectoral knowledge become available! After HIPC and PIP financing already committed, GoM estimates financing gap of close to $300million. Targets ambitious.
Mozambique	Yes	(i) *Additional* expenditure requirements for priority areas 2000-2005.	Rudimentary unit costs mainly for sectors with SWAPs	No discussion of method. Cost data are not centralised	Public expenditure requirements anchored in MTEF		JSA states: cost data are not centralised and uniform, and not easy to

		(ii) Some average unit cost data for education, health and infrastructure – indicative of future work rather than as underpinning expenditure program (ii) No direct link made between cost information and achievement of targets.	or SWAP like mechanisms (education, health, water/roads). No disaggregation between capital/recurrent or clear idea of share of wage costs in average unit costs.	and uniform, and not easy to obtain outside of multi-funded sector programs (SWAPs).	2002-5, although MTEF not fully linked up with annual budget process.		obtain outside of multi-funded sector programs (SWAPs). These issue are now being addressed in the context of the participatory PER and new Public Financial Management Law. In this context, proposals for financing of the PARPA have mainly relied on the establishment of budget targets for the priority areas 2001-5
Malawi	Yes	(i) Table showing <u>total</u> PRS costings by pillar 2002-3 to 2004-5 (ii) Table showing more detailed costings by pillar (e.g. sustainable pro-poor growth), goal (e.g. sources of pro-poor growth) and sub-goal (e.g. increasing agricultural incomes). (iii) Resource gap based on estimate of gross resource envelope (based on total domestic tax, non-tax revenue and conservative estimates of donor inflows) minus statutory & statehood expenditures and total MPRS costings.	More detailed estimates of costs by objective categorised by recurrent & development provided as annex. MPRS costing is comprehensive, covering all Government and development partner activities (except for a number of large infrastructure development projects that are expected to be financed by donors/private sector and exist outside of the budget). Resource envelope includes all sources	MPRS activities defined in large part through a bottom-up approach. The needs of the poor were defined first and strategies designed to help them reduce their poverty. These activities were then costed, where possible using unit costs applied to relevant targets eg: in education the total teacher wage bill was derived by multiplying the required number of teachers in a year by the cost of paying each	Linked to MTEF. Not clear whether the aggregate resource constraint is the same as the MTEF (although the implication is that it is). MPRS matrix outlines responsible institution(s) for each activity so that costing can be easily translated into institutional allocations for comparison with the Budget.	Comprehensive treatment of resources and cost is a step forward. Disaggregation by activity and by recurrent/ development provides a clear picture of the overall financing gap (although lack of sufficient information about donor flows is a problem).	

			of funding – domestic, grants, loans, HIPC etc. *Note*: not all donor funds are covered because not all are included in the budget. GoM plans an suirvey of ongoing projects and future commitments to ascertain the extent to which MPRS activities are already funded.	teacher in that year. Targets and costs were adjusted to ensure realism, especially regards institutional capacity. Once all activities were costed, the total cost of the MPRS was derived. Next activities were reprioritised, rephrased, rescaled so that total costings were in line with total resources. Not clear how unit cost estimates were derived.			

Uganda	Yes	(i) More complete than most but quality of estimates unclear. (ii) Total costs, including some breakdown by recurrent/capital available for key sectors, although clearly guesstimates for some programmes. (iii) Annual PPR states initial estimates made of total cost of PEAP programs based on anticipated financial requirements to meet PEAP targets. However, financing gap unrealistic, largely because of cost of pay reform. PEAP program therefore needs further revision/ reprioritisation.	More detailed than most – effort to disaggregate recurrent and capital costs; unit cost analysis especially in sectors with SWAPs; recognition of the importance of wage costs and of pay reform! But detail variable across sectors, and quality not assured.	Method not clearly stated in PEAP, although exercise builds on ongoing work of MFPED with line Ministries to develop targets and costings from sector plans. Unit cost data available for programmes where SWAps exist. PRS notes difficulty in preparing cost estimates for cross-cutting programmes such as governance.	Whole exercise embedded in MTEF (which is itself more comprehensive than other countries).	Better practice than most, but even here costing estimates prove a major methodological and informational challenge. Credibility of estimates not clear.	JSA on PPR states that costing work has continued and an overall estimate for the PEAP/PRS programme is now available. However the financing gap is such that these estimates need further revision along with prioritisation of activities and targets. GoU PPR states "Government views costing as a regular exercise that will be addressed through the MTEF process, in addition to periodic longer run costings that help to guide strategic allocations" (12)
Tanzania	Yes	(i) Costing estimates for health and education based on 'basic unit of service'. Specific actions in water, anti-corruption and HIV/AIDs also costed. (ii) Other sectors not costed until sector strategies in place. (ii) Annual Progress Report states interventions for all sectors except agriculture	Basic unit of service for health $9 per capita, of which 67% recurrent, 33% development expenditure. Given that this represents twice current allocation per capita, budget provision had to be constrained accordingly. PER process important source of information	Method described as: "The costing of priority interventions has been based partly on the analysis of recurrent cost implications of SIPs and inputs from PER & MTEF exercises. Technical studies defined 'basic units of service' in	Linked with MTEF.work undertaken for MTEF used to identify sector unit costs.	Costed for 'basic unit of service' not programme as a whole.	JSA notes: The costs of reaching the proposed targets in the health, education and roads sectors of the strategy were derived from studies prepared in the context of the MTEF. The staffs note that the links between budget inputs, outputs and final outcomes need to be further investigated..Further

