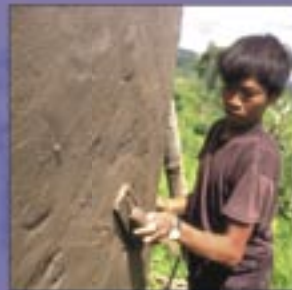
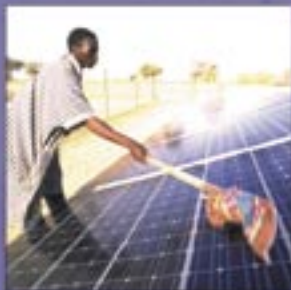


ACHIEVING RESULTS

Performance Budgeting in the Least Developed Countries

United Nations Capital Development Fund



Achieving Results

Performance Budgeting in the Least Developed Countries



United Nations Capital Development Fund

Copyright © August 2006
United Nations Capital Development Fund
Two United Nations Plaza, 26th Floor
New York, NY 10017
web: <http://www.uncdf.org>
e-mail: info@undp.org

All rights reserved
First printing August 2006

The views and interpretations expressed in this publication are those of the authors and are not necessarily those of the United Nations Capital Development Fund or any of the organizations that sponsored and contributed to its development.

The designation of geographical entities in this publication, and the presentation of the material herein, do not imply the expression of any opinion whatsoever on the part of the publisher, the authors or the participating organizations concerning the legal status of any country, territory or area, or of its authorities, or concerning the delimitation of its frontiers or boundaries.

All references to dollars (\$) in this publication refer to United States dollars, unless otherwise noted.

Library of Congress Cataloging-in-Publication Data

Editor: Ronald McGill

Design and Production: Adam Rogers

Photo credits throughout: Adam Rogers / UNCDF

UN Publications Number: E.06.III.B.22

ISBN: 92-1-126194-5

Includes bibliographic references

1. Performance Budgeting.
2. Decentralization.
3. Local Government.
4. Millennium Development Goals.
5. Local Development.
6. Public Expenditure Management.



Printed in the United States of America
on recycled paper using environmentally-correct processes.

TABLE OF CONTENTS

ACKNOWLEDGEMENTS	1
FOREWORD	3
TECHNICAL PREAMBLE	7
An Institutional Development Paradigm for Performance Budgeting	7
Principle	7
1. Mozambique	7
Policy, legal and regulatory context	7
Organizational structures and staff deployment	8
Planning cycle.....	9
2. Yemen	10
Policy, legal and regulatory context	10
Basic tenets of the law for planning and budgeting.....	10
The governorate local council.....	10
The district local council	10
PRSP	11
Organizational structures and staff deployment	11
Planning cycle.....	11
3. Armenia	12
Policy, legal and regulatory context	12
Law on local self-government ¹³	12
Law on budgeting ¹⁴	13
PRSP and MTEF	13
Programme budgeting in the MTEF	14
Organizational structures and staff deployment	14
Planning cycle.....	16
Endnotes	16

CONCEPTS AND CONTEXT FOR PERFORMANCE BUDGETING IN LOCAL GOVERNMENT

1] PERFORMANCE BUDGETING IN LEAST DEVELOPED COUNTRIES: CONCEPTS, INSTRUMENTS AND GOVERNANCE	19
Introduction	19
1. Concepts	19
Context.....	19
Mapping	20

Checklist	21
External logic.....	22
2. Instruments	23
Making it work.....	23
Figure 1 : The external logic of PB.....	23
Structure and result of ARPB	24
Essence	24
Level 1 analysis - strategic framework	24
Level 2 – programme and target analysis.....	26
Table 1: Strategic Targets	26
Table 2: Strategic targets’ prioritization	27
Table 3: Annual Targets.....	27
Level 3 analysis.....	28
Table 4: Target table for input analysis.....	28
Review.....	29
3. Governance	29
Accountability	29
Figure 2: Internal Structure of PB	30
Measurement	31
Conclusion	34
Table 5: Performance Review Framework through Economy, Efficiency and Effectiveness Tests.....	35
Endnotes	36
Introduction	37
2] GOVERNMENT FINANCIAL STATISTICS: PRINCIPLES, PRACTICE AND PRACTICAL CONNECTIONS TO PB.....	37
Figure 1: Budgetary, accounting and fiscal classifications	38
1. Developing Classifications under the GES Framework.....	39
Government interactions with the rest of the economy	39
Figure 2: Budgetary, accounting and fiscal classifications	39
Defining the institutions of government	40
Figure 3: Defining General Government	40
Defining the functions of government	41
Figure 4: Classification of Expense by Function of Government	42
Economic classification	42
Figure 5: Operations of Government According to GFS 2001.....	43
Identifying the Resources to Finance the Government - Inflows	44
Defining the Inputs Required for Government Services - Outflows	44

2. Linking Policy to Budgetary Allocations: The Programme	45
Identifying government policies and priorities	46
Medium-term context of outputs / service delivery and link to COFOG.....	47
Operational classifications – options.....	48
3. From Programme to Performance Budgeting.....	50
Budgeting based on output unit costs.....	50
Funding incentives for agency performance	51
Budget-linked targets	52
Conclusions.....	53
Endnotes	54
Figure 2: Classification of non-tax revenue	56
ANNEX 1 TO CHAPTER 2.....	56
Figure 1: Classification of tax revenue.....	56
Figure 2: Classification of non-tax revenue	57
Figure 3: Classification of disposal revenue	57
Figure 4: Classification of borrowing revenue	57
Figure 5: Classification of current expenditure	58
Figure 6: Classification of non-Capital Assets	58
Figure 7: Classification of Financial Assets	59
TANZANIAN PRACTICE THROUGH CENTRAL GOVERNMENT REFORMS	
<hr/>	
3] STRATEGIC PLANNING: THE TANZANIAN IMPERATIVE FOR PERFORMANCE BUDGETING	61
Introduction.....	61
1. Background to Strategic Planning in Tanzania	61
Performance management system	62
Key elements of PIM	62
2. Developing Strategic Plans in Ministries	63
3. Lessons Learned, Issues, Challenges and Lessons	65
Figure 1. Strategic Planning and Performance Budgeting in Tanzania.....	65
What other countries can learn.....	66
Conclusion	67
ANNEX I TO CHAPTER 3: LG CAPACITY BUILDING MONITORING FRAMEWORK.....	69
4] PERFORMANCE BUDGETING: THE CASE OF TANZANIA.....	75
Introduction.....	75
1. Key Public Sector Reforms.....	75
2. Performance Budgeting	77

3. Achievement and Challenges in ‘GFS’ and ‘PB’	79
Table 1: Babati District Council Budget FY 2005/06 – 2007/08	81
Objective, Target Type and Activity	81
4. Other Complementary Developments	82
Public expenditure review / medium term expenditure framework	82
The national strategy for growth reduction of poverty (NSGRP)	83
Conclusion	85
Endnotes	86

**MOZAMBIQUE AND YEMEN PRACTICE
THROUGH DECENTRALIZATION REFORMS**

5] TOWARDS DECENTRALIZED DEVELOPMENT PLANNING IN MOZAMBIQUE	87
Introduction	87
1. Local Government and Decentralization in Mozambique	88
2. Experimenting with Decentralized Planning	90
3. Decentralized and Integrated Development Planning	92
4. From Vision to Reality?	94
Conclusions: Performance Budgeting - the Implementation Challenge	97
References	100
Abbreviations	101
Endnotes	101
6] LAYING THE FOUNDATION FOR PERFORMANCE BUDGETING IN YEMEN	103
Abstract.....	103
1. Introduction	103
2. The Decentralization and Local Development Programme	104
DLDSP’s Capacity Building Programme in PEM:	105
3. The Stages of the ‘PB’ Analysis Through the ‘ARPB Format	106
Diagram 1: Building Participatory Systems	109
Baseline data collection and/or reassessment of development needs	110
Diagram 2: Participatory Needs Assessment and Data Collection	111
Challenges faced in developing district information management infrastructure	112
Articulating / updating the district’s “General Development Picture report”.	113
What is being piloted by the DLDSP	114
Diagram 3: Articulating the General Development Picture Report	115
Developing LA institutional capacity to produce the GDPR	116
The process for developing the district’s integrated plan and budget	116

What is being piloted by the DLDSP	117
Diagram 4: The Integrated District Development Plan and Annual Investment Programme	118
Setting “Quantifiable Development Objectives”: Medium-Term Development Programmes (The 3-5 Year Integrated Development Plan)	119
Translating Objectives into Programmes & Projects:	120
Deriving the One Year Plan and Investment Programme – the Budget Bid ...	122
The Annual Performance Report (APR):.....	122
Diagram 5: Developing the Annual Performance Report.....	124
Introduction	127

GENDER-RESPONSIVE BUDGETING

7] GENDER-RESPONSIVE BUDGETING: CONCEPT AND INTERFACE WITH PB AT THE LOCAL LEVEL	127
1. Gender-responsive Budgeting for Results.....	128
The purpose of gender-responsive budgeting.....	128
Figure 1: A rights framework for human development and GRBR.....	130
3. A Gender-Responsive Policy Cycle	131
Step 1: the gender-aware situation analysis at micro level	132
Figure 2: A gender-responsive policy cycle.....	132
Step 2: rights, goals and norms.	134
Step 3: gender-responsive policy review: the PRSPs	136
4. The Interface Between ‘GRBR’ and ‘PB’	140
Steps 4 and 5 : planning, multi-year programming and budgeting	140
Figure 3: A chain of poverty-reducing results.....	144
Step 6: monitoring and evaluation of PRSPs and budgets - gender equality in the impact of expenditure.....	145
Endnotes	146
8] GENDER-RESPONSIVE BUDGETING: SOME GRB AND PB COUNTRY AND LOCAL-LEVEL INITIATIVES	149
Gauteng Provincial Government in South Africa.....	151
Box 1: An annex to the 2004 Budget Law in Rwanda³.....	151
Table 1: Vote 8: Local government and development planning	152
Allocations for women and gender equality	152
Centralized input-based budgeting systems.....	153
The GRBR in the context of budgetary reform.....	153
Localizing gender-based MDGs	155
Endnotes	157

TAKING THINGS FORWARD

9] TRAINING FOR PERFORMANCE BUDGETING: A TRAINING-BY-DOING FORMAT	159
Analytical steps in preparing the ARPB	160
Table 1: “Bottom-up” and “output-based approach” to planning and budgeting	161
Four-day training workshop	161
Endnotes	164
10] TRAINING FOR PERFORMANCE BUDGETING: EXAMPLE OF A TRAINING RESULT FROM ARMENIA	165
Part 1. A statement by the city mayor	166
Part 2. An executive summary of the entire document	166
Part 3. Strategic performance framework - the 3 year perspective (2006-2008)..	166

TURNING IDEAS INTO ACTION

11] PERFORMANCE BUDGETING MANUAL	197
Principles and formats for the preparation of a “bottom-up” and “output-based” budget approach to planning and budgeting.....	197
PERFORMANCE BUDGET MANUAL	198
A Working Model for Local Government in Least Developed Countries.....	198
Part 1: Bottom-Up.....	204
Table 1 - PB - Planning, Budgeting and Review Cycle: (“bottom-up” and “output-based”)	205
Table 2: Problem definition and “raw” project proposal	206
Part 2: Output Based.....	208
Table 3: Prioritizing Development Imperatives.....	210
Table 4: Strategic Targets	211
Table 5: Prioritizing Strategic Targets.....	212
2.10 Annual targets and input analysis.....	212
Table 6: Annual Targets.....	213
Table 7: Target table for input analysis	214
2.11 Reviewing performance.....	214
2.12 Internal structure of PB.....	214
Part 3: Consolidated Submission and Mobilization.....	214
Table 8: The Efficiency and Effectiveness of ‘Achieving Results’	215
Table 9: Internal Structure of PB	216
Table 10: Work Plan	219
Table 11: Variance Analysis.....	220

Table 12. - PB – Summary Analysis at Programme Level – the Budget Bid for Each Objective..... 222

ANNEX TO CHAPTER 11: LOCAL DEVELOPMENT FUND MODALITIES – A STATE (OR REGION OR PROVINCE) AND LOCALITIES’ (I.E. LG, AT DISTRICT OR CITY LEVEL) PERSPECTIVE..... 225

Principles 225
Eligible Institutions 226
LDF allocations 226
Table 1: State Poverty Assessment 227
Use of LDF allocations 228
Level of local contributions 228
Funding channels and processing conditions 229
Endnotes 230

INDEX 231

ACKNOWLEDGEMENTS

The United Nations Capital Development Fund (UNCDF) prides itself in policy experiments to test new ways to achieve local development in the least developed countries (LDCs). In this context, it is pursuing the performance budgeting (PB) challenge, as part of its decentralization and local development work, in some of these countries. I must therefore thank the Director of UNCDF's Local Development Unit, Kadmiel Wekwete, for providing the space and resources to pursue this challenge, both as a research and development subject and as a case for innovative practice. Henriette Keijzers, UNCDF's Deputy Executive Secretary, has ensured a clear path for this experiment to be pursued. Our very new Executive Secretary, Richard Weingarten has not only recognised the importance of this experiment but also, has written the foreword to this text. This is much appreciated.