		have been costed, as have crosscutting areas. Cost estimates provided for priority sectors. Although not presented with recurrent/ dev. breakdown. Presentation by priority sector 2001/02-2003/4. Total cost of prioirty sectors as share of GDP rising from 4% in 1999/00 to 11% in 2003/4.	for costing, esp. in health and education.	health, educ, water & transport and their estimated costs. From these financing requirements derived for medium term, subject to resource envelope" PPR notes two exercises carried out: (i) estimate of total resource requirement based on PER and MTEF efficiency and VFM criteria and considerations of expenditure priority and constraints taking into account PRS targets (ii) Special attention to non-wage current outlays and development expenditure for key interventions needed to attain PRS objectives.			advances in the costing of achieving the proposed targets will require the finalisation of sectoral strategies as well as new information"
Rwanda	Yes	(i) Full constrained and unconstrained costs available for all priority programmes and sub-programmes contained in the PRS.	(ii) Costs broken down by recurrent (wage/non-Wage. center/province) and development expenditures.	For each programme, respective agency identifies & quantifies sub-programmes, activities, outputs and inputs. The	PRS programmes the same as in MTEF.	Fully comprehensive costing based on unit costs for recurrent and development expenditure.	Rwanda PRS includes two cost scenarios, one constrained by the macro/fiscal framework, the other unconstrained (guided by physical feasibility).

				specification being the same as in the MTEF (although volumes differ). Unit costs defined. The PRS is guided by what is phuscally feasible not by financial constraint, hence th costing can be much larger than the existing resource envelope. Donor projects included within priority programmes.		Attempts an approximate estimate of the overall costs and appropriate division between central and local levels. Each sectoral ministry estimates global costs including those borne by provinces and districts.	

Honduras	Yes.	(i) Estimated costs for 'new' programs & projects included in the PRS 2001-5. (ii) Overall cost of new PRS estimated at US$1.89billion. Total cost including existing programs $2.6billion.	Broad/general costings. No unit cost data presented. No disaggregation by recurrent/capital or by central/local government.	No method described.. PRS states "The precise measurement of costs will be a continuous task, based on priorities and available resources"	No MTEF (yet) although JSA states World Bank to provide support to establish MTEF.		JSA states "The costing estimates, however, are broad and general, reflecting the methodological difficulties of quantifying the unit costs of attaining the strategy's targets"
Nicaragua	Yes/some	(i) Attempt to measure fiscal cost of meeting selected intermediate indicators for educ, health and W&S. (ii) Overall estimate of recurrent and capital costs not available by sector/sub-sector	Estimated annual fiscal cost of meeting expansion of selected sectors plus overall cost 2001-5. Total for the period US$506million. Nothing on centre/local.	Exercise undertaken with WB staff. Some description of the problems of applying a unit cost approach in educ/health & problems in linking programmes and indicators.	Plans for 5-year budgets. No direct reference to MTEF. PRS used as the overall framework for the 01 budget, with the budget organised around the PRS pillars.	More on method and caveats to estimating fiscal costs but still very general and not clearly linked to indicators/ targets.	JSA notes ""The PRS makes an effort to estimate the cost of achieving key programme targets but these estimates are tentative and general, reflecting the difficulties of quantifying the unit costs of meeting intermediate indicators" Costing appears a 'theoretical' exercise to justify use of HIPC funds (not total cost of programme almost exactly equals HIPC funds available) rather than as part of the prioritisation/choice process.
Bolivia	Yes	(i) Cost estimates for investment and some recurrent spending in each of the four strategic components and there cross-cutting issues. (ii) Costings are general	Costs very general (ie. relating to the four pillars of the strategy and cross-cutting issues) and identified for the entire 2001-6 period. No clear link	Crude description of method, but no information on what basis cost estimates by component reached i.e. unit	MTEF proposed.	Cost estimates take explicit account of maintenance and other recurrent costs associated	Costing complicated by fact that municipalities will have considerable discretion to finance activities that are of high priority at the local level, financed by both