Recent conceptual inspiration came from reading Jack Diamond's various IMF working papers on performance budgeting¹ and in subsequent discussions with him. Additional practical insights came from Marc Robinson, first met at an IMF Caribbean regional workshop in St Lucia in 2004. We have since developed a working relationship, culminating in my attendance at his convened IMF international senior seminar on performance budgeting, in December 2005, in Washington DC. There, I presented the UNCDF perspective on the challenges of implementing PB in the least developed countries.

Policy experiments cannot work without the willing participation of country teams. In this regard, I greatly appreciate the work of Aladeen Shawa, chief technical adviser (CTA) of the UNCDF / UNDP decentralization programme in Yemen, John Barnes, our CTA in Mozambique, Yemane Tekle-Mariam, our CTA in Eritrea and both Narine Sahakyan, UNDP Portfolio Manager and Suzan Bagratuni, UNDP, PB Project Coordinator, in Armenia; all of whom are wrestling with the challenges of implementing performance budgeting in their respective countries.

This volume is a direct result of the UNCDF-sponsored workshop on the challenges of implementing PB at the local government level, held in Dar es Salaam, Tanzania, on 13th to 15th September, 2005. Teams attended from Mozambique, Eritrea, Yemen, Armenia and Tanzania. A particularly warm welcome was offered to the two Sudanese delegations; from the North and South of that vast country.

Endnotes are located at the end of each relevant chapter. The endnotes to this section are located at the end of the Technical Preamble.

ACHIEVING RESULTS

Finally, I have a long history of work in Tanzania, including helping its Ministry of Finance to introduce performance budgeting, as part of the national civil service reform programme's organization and efficiency work.² The consistent counterpart in all this effort has been Mr. Magambo, now budget controller in that ministry. He is the author of chapter 4. His commitment to performance budgeting should be recognized widely.

A handwritten signature in black ink, appearing to read 'R. McGill', with a stylized flourish at the end.

Ronald McGill

Senior Technical Advisor, UNCDF

August 2006

FOREWORD

Since 1966, UNCDF has been mandated by the General Assembly of the United Nations to invest in developing countries. At present, it is the only UN agency able to commit capital that is focused exclusively on making investments in the Least Developed Countries (LDCs.) Within the LDCs, UNCDF generally works in the poorest, and mostly rural, areas. Our entry point are governments and the communities they serve. A basic feature of UNCDF practice is to embrace decentralization to achieve broad-based local development while also implementing broader principles of good governance and economic development.

There are 50 LDCs. UNCDF is currently working in 28 of them. By the end of this decade, we hope to be fully involved in at least 45. Our mission is to reduce poverty in these countries and to help them achieve the Millennium Development Goals (MDGs). We generally work at local, regional / provincial and national levels in our projects. Governments at these levels are among our most important partners. Our method of work includes investments in human and institutional capacity to enhance local development and in small-scale infrastructure and access to social services projects. We also seek to build inclusive financial sectors in the countries where we operate and to make investments in financial services infrastructure and microfinance institutions. We seek to replicate and scale our pilot projects, and we provide capacity building and technical advice at a policy level to many national and local governments.

The capital funding modality that we use with local governments to fund socio-economic infrastructure investments is popularly known as the Local Development Fund (LDF). The LDF is a method of achieving sustainability in the local development process by requiring the local planning, budgeting, management, and monitoring of public expenditures. This local public expenditure management is closely aligned and integrated with national planning and budgeting systems so that appropriate capacity and funding mechanisms are developed at both levels.

An LDF is generally established by UNCDF in conjunction with a local government based on a modest investment amount per capita. The theory is that when such funding is initially available from external sources (the LDF), institution and capacity building proceed to gain access to this funding. Subsequently, actual investments must be made and monitored to ensure continuing access to these funds. As the LDF funding from UNCDF declines (largely due to our programme requirements that LDF's become an institutional part of national decentralization strategies), increased local capacity in

both revenue mobilization and improved systems of fiscal transfers from central government replace the LDF. This institutionalization and sustainability objective remains a central platform to our local development work.

Local revenue mobilization and increased central government transfers, however, do not ultimately determine how the internal system of a local government manages this revenue, plans for development, converts these plans into expenditure programmes or allocates funds to deliver them. Over recent years, UNCDF has sought to answer this question through the principle of Performance Budgeting (PB). PB seeks to convert budgets from an ‘input-based’ to an ‘output-based’ format. It requires the preparation of local development plans and the integration of these plans into a local government budget. The underlying theme of PB is two-fold. First, it seeks to introduce accountability into the performance review, implementation and planning process. Secondly, it seeks to construct measurability through economy, efficiency and effectiveness tests. The modality for this is a local government’s annual report, plan and budget (ARPB).

UNCDF PB developments are taking place in Mozambique, Yemen and Eritrea. UNCDF advised on the PB programme formulation in Armenia. Possibilities are being explored in Sudan. Ethiopia is declaring an interest in UNCDF’s PB approach at the local level, to both compliment and fit with national PB reforms, being supported there by IMF. PB teams from these countries attended a UNCDF-sponsored comparative workshop in Tanzania in September 2005 (Ethiopia was not involved at this time). Tanzania is the location of previous PB by this book’s editor.

This book is designed to address the challenges of Performance Budgeting in the LDCs. The Tanzania workshop yielded much of the information mentioned in these pages. The workshop and our other experience in the field also highlight the fact (reiterated at the IMF Senior Seminar on Performance Budgeting in December 2005), that PB requires a long-term commitment to ensure that the necessary technical (as well as institutional and political) conversions take place.³

More recent training work on PB in Sudan’s Rumbek and then in Port Sudan highlighted two additional imperatives, in plain language. First, there must be a “bottom-up” approach to planning and budgeting. Within national priorities, including the commitments to the MDGs, local communities should be empowered to plan what is most important to them, to participate in the resulting implementation and to be part of the resulting review process. The second imperative is that there must be an “output-based” approach to all planning and budgeting, certainly at the local government level but, ideally, regionally and nationally as well. This is why UNCDF is working closely with the IMF and other partners. IMF, in particular, is the architect and principle source of technical advice on national financial management reforms, through the introduction of government financial statistics (GFS). This represents a structured approach to the classification of government revenue and expenditure. All UNCDF experimentation in PB is in countries where GFS reforms are taking place.

The goal of all Performance Budgeting is for local governments to be able to prepare and implement local economic development plans within national economic

development frameworks. These plans should result from inclusive, participatory, multi-stakeholder processes and should result in durable, sustainable planning, management, and financing structures. Ultimately, however, plans need to be implemented and investments need to be made “on the ground” to enhance access to infrastructure and social services and to encourage the development of local communities. Through such development, we believe that local governments will be able to establish the predictable, recurring, diverse sources of revenue they will need to make further investments in poverty reduction and public welfare. These sources may consist of local tax revenues, national government transfers, donor support and other funds, but in all cases all such revenue and resulting expenditure must be accountable, transparent and measurable.

Thus, the approach UNCDF is increasingly taking to local development is “bottom-up” and “output-based.” Performance Budgeting is critical to this approach, and it is one to which UNCDF is firmly committed. Accordingly, we seek to share our experience and learning on this important subject, and we view this book as a first step in this direction.

In conclusion, I would like to thank Ron McGill, one of our Senior Technical Advisors and expert on Performance Budgeting, for his efforts, leadership, and initiative in producing this book. His many years of experience with local governments and communities, particularly in the LDCs, bring a well-informed, “real world” flavour to these pages, which is much needed and appreciated by local development practitioners. I also extend my thanks to all Ron’s colleagues in UNCDF’s Local Development Practice Area, particularly through the various country-based project teams, who collaborated with Ron on this book. It is their collective hard work and experience that informs the insights and analysis that this book contains.



Richard Weingarten
Executive Secretary, UNCDF

TECHNICAL PREAMBLE

AN INSTITUTIONAL DEVELOPMENT PARADIGM FOR PERFORMANCE BUDGETING

RONALD MCGILL, UN CAPITAL DEVELOPMENT FUND

PRINCIPLE

In government reform, it has been suggested that the agenda for change boils down to (a) an understanding of the current and desired functions of government and (b) the translation of the desired functions into the:

- Policy, legal and regulatory context;
- Organizational structures, the deployment of personnel and their training needs; *and the*
- Planning and budgeting cycle, administrative processes and supporting information systems.

The shorthand for this is the institutional development (ID) agenda.⁴ The ID process to achieve locally understood and determined reform involves care in the facilitation of the change itself.⁵

The central point is that the ID agenda of context, structures and processes, to perform the functions, should be mutually inclusive. This optimises the potential for the efficient and effective delivery of infrastructure and services. If one part of the agenda is ‘out of step’, or does not “fit”, it distorts the potential for full performance from the particular institution being reformed.⁶

For UNCDF, three countries were assessed in terms of this ID agenda. The analysis was a pre-condition for venturing into the PB challenge. The countries were Mozambique, Yemen and Armenia. The analysis was conducted in late 2003 and early 2004.

1. MOZAMBIQUE

Policy, legal and regulatory context

In terms of policy, Mozambique’s commitment to the MDGs is covered in its PRSP - The National Action Plan for the Reduction of Poverty (PARPA). This comes under the aegis of the IMF approved budget support system, which includes the Poverty Reduction Growth Facility (PRGF).⁷ PARPA is the strategic policy framework for governing pub-

lic expenditure in relation to poverty reduction. PARPA is integrated into the normal planning and implementation cycles. It is implemented through the annual Economic and Social Plan (ESP) and the State Budget (SB), It was reviewed in 2003.⁸ The review concluded, among other things:

- Changes in planning should be aimed at improving choices of activities by prioritising and forging closer linkages between actions and their expected results...
- Deconcentration and decentralization of State actions, particularly in the public planning system, is an ongoing process to strengthen and expand local participatory planning in the framework of the State administrative and financial process.

The first item about ‘improving choices...by prioritising (and linking) actions to results’, is known as output or performance budgeting. Nationally, the government is already committed to this technical direction, through its development of SISTAFE. Among other things, this seeks to transform PARPA into harmonised and coherent processes, instruments of planning for resource allocation / budgeting by objectives or results. A pilot initiative is proceeding in the planning and finance, and education ministries. The second item builds upon the local planning experience (broadly defined) developed through UNCDF’s original decentralization project in Nampula. Government is now looking for a way to pilot the same output-based budgeting approach at the district level. The new UNCDF/UNDP project has an opportunity to combine the principles of the SISTAFE with its own experience to date in district planning, financing and community participation. This is considered further below under the planning cycle.

In addition to the policy environment, above, legal reforms are now impacting on both the structure of government and the way it works. The new Local Bodies of the State Act gives a clear framework for the functions and organization of, among others, provinces and districts. Two new features of the act, in the context of the planning cycle are:

- Provincial and district budgets, with specified roles in planning, programming and management, in line with the new financial management system for public finance; SISTAFE⁹; *and*
- The need to co-ordinate plans and programmes with municipalities

One of the central themes of both the policy and legal context is to implement output budgeting through programme budgeting (where SISTAFE is both the concept and information system to support the ‘programme’). This is returned to under the planning cycle, below.

Organizational structures and staff deployment

Within the context above, is the need to consider the restructuring or organizational reform of government. Restructuring is normally a two-stage process. First is a functional ‘mapping’ of the entire system. This is essentially a horizontal or diagnostic phase. Such diagnosis seeks to record organizational portfolios, identify those parts that are redun-

dant, or duplicating or essential, and therefore, to agree a more rational (or efficient) portfolio of functions. This includes, for example, the scrapping or amalgamation of some ministries and the creation of others, all in the light of the new development environment.¹⁰ Government is committed to this two-stage organizational reform, through functional analysis. It is currently finalising a functional ‘mapping’ of its entire system.

With the diagnosis and resulting portfolios agreed, the way is clear for the detailed organizational restructuring, staff deployment and training proposals to proceed. This is the vertical dimension of organizational reform. Here, for example, a new planning cycle becomes dependent on the organizations responsible for its implementation.¹¹ Thus, ideally, not only is the central ministry restructured but also the lower levels of government that are implementing the planning cycle (in Mozambique’s case, provinces and districts / municipalities).

From a decentralization perspective, UNCDF’s normal entry point, at local government level, is (increasingly) being expanded to regional / provincial tiers and at ‘parent’ ministry level. This is to ensure the operational success of the decentralised components of the planning cycle; so often dependent on the support and responses from these upper echelons of government.

The government in Mozambique is moving into this vertical or second phase of restructuring, with a variety of donor support. This includes UNDP’s funding of the organizational reform of MAE (Ministry of State Administration). Combined with the policy/legal context, it is within this phase of restructuring that the new planning cycle has to work.

Planning cycle

The institutional technical pre-conditions for output-based planning and budgeting are in place in terms of both context and structures. For the planning cycle itself, three things must be achieved:

- Relating governments definition of poverty (in the context of the MDGs) to its poverty reduction strategy (PARPA);
- Matching government’s public expenditure to PARPA, through a structured programme (or indeed, performance) budget (SISTAFE);
- Converting the national concerns for poverty reduction (PARPA), through targeted budgeting (SISTAFE), into a locally accountable planning cycle for districts / municipalities and supporting provinces.

It is this “conversion” that presents two opportunities to UNCDF. First and as stated above, the new UNCDF/UNDP ‘decentralization’ project has an opportunity to combine the principles of the SISTAFE with its own experience to date in district planning, financing and community participation. The second is that during the Mozambique mission (September 2003), a suggestion to extend this concept of “conversion” to include a pilot testing of performance budgeting in one urban (municipal) and one rural (district) council, was welcomed by the SISTAFE co-ordinator.

Progress since then is captured in Chapter 5 below.

2. YEMEN**Policy, legal and regulatory context**

Within the institutional development triumvirate of (a) the policy and legal environment, (b) resulting organizations and (c) the processes to make them work, Yemen has an advantage compared to many comparable developing countries. It has the Law No. 4 of 2000 concerning Local Authorities. The functional, organizational and planning parameters it establishes, condition the initial wave of experimentation in decentralised local development planning, through the decentralization and development support programme (DLDSP). The basic tenets of that law must be understood.

Basic tenets of the law for planning and budgeting

Article 4 states ‘ the local authority system is based on the principle of administrative and financial decentralization, and on the basis of expansion of popular participation in decision-making and management of the local concern in the spheres of economic, social and cultural development. This is effected through local elected councils to propose investment programmes, plans and budgets...’. Key words and phrases to stress are ‘decentralization’, ‘popular participation’ and ‘investment programmes, plans and budgets’ Arguably therefore, the whole planning and budgeting cycle is predicated on the principle of popular participation.

The governorate local council

The governorate is akin to a provincial or regional tier of government. It sits between the central ministries and districts. Article 19 states ‘The governorate local council shall undertake the study of draft comprehensive plans at the level of the governorate and supervise...their implementation. It shall also supervise and control the work of District Local Councils... In particular, the governorate will, under sub-article 1, ‘study and adopt the draft social and economic development plans and annual budgets...’. Key words and phrases here are comprehensive plans, which a governorate will study (i.e. prepare) and adopt. Comprehensive plans are crucial because they pave the way to achieve sectoral integration of planning and budgeting at the governorate level.

The district local council

The district is the lowest level of competent public administration. Article 61 states ‘the district local council shall undertake the suggestion of the draft social and economic development plans of the district, and supervise their implementation in a manner that provides and develops essential services for the local society and its development’. Under sub-article 1, the district will ‘propose draft plans and the annual budget’. These are then ‘revised and approved’ at the governorate local council. Two features stand out here. First, in order to provide and develop essential services, one must ensure public participation to establish what these essential services are. The predicating phrase of ‘popular participation’ is brought to life. Secondly, any proposed draft plans and budgets must be approved by the governorate.

PRSP

All PRSP systems are supposed to be locked into the government budgeting process in order to implement declared commitments to poverty reduction. In Yemen it does (see Annex 2 of its PRSP). Too often however, the commitments at national level do not find their way to targeted public expenditure for poverty reduction at the local level. The desire is for the local planning and budgeting cycle, using performance budgeting techniques, to yield local infrastructure and service provision that will have a discernible impact on various indicators of poverty. The text of PRSP is encouraging reading. Section 4.5.1.4 concerns strengthening local authority and decentralization for (among other things) encouraging community participation in accountability and decision-making in the local social and economic development process.

Organizational structures and staff deployment

Within the context above, is the need to consider the restructuring or organizational reform of government.

Government is moving into the ‘second phase’ of restructuring, with moves to strengthen the Ministry of Local Administration (MOLA). MOLA is responsible for the local authority system and is pivotal in its responsibility for decentralization and the development of a national policy to support it. This work continues within MOLA, at governorate and local levels. Combined with the policy/legal context, it is within this phase of restructuring that the new planning and budgeting cycle has to work.

Planning cycle

The institutional pre-conditions for performance budgeting are in place in terms of both context and structures. For the planning cycle itself, three things must be achieved:

- Relating government’s definition of poverty (in the context of the MDGs) to its poverty reduction strategy (PRSP);
- Matching government’s public expenditure to PRSP, through a structured programme (or indeed, performance) budget;
- Converting the national concerns for poverty reduction (PRSP), through targeted budgeting, into a locally accountable planning cycle for districts and supporting governorates.

It is this “conversion” that (again) presents the major opportunity to UNCDF. UNCDF is executing the Yemen decentralization and local development support programme (DLDSP); a major multi-funded initiative. UNCDF’s particular focus is on developing improved local public expenditure management (PEM) systems. The first thrust is the planning and budgeting cycle. The second will be implementation, dominated by the full range of financial processes.

The proposed local PEM cycle was presented to MOLA in November 2003. It emphasised, among other things:

- The role of strategic planning, its context for budgeting and its potential role in sector integration.
- The function of annual target setting as the basis for output budgeting.
- The importance of public involvement in the planning, implementation and review of all locally delivered infrastructure and services.

The underlying theme was that these three items are key components of performance budgeting. MOLA welcomed the stress placed in the context of local PEM in Yemen and agreed with the tenor of the proposed PEM cycle - including its new product; an Annual Report, Budget and Plan (ARBP), as one document from each governorate and district. It also agreed with the ideas for manuals development, TOT work and on-the-job training. In turn, MOLA expressed interest in the underlying performance budgeting agenda, though cautioning about local capacity. In discussion was agreed that in the context of the Yemen decentralization programme, as a policy experiment, it would be interesting to build solid local foundations for PB.

Progress since then is captured in Chapter 6 below.

3. ARMENIA

Policy, legal and regulatory context

Within the institutional development triumvirate of (a) the policy and legal environment, (b) resulting organizations and (c) the processes to make them work, Armenia has some institutional advantages already. The constitution is the basis of the administrative and territorial division in the country. In 2001, Armenia ratified the European Charter of Self-government. The principles of both the constitution and the European charter have been incorporated in the Law on Local Self-Government¹² and subsequently, a law on the budgeting system. Both laws give cause for optimism in the pursuit of decentralization.

Law on local self-government¹³

Article 4, entitled Community makes fascinating reading:

Community is a democratic basis of the state system. A community is a commonalty of residents and administrative-territorial subdivision, within the defined boundaries of which local self-government is implemented by the residents of the community directly or through the elected bodies. A community is a legal entity, the specifics of which are established by this law. Community shall manage its property independently, has a budget as well as a seal bearing the coat-of-arms of the Republic of Armenia or community and its name.

The community is thus, a body-corporate, with an independent budget. This is no mere appendage of central government; in decentralization parlance, the 'deconcentration' model. This is substantive 'devolution' to local government.

Article 16 specifies a community council's planning responsibilities as, among other things:

- Approve the community development programme;
- Approve the community annual budget, amendments to thereto proposed by the chief of community and annual statement of the chief of community on the execution of the budget;
- Supervise the execution of the community budget and the use of loans and other financial means received by the community.

The community programme is supposed to be a three-year strategic development framework. The annual budget is the natural conversion of the plan to expenditure for infrastructure and service provision.

Law on budgeting ¹⁴

There are two levels to the state budget: level 1, the state and level 2, communities. The eleven regional administrations (the Marzes) are part of the state budget. They are therefore ‘deconcentrated’ arms of central government.

Article 27 on the Principles of Community Budget Preparation makes more encouraging reading. It requires, among other things:

- Planning for the financial resources necessary to realize the objectives of fundamental Community significance on the basis of the three-year Community development plans approved by the community councillors upon the submission of the head of the community;
- Value for money, whereby expenditure is matched by the acquisition of commensurate tangible and intangible assets; and
- Effectiveness, whereby an appropriate relationship is maintained between expenditure and its benefit for the Community.

Both laws contain ingredients for successful PB. The law on self-government’s requirements for communities to prepare 3-year development plans and annual budgets is a cornerstone of the PB format (explained more fully in Chapter 1 below). The budget law stresses ‘planning and financing to realise objectives’, ‘value for money’ and ‘effectiveness’. All are part of the PB agenda (again, more in Part 4).

PRSP and MTEF

Within the current statutory legal framework to support decentralization, the overarching policy and expenditure framework offers reinforcement. Armenia’s PRSP¹⁵ and MTEF¹⁶ are current. PRSP pronounces the following supporting policy statements on decentralization:

- Within its priorities for enhancing the efficiency of the public administration (6.3.1.1), government has adopted new structural reform strategies with the objective to enhance, efficiency, quality and accessibility of public services and the transparency, accountability and oversight of the public administration system (168); *and*

- The decentralization of public services is amongst the priorities for the development of the public administration system (172).

Chapter 9 (p. 146) then proceeds to outline the consolidated budget to achieve the wider dimensions of poverty reduction, within which decentralization is a part. The budget is annualised to 2006, then predicted to 2009, 2012 and 2015.

The MTEF then takes the PRSP budget framework and focuses on the period 2004-2006. Within the public sector reform, the MTEF places considerable emphasis on the process of budgeting itself. It therefore emphasises, among other things (p. 42):

- Enhancing the transparency of the budgeting process... thus creating the prerequisite for *participation* of citizens and civil society...
- Strengthening *supervision* during budget execution...
- The budget should be clear and accessible, available for all users, which will enable broad groups of society to hold the government *accountable*...

Participation (in planning and budgeting), supervision (of project and service delivery) and accountability (in performance review) are all key elements of performance budgeting.