		given limited unit cost information for attaining intermediate targets. (iii) Overall cost of strategy 2001-6 = $7.4bn of which $0.9billion = financing gap.	with targets. However recurrent and investment costs are identified, although not central/local.	cost per programme/ project or some other calculation.		with public investment.	revenue-sharing funds and HIPC resources. There is currently partial coverage of data at the municipal level.

Table 2

PRS/PPR	Estimated Total Cost	Estimated Financing Gap
Burkina Faso	PRS action plan estimated at 14.86 billion CFAF in 2000 rising to 32.55 billion CFAF in 2003.	
Mauritania	Total cost of priority investments 2002-4 $282million. Total PIP including priority investments $354million	After HIPC and budgetary resources net financing requirement $314million.
Mozambique	??	
Malawi	34, 186 million Kwacha in 2002/3 rising to 42, 465 million kw in 2004/5.	3,924 million Kwacha in 2002/3, falling to 2,469 million in 2004/5.
Uganda	??	37 percent shortfall between current and projected financing (March 2001)
Tanzania	Total cost of priority sectors as share of GDP rising from 4 percent in 1999/00 to 11 percent in 2003/4	
Honduras	Overall cost of new PRS $1.89 billion 2001-5. Total cost including existing programmes “2.6 billion.	
Nicaragua	Total fiscal cost of meeting expansion of selected sectors $506million 2001-5	
Bolivia	Total cost of strategy 2001-6 $7.4billion	$0.9billion

Annex 2

Guidance on Costing

(i) PRS Sourcebook

Attaining targets must not only be technically feasible but also fiscally sustainable. The fiscal feasibility of targets is a function of (a) the government's capacity for increasing public spending to cover the cost of reaching targets (b) its scope for enhancing the efficiency of that spending and (c) the government's capacity to implement programmes necessary to attain targets.

Estimating the cost of reaching targets raises several methodological issues:

- In theory the cost of attaining output and outcome targets depends on (a) the shape of sectoral or program production functions (holding technical efficiency constant) (b) the level of technical efficiency (holding inputs constant) and (c) factor prices of various inputs. All 3 parameters tend to move simultaneously and some are the objectives of policy, such as technical efficency. This makes estimating the costs of reaching medium to long term targets very complicated.

- Wage costs tend to loom large in recurrent costs especially in priority sectors such as education and health. Hence it is important to be explicit about the assumptions made regarding public sector wages. More generally it is advisable to undertake sensitivity analysis of the cost of reaching various targets to variations in the level of public sector pay.

- Estimating the cost of reaching a target may also be affected by the process of administrative and political decentralisation, since this affects/influences the 3 parameters above.

Two main ways of estimating costs – sectoral analysis and programme analysis.

<u>*Sectoral analysis*</u> – already used to estimate costs for SWAps in education, health etc. Each sector must come up with basic information on ***demographics*** (to assess the client population and estimate trends); on the ***delivery system*** (e.g. items in a basic health care package, number of villages visited by mobile health teams, length of schooling cycles) and ***cost parameters*** (supply-side costs such as teacher wage, teacher-student ratio, fixed and variable costs for mobile health teams, unit costs for delivery of basic health care package). This information can then be used to compute outcomes and assess the overall public cost of reaching them. Unit costs often change over time so it is important to have a flexible model allowing for changes.

<u>*Programme analysis*</u> – assesses the cost of various programmes which could help in reaching targets eg. how much would it cost to generate an extra year of primary schooling through a particular programme? Assessing the cost and efficiency of programmes for reaching specific targets in education and health can be helped through knowledge of social programmes in other countries for which there is detailed evaluative material.

(ii) JSA Guidelines

Are fiscal choices consistent with the poverty reduction and growth objectives of the PRS? Is the allocation of expenditures consistent with the strategic priorities, institutional capacities and efficiency, and realistic cost estimates?…."

- Quality of cost estimates for key programs
- Comprehensiveness of budget data
- Status of a MTEF to improve capacity to undertake pro-poor budget allocations over time

- Disaggregation of expenditure programs by sector, key programs for poverty reduction and recurrent/investment expenditures.