Programme budgeting in the MTEF

A very significant feature of the MTEF is the recorded introduction of programme budgeting. Box 9.1 on page 79 states:

- A pilot project in programme budgeting was launched in the Ministry of Social Security (MOSS) in April 2002.
- MOSS has (redefined) its programmes to focus on the services the ministry delivers, in line with the principles of programme or performance based budgeting.
- The redefined programmes show more clearly what MOSS is providing in return for the funding received and the implications for the changes in funding...

That box also illustrates (a) the present expenditure classification and (b) the redefined programmes. The programme definition itself errs towards the original notion of 'programmes' defined in the second wave of performance budgeting in the United States then elsewhere, in the 1960s and 70s. This was under the concept of planning programming budgeting systems (PPBS).¹⁷ Box 9.1 states:

Each programme reflects an aggregation of similar services or goods that are supplied to external parties by the ministry and by subordinate institutions that receive their funds through the ministry's budget.

Organizational structures and staff deployment

The state

The state concerns central government, including all subordinate institutions that report directly to it. These include the regions and non-commercial enterprises, re-

sponsible directly to the parent ministry. Good progress has been made in civil service reform. Functions were analysed and reallocated. This resulted in the number of ministries being reduced from 21 to 16. Ministries now perform the core central government functions of policy formulation, regulation, monitoring and co-ordination. Service delivery and inspection functions have been transferred to subordinated agencies and inspectorates.

The communities

The situation with the communities (local councils) contrasts markedly with that of central government. There are 930 communities, in a country of around 3.2 million. The populations vary in the extreme, from hundreds in some cases to tens of thousands in others. Forty-eight councils are urban; the rest, rural. Government has accepted that something has to change, to offer some sort of rationality to the local government system. This is, at least, to offer some prospect of economies of scale to allow for a basic level of locally determined and delivered services. Extra impetus to achieve such economies is implied in the new budget law (footnote 5, page 4). This confirms the devolution of property and land taxes to local government. What is the point of devolving such revenue-raising powers if the organization has no prospect of being able to provide even basic services. Government therefore accepted the possibility of voluntary inter-community associations but this has already progressed further.

In negotiation with the co-ordination of territorial administration and infrastructure activities ministry in mid-2004, pertinent observations about the continuing decentralization reforms in Armenia were made. Among other things:

- The ministry stated Government's commitment to decentralization in general and fiscal decentralization, including the use of explicit "equalization formula" in particular;
- The ministry conceded to the notion that too many of the Communities were simply not viable functional entities, for the delivery of local infrastructure and services; that voluntary consolidation was not very successful; and therefore,
- The ministry confirmed that a new bill was being presented to parliament, to make mandatory, the consolidation of Communities into Inter-community unions.

Thus, the decentralization reality will be a gradual local capacity to plan for and implement its responsibilities in infrastructure and service delivery. The ministry representative was therefore convinced that the principles and practice of performance budgeting would contribute to that end (in the light of piloted reforms in central government (MOSS, cited above) but that such benefits would take time to materialise. Therefore, we should not hesitate in starting PB at the local level in pilot locations. By the time PB takes hold at the pilot local and indeed, the regional levels, to coincide with and support parallel rolling out of PB in central ministries, some of the inter-community unions may be in place.

Planning cycle

The institutional pre-conditions for performance budgeting seem to be in place in terms of both context and structures. For the planning cycle itself, three things must be achieved:

- Relating government's definition of poverty (in the context of the MDGs) to its poverty reduction strategy (PRSP); achieved
- Matching government's MTEF to PRSP, through a structured programme (or indeed, performance) budget; achieved, within the new revenue and expenditure classifications of the GFS¹⁸, captured in the piloting PB work in MOSS
- Converting the national concerns for poverty reduction (PRSP), through targeted budgeting, into a locally accountable planning cycle (at least, in the short term) for urban communities and supporting regions.

In practice, the need is for local public expenditure management (PEM) to be pursued through the performance budgeting process. That would stress, among other things:

- The role of strategic planning, its context for budgeting and its potential role in sector integration;
- The function of annual target setting as the basis for output budgeting; and
- The importance of public involvement in the planning, implementation and review of all locally delivered infrastructure and services.

These three items are key components of performance budgeting. These components are captured in their product; an Annual Report, Budget and Plan (ARBP), as one document.¹⁹ Such a document would be prepared by any community that chooses to pilot PB.²⁰

ENDNOTES

- ¹ IMF Working Papers WP/03/169 (June 2003), *From Programme to Performance Budgeting: The Challenge for Emerging Market Economies*; WP/03/33 (February 2003), *Performance Budgeting: Managing the Reform Process*; and WP/02/240 (December 2002), *Performance Budgeting: Is Accrual Accounting Required?*
- ² McGill, R. (1999). Civil service reform in Tanzania: organization and efficiency through process consulting. *International Journal of Public Sector Management*, Vol. 12, No 5, pp 410-419.
- ³ The IMF seminar noted that the US is into its fourth generation of PB: planning, programming budgeting systems (PPBS); management by objectives (MBO); zero-based budgeting (ZBB) and now, the government performance and results act (GPRA) - which acknowledges this latest attempt to introduce PB. An observer noted that this fourth generation of PB is evidence that policy-makers and public expenditure management (PEM) specialists recognise the fundamental importance of PB and that this, in itself, is a measure of success!
- ⁴ McGill, R (1995). Institutional development: a review of the concept. *International Journal of*

Public Sector Management, Vol 8, No 2, pp 63-79.

- ⁵ See note 2, above.
- ⁶ In Malawi, government policy was for the major urban councils to assume responsibility for both urban planning and the provision, management and maintenance of the traditional housing areas (THAs). It took two additional years to get the supporting legislation changed, therefore fulfilling the contextual requirements for these new urban management services. The result was the agreement to a new organizational structure, including the recruitment of new personnel and their training. The development of processes to support (particularly) the management and maintenance of the THAs was also achieved, with technical support from the Municipal Development Programme (MDP). In short, once the ID agenda had been “fixed”, there were no more (institutional) impediments or excuses for poor performance.
- ⁷ IMF and Republic of Mozambique (2003). Letter of Intent and Memorandum of Economic and Financial Policies. (<http://www.imf.org/External/NP/LOI/2003/moz/01/>).
- ⁸ IMF and Republic of Mozambique (2003). Poverty Reduction Strategy Paper – Progress Report (<http://www.imf.org/External/pubs/ft/scr/2003/cr0398.pdf>)
- ⁹ SISTAFE = System of State Financial Administration. It has five components: state budget; public accounts; treasury; state inventory; internal control. It has seven budget classifiers (of expenditure): economic; functional; organizational; territorial; programme; source. A programme is sub-divided into programmes and measures. All expenditure will be measured by the classifier. There are three budget units: management; beneficiary; management & beneficiary.
- ¹⁰ See note 2 above.
- ¹¹ See note 2 above.
- ¹² Extracted from South Caucasus Regional Programme: Public Administration and Local Self-Governance Initiative (LGI), UNDP, WBI. Optimization of territorial and administrative division of the republic of Armenia and local self-governance development. Yerevan, September 2003.
- ¹³ Law of The Republic of Armenia on Local Self-Government; adopted by the RA National Assembly on May 7, 2002.
- ¹⁴ Budget System Law: Adopted by National Assembly on June 24, 1997 – updated for amendments to July 2003.
- ¹⁵ Poverty Reduction Strategy Paper, Republic of Armenia, Yerevan, 2003.
- ¹⁶ 2004-2006 Medium Term Public Expenditure Framework, Republic of Armenia, Yerevan, 2003.
- ¹⁷ McGill, R (2001). Performance budgeting. *International Journal of Public Sector Management*, Vol. 14, No. 5, pp 376-390.
- ¹⁸ Government Financial Statistics – a system of inter-locking programme and specific income and expenditure classification to allow a government to track and therefore measure public sector economic activity. GFS is explained in Chapter 2, below.
- ¹⁹ ARPB is explained more fully in Chapter 1, below.
- ²⁰ A working examples of Armenian ARPB analysis, is presented in Chapter 10 of this volume.

1 PERFORMANCE BUDGETING IN LEAST DEVELOPED COUNTRIES: CONCEPTS, INSTRUMENTS AND GOVERNANCE

RONALD MCGILL, UN CAPITAL DEVELOPMENT FUND

INTRODUCTION

This chapter introduces the challenge of building performance budgeting (PB) into public expenditure management (PEM), particularly at local government level in least developed countries (LDCs). The fact that the text deals with local government is hard enough. This is because of the dominance of international experience at central government levels and the paucity of practice in the local tiers of government. The fact that this chapter looks at not only developing countries but also, the poorest of them – the Least Developed Countries (LDCs) - might beg the question of “what possible relevance” can such a locational challenge have? This chapter advocates, through practice, in favour of meeting the challenge of PB in the LDCs. It does so by reviewing the institutional development concepts surrounding PB. It presents the instruments for PB to be implemented in various UNCDF-supported decentralization programmes.¹ Finally, it considers PB’s potential contribution to good governance.

1. CONCEPTS

Context

The demand for infrastructure and services confronts every local government (LG) in the developing world. The weakness of that local government compounds the enormity of the challenge. The fundamental importance of access to infrastructure and services, as a means of supporting both economic development and to impact on various parts of the poverty spectrum, is now accepted in common parlance. From the LG perspective, the challenge is three-fold:

- To harness all sources of financing to allow LG to ensure the successful provision of infrastructure and services;
- To utilise all means of infrastructure and service delivery²;
- To embrace a process that measures the economy, efficiency and effectiveness of that delivery.

A process of planning and measurement, to support targeted infrastructure and service delivery, is being practiced in the developed world, is being applied increasingly in transition economies and has been explored at the national levels of public expenditure in developing countries. The process is known as performance budgeting (PB). The first prerequisite for its success is in understanding the functions of government and how they fit each other.

In government reform, the agenda for change boils down to (a) an understanding of the current and desired functions of government and (b) the translation of the desired functions into the:

- Policy, legal and regulatory context;
- Organizational structures, the deployment of personnel and their training needs; *and the*
- Planning and budgeting cycle, administrative processes and supporting information systems.

The shorthand for this is the institutional development (ID) agenda. The ID process, to achieve locally understood and determined reform, involves care in the facilitation of the change itself.³

The central point is that the ID agenda of context, structures and processes, to perform the functions, should be mutually inclusive. This optimises the potential for the efficient and effective delivery of infrastructure and services. If one part of the agenda is ‘out of step’, or does not “fit”, it distorts the potential for full performance from the particular institution being reformed.⁴

Mapping

The current debates on the Millennium Development Goals (MDGs), their supporting national poverty reduction strategy papers (PRSPs) and public expenditure management (PEM) decisions, within a medium-term expenditure framework (MTEF), are dominated by the national or macro-picture. There is little evidence of substantive progress towards the translation of these macro-concerns at the local level. This localizing challenge is compounded by the sector-wide approach to planning (SWAP) for and financing of service delivery; a vertical logic. This works against the principle of integrated development planning, where all players (all funders) are contributing to a common or integrated development strategy in a given location; a city; a district; thus, a horizontal, even spatial, logic.

LGs are being given increased responsibility for ensuring the delivery of basic infrastructure and services in developing countries. That increased responsibility is often hampered by the institutional environment; e.g. service delivery responsibilities are decentralized without commensurate resources to perform these decentralized functions. In short, policy debates on PEM, infrastructure and service delivery (ISD) tend to focus on central government systems. While this is an essential prerequisite, the impact on LGs and the importance of developing policy solutions with planning and budgeting

tools at the local level, is currently, not being given enough attention.⁵

There are four sets of decentralization variables in the policy and practical environment of PB. These concern:

1. The institutional mapping of the nationally determined functions, the resulting context, structures and processes that deliver MDGs, PRSPs and PEM decisions within MTEF, their support and obstacles to successful local government development planning and budgeting - to achieve improved performance in ISD;
2. The financial mapping of the income sources of the client LGs in terms of (i) local revenues, (ii) transfers from all parts of central government (iii) sources of non-government finance (mainly from donors) and (iv) where applicable, an estimate of hidden transfers (where sectors finance directly, a school, a clinic and so on) - to establish the use of funds, which applies to all expenditure within LG, irrespective of revenue source;
3. Analysing (and if non-existent, testing) formats, structures and processes of local development planning, as a means to articulate the development challenge in any local government area - to understand (a) the prospects for the territorial integration of 'non-local government' (e.g. sectoral and private sector) actors and (b) the extent of meaningful public involvement in the process; and
4. Piloting the conversion of conventional 'line-item' budgeting into an 'output-based' or performance budgeting format – to target and measure LG performance in relation to ISD and the local dimensions of MDGs.

Checklist

It has been suggested that there are seven workable principles governing the implementation of PB, presented in the form of a checklist.⁶

- 1 PB fails at the first hurdle if the shift from input to output-based budgeting is not accepted and practiced.
- 2 PB is conceptually redundant without a strategic context to condition the resource allocating process.
- 3 The strategic context for PB is being satisfied increasingly through public annual reporting in terms of outcomes (wider societal impact) and outputs (organizationally specific, directly attributable achievements).
- 4 PB assumes that the real test is of resource allocation against future intentions (plan), tempered by recent performance (review).
- 5 PB requires all priorities to be in ranked sequence so that difficult choices are impossible to avoid.
- 6 PB's key unit of planning and budgeting analysis is the programme. However, PB has to reconcile the programme structure with the organizational structure it represents.⁷

- 7 PB measures the economy, efficiency and effectiveness of the infrastructure and services delivered by or on behalf of the organization.

Accepting these PB principles leads to four basic conclusions. Apart from the usual need for political support, top-management commitment and the necessary capacity building measures, the following can be demanded as basic technical preconditions for PB:

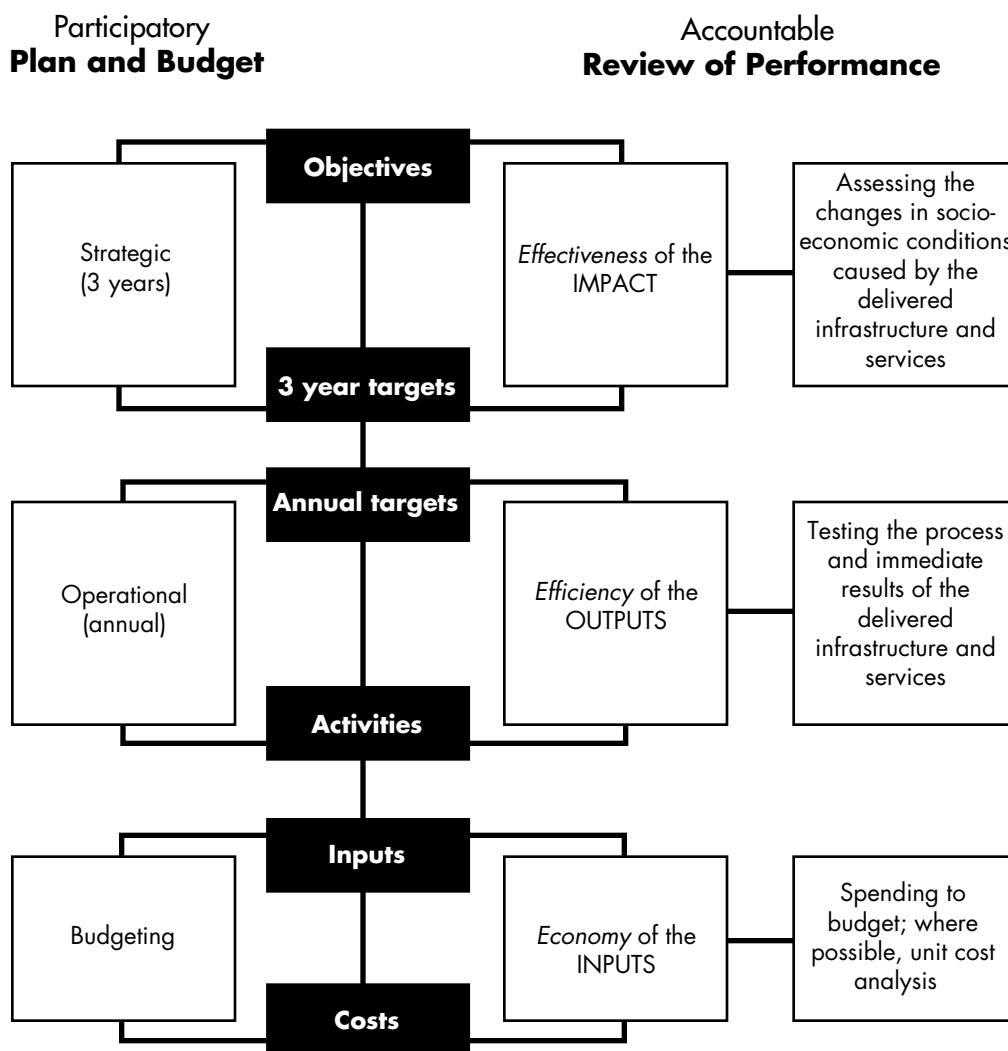
- 1 There should be a three to five-year strategic framework (depending on local practice) leading to annual targets - ideally, in a publicly available annual report, plan and budget (ARPB) format;
- 2 Activity and input analysis for each target is the foundation for budgeting;
- 3 A structured coding system reinforces both the sequenced ranking of, and the tracing of expenditure to, targets; and
- 4 Performance is reviewed annually (output) and strategically (impact) - say, every three years - resulting in a new strategic framework.

In short, the strategic framework is the bridge between conventional (inter-sectoral or integrated) development planning and organizational specific strategic planning.⁸ Activity and input analysis verifies the budget ceiling for specific targets – derived from the strategy and its resulting expenditure ceilings for each objective and its medium term expenditure estimate; the combined definition of a programme. The structured coding system is being pursued through GFS logic (see Chapter 2). Performance measurement is discussed more fully below.

External logic

The conclusion to this first section is to understand the external logic to PB; the suggested ‘bottom line’ to the institutional variables outlined above (see Figure 1). There are two sets of logic involved. The vertical concerns four dimensions. From left to right: first are the key elements of the plan and budget; secondly are the specific technical components of the plan and budget (the performance budget itself); thirdly are the conventional ‘3 Es’ of measurement; finally are the specific dimensions of performance being assessed. The horizontal concerns three aspects: the strategic; the operational; the budgeting. All make up the external logic of PB – Figure 1.

FIGURE 1 : THE EXTERNAL LOGIC OF PB



2. INSTRUMENTS

Making it work

All local government (LG) is locked into the annual planning, budgeting, implementation and review cycle. In turn, it relates to and expresses the annual implications of its strategic context: government’s strategy for poverty reduction (PRSPs) and the medium-term expenditure framework (MTEF). This is then converted, through the annual plan and budget, into infrastructure and service delivery (ISD). One method for achieving government annual decisions and actions, in a PB format, is an organization’s annual report, plan and budget (ARPB).

When the ARPB cycle is working fully, it always spans three years; last year’s performance, this year’s implementation and next year’s plan. These come together annually,

at community level, at the start of the annual cycle. The desired result from ARPB is therefore publicly accountable, community supported, reviewing, planning and budgeting, to achieve targeted infrastructure and service provision.

Structure and result of ARPB

A normal annual report starts with a general statement from the organization's leadership. This persists, in something like the following order:

- a statement by the organizational leader, including a review of the key performance highlights for last year and development thrust for next year (Part 1 of ARPB);
- an executive summary of the entire document (Part 2 ARPB).

The analytical core of ARPB; for performance budgeting, is:

- Strategic performance framework - the 3 year perspective (Part 3 of ARPB);
- Performance last year (Part 4 of ARPB);
- Proposals for next year (Part 5 of ARPB).
- Resource requirements for next year - the budget bid (Part 6 of ARPB).

The desired result of ARPB is publicly accountable and community supported, targeted infrastructure and service provision. This is to have a direct impact on particular client groups (short-term) and general socio-economic conditions (medium term). This is both in terms of the Millennium Development Goals (MDGs) and local development.

Essence

Thus, there are three levels of planning and budgeting analysis in PB:

1. The strategic framework and objectives analysis
2. Programme and target analysis
3. Activities and input analysis

The strategic framework moves from baseline data to quantified objectives. This must be completed. It is the context for level 2. Programme and target analysis is the core of the performance budget. It involves the conversion of each objective into 3-year targets. It requires the prioritization of these targets. It needs the conversion of these 3-year targets into annual targets, with an initial input classification – whether capital, operations or capacity. The result of all this is the context for level 3. Input analysis moves from annual targets to all activities and inputs, including costs and expenditure codes. Input analysis is meant to be a verification of the annual target cost estimates. For the purposes of this text, the focus is on levels 1 and 2 only.

Level 1 analysis - strategic framework

Part 3 of ARPB is the strategic framework, expressed as the local development strategy (LDS). It should span three years. Its structure should comprise the following main sections:

- Baseline information, to contribute to the ‘general development picture’
- Poverty indicators, to give focus to the ‘general development challenge’
- Defining the ‘strategic development imperatives’
- Converting these imperatives to quantifiable ‘development objectives’
- Translating these into ‘strategic development targets’ with costs

Two categories of baseline data should be gathered. First is the socio-economic profile. This includes:

- Access to infrastructure / services (such as water / roads) and poverty measures
- Health and poverty measures
- Education and poverty measures
- Aggregate poverty assessments.

Secondly, is the economic activity profile within the county’s geography. This includes:

- Economic activity according to employment classifications
- Economic infrastructure, including network thresholds and demand profiles
- Employment, by classification and gender
- Local authority budget profile, in terms of revenue, expenditure and capital assets.

The conclusions to the interpretation of both sets of information will be an understanding of the general development picture within each council.

The socio-economic profile will provide poverty indicators. These will be conditioned by the MDGs and government’s action on them. The economic activity profile will suggest direction to increase the economy to help the poverty challenge. Both help to understand the general development challenge. From this, a development goal must be defined. The following is an illustration from recent UNCDF training work in Southern Sudan:

To consolidate the common peace agreement (CPA) and create a governance system that is responsive to the needs of the people and committed to the socio economic development of South Sudan.

From this, development imperatives must be agreed.

The general development picture and the general development challenge will lead the local council and its executive organs to settle on the strategic development imperatives facing the local authorities. For illustration, four ‘imperatives’ could be agreed by a local council:

- Water
- Sanitation
- Roads
- Electricity

All are clearly related to both poverty and local economic development. These must be prioritised, in sequence. Even if all are crucial to a particular location, it may simply not be possible to fund everything. They must then be converted into quantifiable development objectives.

The point about an objective is to understand the current level of provision. That presents the baseline. A percentage expression is best. The proposed increase in provision (as an achievable objective, all else being equal) can then be agreed to. For illustration, the development imperative of water is converted into a development objective, as follows:

Increase water supply from 30% to 60% of community needs, for households, enterprises and agriculture within three years.

The objective must be defined in terms of the present situation (30%) and the anticipated level of provision within the strategic plan period (60%). This objective must then be converted into a set of strategic (3 year) development targets, with costs.

Level 2 – programme and target analysis

Achieving the objective on water provision requires a definition of all possible sources of increased water supply. For illustration, four are suggested:

- Boreholes
- Rainwater catchment
- Wells
- River dams

The potential provision from each source to satisfy 100% of the objective must be determined. The unit numbers must be agreed. Finally the current unit and total cost of each must be calculated. The result for this (and each) objective should therefore be a strategic targets table. An example is presented below:

TABLE 1: STRATEGIC TARGETS

A. 'Strategic (3-year) targets'	% share to achieve objective	Unit number/ area (feddans)/ people	Unit cost in US \$	Total cost MTEF for objective
- programme (basic) MTEF		(A)	(B)	(A x B)
1. Boreholes	50	50	10,000	500,000
2. Rainwater catchment	30	10	2,000	20,000
3. Wells	5	5	1,000	5,000
4. River dams	15	7	20,000	140,000
5. Maintain service provision - 'line'	N/A	6	10,000	66,500
6. 'Staff' support (HR, finance etc)	N/A	1	10,000	6,650
Totals	100	N/A	N/A	738,150

The example highlights both the capital investment to achieve the increased water provision and the 'line' and 'staff' costs to maintain the existing service.

The programme's interventions – its annual projects – must then be prioritized. The example below illustrates. Sequenced prioritization is best, using a simple score – here, 0 to 5. The result converts those interventions into a criteria-based set of priorities (see below). Thus the three-year target table arrives at a medium-term expenditure requirement to achieve the objective. The strategic target table, illustrated here for Water, must be repeated for every development objective in support of its development imperative. Once all four tables are completed; one for each strategic development imperative, the medium term expenditure framework for is formed. With the criteria based prioritization (illustration below), the MTEF is not only vertically integrated but also, prioritized.

TABLE 2: STRATEGIC TARGETS' PRIORITIZATION

B. 'Strategic (3-year) targets' - programme (prioritised)	Total cost MTEF for objective	Economic impact	Poverty impact	Gender impact	Total
1. Boreholes	500,000	5	5	5	15
2. Rainwater catchment	20,000	5	5	4	14
3. Wells	5,000	4	3	4	11
4. River dams	140,000	4	3	4	11
5. Maintain service provision - 'line'	66,500	4	4	4	12
6. 'Staff' support (HR, finance etc)	6,650	3	3	3	9
Totals	738,150	25	23	24	N/a

TABLE 3: ANNUAL TARGETS

C. 'Annual targets' - projects	Annual total (initial assumption: 1/3rd of MTEF total)	Annual cost input CAPITAL - initial share = 89%	Annual cost input (O&M) - initial share = 10%	Annual cost input CAPACITY initial share = 1%	Annual balance where T = 0	MTEF balance for 3 year cycle	% of MTEF committed including previous years, if in 2nd or 3rd year
1. Boreholes	166,650	148,319	16,665	1,667	-	333,350	33
2. Rainwater catchment	6,666	5,933	667	67	-	13,334	33
3. Wells	1,667	1,483	167	17	-	3,334	33
4. River dams	46,662	41,529	4,666	467	-	93,338	33
5. Maintain service provision - 'line'	22,164	19,726	2,216	222	-	44,336	33
6. Staff support (HR, finance etc)	2,216	1,973	222	22	-	4,434	33
Totals	246,025	218,963	24,603	2,460	-	492,125	33

The annual targets are simply those that can be achieved in the particular year of the three-year cycle. It is the target to be budgeted for the year of actual implementation. The simplest presentation of annual targets can be as a refined version of the 3-year target table for each development imperative. The illustration continues, with diagram C.

The institutional development challenges to achieve this analysis for planning and budgeting, is analysed in depth in Chapter 6; the Yemen case.

Level 3 analysis

In turn budgets per target are founded on activity analysis and resulting inputs, as follows:

- Activities (normally describing the elements of the implementation process)
- Inputs (the items required to achieve them – labour, equipment etc.)
- Input costs
- Input budget codes
- Total cost per target.

A format for that analysis is offered below. This input analysis is the foundation for the technical, including the coding aspects of budgeting. So, while the ARPB sets out the strategy, strategic and annual targets plus their budget, a separate technical volume would have to be submitted of individual target tables.

TABLE 4: TARGET TABLE FOR INPUT ANALYSIS

D. Activities to achieve the target 'river dams'	Inputs required for each activity	Item code per input	Estimated cost per input	TOTALS per activity
1 Topographical survey	(What is needed to achieve each activity, such as specialist personnel, equipment, transport, materials and so on)	(Line-item or expenditure code for each input. Frequently, there is more than one input for each activity)	(Each input costs something!)	(Each activity's inputs must be totalled)
2 Initial design				
3 Testing community and environmental acceptability				
4 Detailed design and costs				
5 Tender documents				
6 Open tender process				
7 Contract awarded				
8 Site preparation				
9 Construction of foundations				
Total cost to achieve the annual target			(i.e. the total cost of all activities)	

Level 3 analysis is not considered in the current text. UNCDF's PB experiments are still wrestling with levels 1 and 2. Chapter 5 – the case of Mozambique – highlights this point, with its concern for securing a wide commitment to the notion of planning and budgeting as being one integrated process. Chapter 6 – the Case of Yemen – highlights the efforts and challenges in achieving this ARPB analysis.

Review

The strategic framework and annual proposals will be followed, at their year end, by a review of last year's performance. Here, the economy of inputs is judged by how accurate the budget relates to actual costs; if both emerge as the same then 100% (the budgeting has been spot-on target). The efficiency of outputs is assessed in terms of 'achieving the specifications' and 'delivering on time'; if only half the specifications have been satisfied then 50%; if it has taken twice as long to complete the project as originally intended, then 50% again. The effectiveness of impact is measured by occupation or use of the facility and "has the original problem been solved". If the asset is fully used then 100%; if the original problem has been solved then 100%. These '3Es' (of economy, efficiency and effectiveness) are then totalled and averaged to give the total performance assessment.⁹ Table 5 presents a different working example. This review is at the annual cycle level. Every third year, a strategic review should take place. This will be the basis for assessing performance at the objectives level; the rate of progress in moving from X% to Y%. That strategic review, as well as the third 'annual' review, will become the foundation for the next 3-year strategic framework.

In short, the public expenditure management (PEM) cycle here, is constructed in a performance budgeting (PB) format. This format identifies the link between planning (goal; objectives; strategic targets), budgeting (annual targets; activities; inputs) and reviews (economy, efficiency and effectiveness). All are captured (or should be) in each organization's annual report, plan and budget (ARPB). This assertion and the tables marked 1 to 4 (above) and 5 (at the end of this Chapter), make up the core of the internal structure of PB. Figure 2 overleaf illustrates.

3. GOVERNANCE

Performance budgeting is a means to good governance. Here, good governance focuses on the relationship, ultimately, between local government and its various communities. The idealised view is that this relationship is a partnership of equals. That is to say, both groups (local government and the local communities being governed) should have equal access to information upon which they can participate and make proposals concerning local development, its implementation and results.¹⁰

More specifically, PB's ultimate test is, perhaps, two-fold. First is the successful and publicly supported delivery of infrastructure and services. Here, local community participation is embedded in the annual cycle of reviewing last year, starting implementation this year and planning for next year's proposals – captured in a public organization's annual report, plan and budget (ARPB). Secondly is the underlying intention to achieve a much more open and transparent system of planning for, implementing and reviewing expenditure to achieve results. If conducted properly, this is the basis for highlighting poor performance. It can also be a start to eroding corrupt practices.

Accountability

Accountability for public expenditure management (PEM), to deliver targeted infrastructure and services, comes down to communities and client groups' involvement in:

FIGURE 2: INTERNAL STRUCTURE OF PB

<p>Development environment: a county; a state; and for each, the various dimensions of poverty</p>	<p>Impact; on general socio-economic conditions such as indicators of poverty – medium term, within a strategic planning cycle of, say, 3 years</p>	<p>Output; to time and specification; plus impact on particular client groups – short term, within an annual planning cycle – is the facility fully used; has the original problem been solved, from the community's perspective?</p>	<p>Input</p>
<p>Plan</p>	<p>Level 1 Analysis</p> <p>Goal (the general intention to be achieved in the 'development environment').</p> <p>Objectives (translating the goal into specific, quantifiables – e.g. increase water supply from 30% to 60% of need within 3 years.</p> <p>Prioritising (in sequence, to establish the initial strategic framework)</p>	<p>Level 2 Analysis</p> <p>Strategic targets (converting each objective into specific deliverables to be achieved over the plan period – e.g. river dam and pipeline). Table 1.</p> <p>Prioritising (in sequence; as a proportion of the 3-year targets (e.g. 1/3rd of river dam and pipeline, in year 1) or giving emphasis on the complete implementation of one target in the first year, and ensuring the spatial consequences of the prioritization). Table 2.</p> <p>Annual targets (converting strategic targets into the annual programme). Table 3.</p>	
<p>Budget</p>		<p>Level 3 Analysis</p> <p>Activity analysis (converting each annual target into the things to be done to construct the river dam and pipeline; topographical survey, technical design, etc).</p> <p>Activity budgeting (converting the activities to input items; staff time, overheads, materials, transport etc) Table 4.</p>	<p>Inputs, input codes, costs (for each activity, then totalled for the annual target).</p>
<p>Review</p>	<p>Strategic (effectiveness tests such as degree of change in general social conditions; e.g. those pertaining to each MDG).</p>	<p>Annual / operational (efficiency tests such as 'time/output' or 'unit costs' for deliverables and immediate impact on client groups, as they help determine). Table 5.</p>	

1. Assessing last year's performance;
2. Supervising this year's implementation; and
3. Planning next year's proposals.

Local communities must be central to the review of performance. Communities must test progress (completion on time, to specification, at the correct location), to solve the original problem that was agreed locally. This is particularly where a new public asset (an access road; a clinic) has been constructed. Where a service is being delivered, the client communities need to judge the immediate impact - (satisfaction of demand, occupancy rate, use of the facility; in short, has the original problem been solved?).

Local communities should be involved in the procurement process for new projects, particularly where the projects are directly community-based. With larger-scale projects, community representatives should have a role in a supervising group. Such groups must also check progress in implementation.

Communities are the key to locally relevant problem identification and subsequent solutions through 'raw project' definitions. These projects are to be related to one another, ideally in the form of a map (with assets, opportunities and problems). The projects are to be sequenced in priority. The process of prioritization is central to participation and the wider notion of accountability. This is because PB requires all priorities to be in ranked sequence so that difficult choices are impossible to avoid.

The sum of all this work is each local council's annual report, plan and budget (ARPB). This is the aggregation of accountability. ARPB is the method to achieve PB, in terms of both planning and reporting. ARPB should be freely available. It should be supported by summary leaflets, radio broadcasts and so on. Thus, PB compels accountability through community participation and public reporting.

PB encourages accountability of a local council that delivers (or ensures the delivery of) a public service. The ARPB tells the public what the organisation's strategic framework is. It goes on to review last year's performance of declared targets. The strategic framework and last year's performance condition what should be proposed for next year. Thus, the organization is compelled (a) to tell the public what it intends to do and how much each target will cost, and (b), at the end of the year, whether the targets have been achieved and at what actual cost. The difference between (a) and (b), publicly declared through the ARPB, makes the organization accountable. The accountability is enhanced by the ability to measure (see below). This is both at the annual level and in every third year, strategically. It all adds up to an integrated assessment of strategic effectiveness, operational efficiency and budgeting with economy.

Measurement

Measurement is constructed around the principles of testing the economy, efficiency and effectiveness of all performance. PB measures the Economy of the INPUTS, the Efficiency of OUTPUTS and the Effectiveness of the IMPACT.

The ‘economy of the inputs’ measures the use of funds to achieve the targets. If possible, the unit costs of delivery should also be assessed. One means of measurement is through variance analysis (VA). VA ensures that an organization is held to account for its use of funds. If the funds are deployed correctly, the target will be achieved. If the funds are consumed but the targets are not achieved, that should send a danger signal to the organization’s management. If the funds are all used but only half the school has been constructed, either funds have been siphoned off for other uses or the original estimate was simply wrong – it was under-estimated. Wide variances in relation to targets challenge the organization’s (a) planning and budgeting, (b) its ability to deliver and even (c) its integrity. The unit cost aspect is simplest in comparison to previous years in relation to the same item of infrastructure or service – subject to inflation and geographical differences that add additional costs. The economy of the inputs is directly attributable to the delivering organization.

The ‘efficiency of the outputs’ measures the process of infrastructure and service delivery (IDS). This tests progress, completion on time, to specification, at the correct location, to solve the original problem that was agreed locally. There is no use in delivering something efficiently, if it is the wrong thing, in the wrong place, that no one will use. The efficiency of the outputs is directly attributable to the delivering organization.

The ‘effectiveness of the impact’ measures the result of IDS. Within the annual cycle, the test is of the immediate impact on particular client groups - (satisfaction of demand, occupancy rate, use of facility and ‘has the original problem been solved’). Within the strategic review (the tri-annual evaluation and preparation of a new development strategy), the focus is on changes in socio-economic conditions (such as various poverty indicators) caused by the delivered infrastructure and services. The longer-term impact on particular client groups (such as women or the old) - namely the fiscal sociology of PEM – is also included. The effectiveness of the immediate impact on particular client groups is directly attributable to the delivering organization (occupancy rate; use of facility). The effectiveness of the longer-term impact on general social conditions is often indirectly attributable to the delivering organization. For example, reduction in levels of cholera outbreaks may have as much to do with increased water provision as other public health measures. So if the LA is not responsible for delivering water, clearly, credit for preventing cholera may lie with the separate organization responsible for water supply.¹¹

Looking at all these measures in a little more detail: if the \$100,000 is spent in full at the end of the year then in input-terms the target has been met. However one must understand that if the input has been used (the money spent), has the output been achieved? If all the money was spent and only half the bridge has been constructed, two basic explanations follow. Either the ‘bill of quantities’ and resulting estimates were badly calculated and the costs turned out to be twice as high; the basic explanation then being one of mere incompetence. A more sinister explanation is that the quantities and resulting estimates were accurate but that funds were siphoned elsewhere.

Then the word ‘corruption’ comes to the fore and has to be investigated and dealt with accordingly. If the results of variance analysis are made public (and they should be in ARPB) then local politicians and local contractors can feel the pressure of public scorn. Similarly, if a school budgets for 10 teachers and supporting equipment but only seven are actually employed for the entire year, yet all the funds are used, questions need to be asked and answers given! This is measurable and easily conveyed to the public as a dimension of accountability.

Unit costs may also be used. If the cost of a bridge, a road or the delivery of one year of primary education in one small town is \$100,000 (at its local equivalent), the first question to ask is, ‘is that a reasonable estimate for the infrastructure or service being delivered?’. Or, does it cost the same (or similar) to build that road or deliver that primary education in other locations? If ‘yes’ then it is a reasonable cost estimate. Therefore the economy of the input is sound; the lowest cost to deliver the item. This is measurable too.

The second measurement is one of the efficiency of the outputs (the infrastructure or services delivered). The basic questions are ‘has the infrastructure (the bridge) or the service (primary education) been completed or delivered on time and to specification. The time is measurable (as a percentage variance from the target completion date, for the bridge) or the full availability of the primary education. Specification is also measurable. A construction specification (the bill of quantities) has 53 items. If 53 items have been completed then its performance is 100%. If less, the alternative score is easily calculated. For primary education; national standards of delivery must be achieved. There will be a checklist. If ten items are specified and only 5 are considered to have been fully met and the other five only partially met, then 75% for that particular primary school service! Again, this is measurable and easily conveyed to the public as a dimension of accountability.

The third and final element of measurement is the effectiveness of the impact. This is the bottom line for all institutional development; the result of the increased capacity to perform, surely, being improved infrastructure and service delivery. On immediate impacts, examples might include does the bridge serve the purpose (or solve the problem) originally intended. Local users can best judge on such a matter. Does the school provide the basic education sufficient to see the children progress to the next year’s level of education. On both, the concern is at the target level – the things being delivered. On longer term impact, the concern elevates itself to the strategic level of the objective. Here the objective is normally presented in socio-economic terms – the increased provision of water from 30% to 60% within three years. While more rigorous data is required to verify anecdotal conclusions, local community, business and political leaders can quickly confirm whether the longer term impact has indeed, been achieved. If so, the results include increased local economic activity and reduced levels of multiple deprivation.

CONCLUSION

Local government (LG) is the interface between service delivery and ordinary people. It is also the bridge between local people and national government. That is why UNCDF focuses first on LG. Yet the institutional context and mapping (Part 1 of this text) highlights the dependence of sound local government on its national partnerships, whether in policy or funding. The public expenditure management (PEM) system is therefore crucial to LG. Its planning and reporting requirements (Figure 1 above) cannot work without the information system to support it.

What PB must do and be proved to do it, is to yield infrastructure and services that are more economically, efficiently and effectively delivered. That process must therefore be measurable and accountable. The concept of PB propounded here and being implemented in some UNCDF local development programmes, hopes to yield the evidence to prove it. That evidence should not only confirm a more transparent and targeted process of service provision but also, generate impetus for its wider policy impact and replication with any government committed to a dynamic local government.

In assessing progress through the PB checklist (in section 1 above) progress is being made on strategic frameworks for PB (Chapters 5 and 6 provide more detail). The critical challenge of budget conversion, from an input- to an output-based format, is tantalizingly close, its format is agreed technically (see section 2 above) but a government has still to commit, beyond piloting, to its implementation at local government level.

The underlying intention of PB is to achieve a much more open and transparent system of planning for, implementing and reviewing expenditure to achieve results. If conducted properly, this is a basis for (a) highlighting poor performance and (b) starting to erode or undermine corrupt practices. It is therefore suggested that PB can be an anti-corruption tool. This assertion alone should encourage genuine political leaders to champion PB.

The practical concern here is for local government to achieve the most economical, efficient and effective infrastructure and service provision possible (in that local governments do, or ensure the provision of, most of the local service provision). However, central government also needs to introduce accountability and measurement through PB into its public expenditure management processes.

Yet at both local and central levels, one almost yearns for leadership and political maturity. At the local government level, this comes down to wishing for a mayor or its equivalent political local government leader. Such leadership should stiffen the ethos of public service; that every penny purloined or stolen from the public purse is money stolen from the citizens that the mayor and supporting councillors represent. In turn, that mayor should be supported by the head of the executive (the council's staff) – e.g. the chief executive, town clerk or city manager – who has the determination and charisma to secure the successful implementation of PB.

Leadership and political maturity are qualities that do not exist where corrupt practices prevail.

TABLE 5: PERFORMANCE REVIEW FRAMEWORK THROUGH ECONOMY, EFFICIENCY AND EFFECTIVENESS TESTS

	Budget	Actual	Variance	% var ¹	(1) Economy of inputs (where T = 100%)	A% specification	B % time	(2) (A+B)/2 = efficiency of output	C% occupancy of rate / use of facility	D% assessment of 'problem solved'	(3) (C+D)/2 = effectiveness of impact	Total performance (1+2+3/3)
Projects 2003 (\$400,000)												
1	73,981	69,570	4,411	6	94	96	55	76	100	100	100	90
2	61,436	37,834	23,602	38	62	80	45	63	100	100	100	75
3	72,631	72,511	120	0	100	100	90	95	100	100	100	98
4	107,793	116,192	(8,399)	-8	108	100	40	70	100	100	100	93
5	74,460	66,949	7,511	10	90	100	45	73	100	100	100	87
Totals	390,301	363,056	27,245	7	93	95	55	75	100	100	100	89

ENDNOTES

- ¹ UNCDF is currently investing in PB developments in Mozambique, Yemen and Eritrea. It formulated a UNDP PB programme in Armenia, now running successfully. All four countries also have GFS reform programmes; a useful institutional prerequisite. It is negotiating possibilities arising from Ethiopia's commitment to PB at the federal level.
- ² Under normal circumstances, LG is free to decide if it is best placed to provide various parts of the planned infrastructure or services itself, or if others are better placed (in terms of finance, equipment and expertise) to provide the service on behalf of LG. This can include a simple agency agreement, a private-public partnership (PPP) or outright privatization. For example, in Malawi (1989-93), World Bank missions were baffled by each urban council's determination to own, operate and maintain resthouses (basic hotels).
- ³ McGill, R (1999). Civil service reform in Tanzania: organization and efficiency through process consulting. *International Journal of Public Sector Management*, Vol. 12, No. 5, pp. 410-419.
- ⁴ In Malawi, government policy was for the major urban councils to assume responsibility for both urban planning and the provision, management and maintenance of the traditional housing areas (THAs). It took two additional years to get the supporting legislation changed, therefore fulfilling the contextual requirements for these new urban management services. The result was the agreement to a new organizational structure, including the recruitment of new personnel and their training. The development of processes to support (particularly) the management and maintenance of the THAs was also achieved, with technical support from the Municipal Development Programme (MDP). In short, once the ID agenda had been "fixed", there were no more (institutional) impediments or excuses for poor performance.
- ⁵ ODI; Overseas Development Institute (2003). John Roberts: *Managing Public Expenditure for Development Results and Poverty Reduction*, London. Working Paper 203.
- ⁶ McGill, R (2001). Performance Budgeting. *International Journal of Public Sector Management*, Vol. 14, No. 5, pp. 376-390.
- ⁷ This remains an immense challenge in PB because of the inconsistent approach to programme definition.
- ⁸ This argument, in the urban context in a very poor developing country, is argued at length by this author in *Institutional development: a Third World city management perspective*. St Martin's Press, New York, NY (Jan, 1997) and Macmillan Press, Basingstoke (Nov, 1996), 328 pp.
- ⁹ While the Value for Money (VFM) '3Es' of economy, efficiency and effectiveness are in common parlance in the managerial and public administration literature, there are now suggestions that a fourth E should be introduced; that of equity. Equity, in this context, is ascribed to the challenges of gender development, through gender responsive budgeting (GRB). This author has argued elsewhere on the merits of the application of GRB through PB. A more eloquent and current advocacy is presented in Chapters 7 and 8 of this volume.
- ¹⁰ Chapter 6 stresses this point at length.
- ¹¹ In Lilongwe's case for example, the Water Board as opposed to the City Council.

2 GOVERNMENT FINANCIAL STATISTICS: PRINCIPLES, PRACTICE AND PRACTICAL CONNECTIONS TO PB

DUNCAN LAST, INTERNATIONAL MONETARY FUND

The views expressed in the paper are those of the author and do not necessarily represent those of the IMF, or IMF policy.

INTRODUCTION

The budgetary coding and chart of accounts are the most fundamental building blocks of a government's public finance management system. They are the means by which a government informs itself, and reports to its parliament and population. Decisions related to the choice of classifications systems can therefore have very far reaching consequences. They can either enhance, or inhibit, the government's ability to plan, oversee, allocate, prioritize, manage, control, account, audit, and report on the collection and use of public funds.

There is general agreement that classifications fall into three distinct areas, as illustrated in Figure 1. These are (a) administrative (or institutional), (b) functional and operational, and (c) economic or object/input. These three areas serve different purposes:

- The administrative classification identifies WHO is responsible for collecting/spending public resources, from the general (overall) responsibility down to the individual operational unit or project;
- The functional classification, and the related classification systems aimed at identifying operations of government, identify WHAT the government is doing and how these relate to government priorities, objectives and long term plans; and
- The economic classification identifies HOW the funds are to be collected or spent, i.e. which tax or administrative fee is being applied or what mix of inputs is required in order to deliver a particular public service.

FIGURE 1: BUDGETARY, ACCOUNTING AND FISCAL CLASSIFICATIONS

Who?	What?	How?
<i>Organizational</i>	<i>Functional/Operational/Programme</i>	<i>Economic/Object/Accounting</i>
<ul style="list-style-type: none"> ◆ Country dependent. ◆ Comprehensively covers all institutions and agencies of Central Government and Local Government. ◆ GFS does not prescribe an organizational classification, simply that one should be established. 	<ul style="list-style-type: none"> ◆ Functional classification is a broad-level analysis classification used for reporting. ◆ GFS provides an internationally-accepted framework for functional classification fully in line with the UN/OECD COFOG classification. ◆ Programmes are developed according to the priorities and objectives set for each Government institution. Programme activities and projects execute specific tasks within overall operational implementation. ◆ Programme should be developed within the functional classification to facilitate broad level analysis. ◆ Programmes give reality to function. 	<ul style="list-style-type: none"> ◆ Inputs required to carry out the tasks determined for each programme activity or project. ◆ Object classification of revenues. ◆ Used for both budgeting and accounting, facilitating all levels of reporting, including fiscal. ◆ GFS provides an internationally accepted framework for economic/object classification.
<p><i>Users: Budget, Accounting, Treasury, Auditing, Decision-makers, Fiscal reporting, and Statistics.</i></p>		

Given their basic nature, the need for budgetary and accounting classifications has been around for some time. Indeed, these have evolved in many ways over the years. They have changed periodically, as:

- new demands for the way in which information is presented have arisen;
- the business of government has become more complex;
- demands for greater accountability and efficiency have emerged;
- the need to analyze the role and impact of government in the wider economy has become essential for guiding development and growth; and
- new means of recording data (i.e. computers) have become available.

Different administrative traditions created a variety of models to choose from, when a country was considering upgrades to its existing classifications. Since the mid-1980's, countries have had available an alternative route to improving their classifications, namely the Government Finance Statistics (GFS) framework. This was developed by the IMF, is based on best practice from around the world, and is therefore updated formally, periodically.

This paper examines the advantages of the GFS 2001 framework for the development of budgetary and accounting classifications. In particular, Part 1 outlines the GFS framework. Part 2 considers the link between policy and budgetary allocations. Part 3 reviews some dimensions to implementing performance budgeting.

1. DEVELOPING CLASSIFICATIONS UNDER THE GES FRAMEWORK

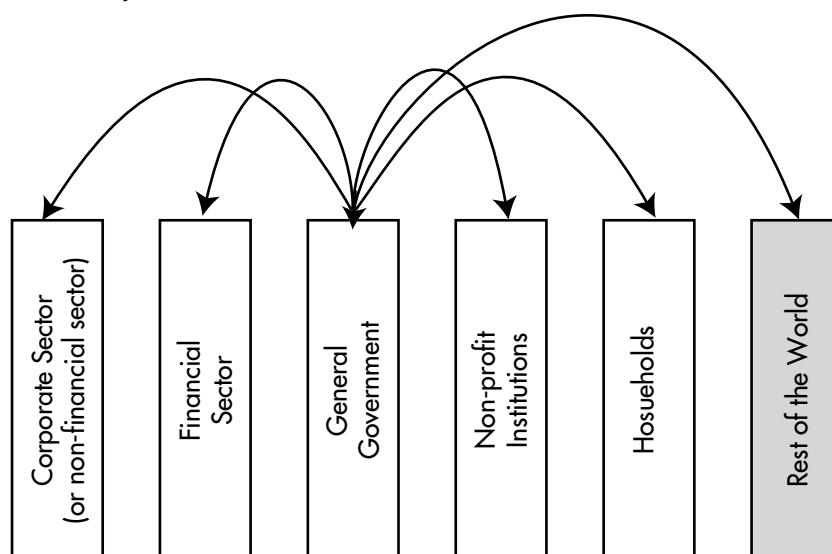
The GFS framework was initiated by the IMF in the 1980's, mainly as a statistical exercise aimed at ensuring comparability of government data between countries with different financial classification traditions. Having improved macro-fiscal analysis as one of its primary goals, the GFS 2001 framework has moved onto emphasise (a) the need for clear and common definitions of the boundaries of government, and (b) how operations of government interact with the other sectors of the economy and the rest of the world. To provide comparative data between countries on what they spend their resources on, the GFS framework incorporates the UN and OECD standard on classification of functions of government (COFOG). Furthermore, to ensure clarity of use across countries, the GFS framework takes considerable care in defining all inputs under the economic classification.

The following sections discuss the GFS 2001 approach to each of these classifications. They provide some highlights of what is required to design and implement them. The issue of developing more appropriate operational classifications, in particular programme structures, is the first step beyond GFS, and is introduced in Parts 2 and 3 below.

Government interactions with the rest of the economy

Clarity is required in the transactions between the 'General Government' and the other four internal functional sectors (as defined by SNA) plus the rest of the world. Classifications help to clarify these relations. The GFS framework places significant emphasis on this in its definition of 'General Government' and the nature of individual transactions. This is particularly important for budgetary management, as budgets are (or should be) the means of allocating resources according to government priorities. Yet most of those priorities lie outside of government per se in the form of delivering services to other sectors. For more information on SNA, consult the IMF website (www.imf.org).

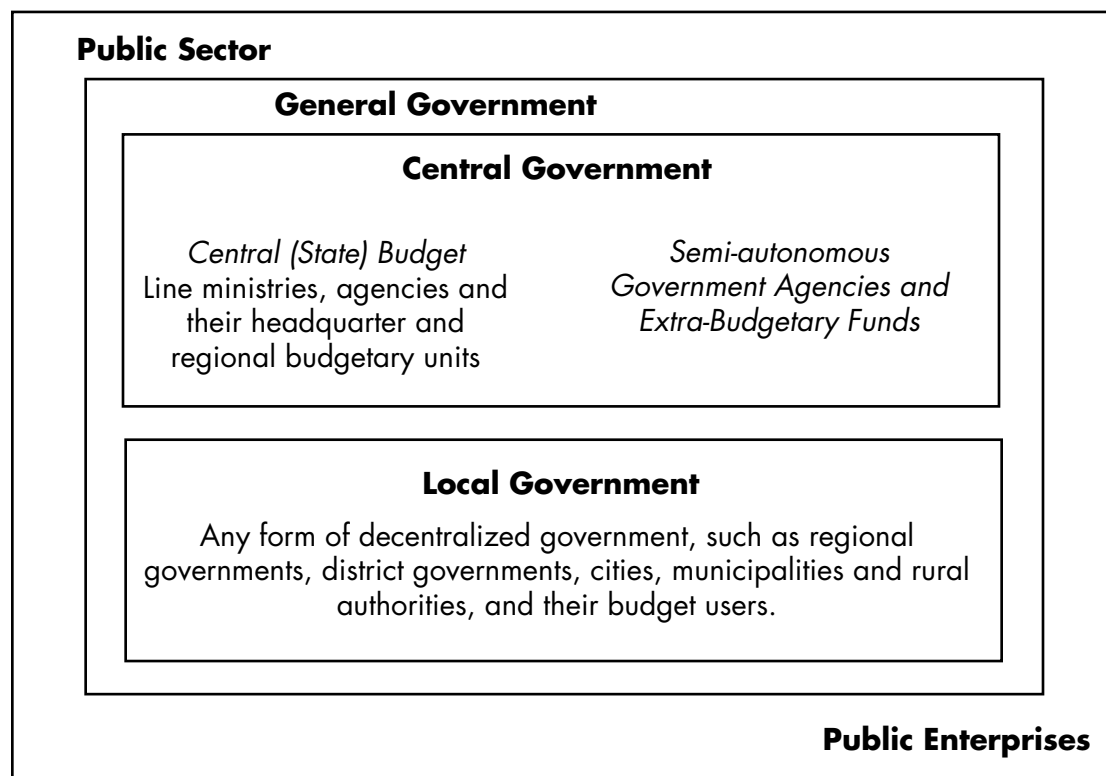
FIGURE 2: BUDGETARY, ACCOUNTING AND FISCAL CLASSIFICATIONS



Defining the institutions of government

While the mix of government institutions varies significantly from country to country, the definition of what is government (and what is not) is universal. The simple diagram below illustrates what is included in ‘general government’ compared with what the term ‘public sector’ includes. The failure to delineate these two can result in misleading results, particularly at macro-economic analysis level.

FIGURE 3: DEFINING GENERAL GOVERNMENT



Having delineated government, the design of an institutional classification will vary from country to country. In general, the GFS framework does not prescribe a particular approach, other than to say that a country should have one. Most countries classify their institutions according to responsibilities; for example, whether they belong to central or local government, with ministries and dependent institutions being grouped together. Often countries start out by having a sectoral structure to the coding, given to their ‘line’ ministries, according to whether they are administrative, economic, social, or infrastructure based. Yet this coding is often distorted, as new ministries are created, old ones are discontinued and insufficient coding gaps are left. With the increased use of functional classifications, this sectoral aspect of the administrative classification becomes redundant. Other features are becoming more important, for example whether an institution/agency is fully dependent, partly dependent or wholly independent of budget (central or local). Accountability also determines the level to which an insti-

tutional classification is developed. This focuses on accounting units, or cost centers, and temporary organizational structures, such as project management units and special commissions.

In general, a sound institutional classification will cover all government entities to a reasonably detailed level of organization, to match accountability needs. This will reflect the hierarchical nature of relations within government, allowing for progressive consolidation of budgets and accounts.

Defining the functions of government

Functional classification serves a different need, that of identifying the activities of government, in a more sophisticated manner than the traditional sectoral breakdown alluded to in the previous section. In general, the functional classification is statistical in nature. It is used to determine how much, or how little, government is active in given areas such as education, health, agriculture, tourism, justice, and so on. By itself, the functional classification will not determine specific directions being taken within a function, nor the outputs that can be expected from government intervention there. The accepted standard for the functional classification is COFOG. Its structure is reproduced as Figure 4¹.

The COFOG classification is designed to suit the needs of all countries and is therefore comprehensive. Some countries will find limited use for some sub-functions such as foreign economic aid, foreign military aid, unemployment benefits, and those sub-functions related to research and development (R&D). However, this should not be a reason for ignoring COFOG.

COFOG provides countries with a sophisticated, yet standardized, classification. It can replace the traditional sectoral breakdown still being used by many countries. In general, a rough summary by COFOG can be quickly established by mapping the country's budgetary structure (vote, sub-vote, head, sub-head, projects) to the COFOG codes. The mapping can be refined further by identifying those budget items which have a multiple purpose (e.g. rural development programs) and which need a more in-depth analysis to determine the share going to each sub-function. Where such an analysis is not possible, the item should be mapped to the sub-function in which the majority of spending occurs.²

The analysis and presentation of government spending, using the functional classification, increases the clarity of government operations. Its introduction and use can help improve the allocation of resources according to policy priorities. This is a first direct link to performance budgeting. In some cases, it can also lead to the identification and reduction or elimination of duplications in government activities. This suggests the functional determinants of resulting structures.³

Figure 4: Classification of Expense by Function of Government

¹ R&D = Research and development. ² n.e.c. = not elsewhere classified.

01 General public services	06 Housing and community amenities
011 Executive and legislative organs, financial and fiscal affairs, external affairs	061 Housing development
012 Foreign economic aid	062 Community development
013 General services	063 Water supply
014 Basic research	064 Street lighting
015 R&D ¹ General public services	065 R&D Housing and community amenities
016 General public services n.e.c. ²	066 Housing and community amenities n.e.c.
017 Public debt transactions	07 Health
018 Transfers of a general character between different levels of government	071 Medical products, appliances, and equipment
02 Defense	072 Outpatient services
021 Military defense	073 Hospital services
022 Civil defense	074 Public health services
023 Foreign military aid	075 R&D Health
024 R&D Defense	076 Health n.e.c.
025 Defense n.e.c.	08 Recreation, culture, and religion
03 Public order and safety	081 Recreational and sporting services
031 Police services	082 Cultural services
032 Fire protection services	083 Broadcasting and publishing services
033 Law courts	084 Religious and other community services
034 Prisons	085 R&D Recreation, culture, and religion
035 R&D Public order and safety	086 Recreation, culture, and religion n.e.c.
036 Public order and safety n.e.c.	09 Education
04 Economic affairs	091 Pre-primary and primary education
041 General economic, commercial, and labor affairs	092 Secondary education
042 Agriculture, forestry, fishing, and hunting	093 Postsecondary non-tertiary education
043 Fuel and energy	094 Tertiary education
044 Mining, manufacturing, and construction	095 Education not definable by level
045 Transport	096 Subsidiary services to education
046 Communication	097 R&D Education
047 Other industries	098 Education n.e.c.
048 R&D Economic affairs	10 Social protection
049 Economic affairs n.e.c.	101 Sickness and disability
05 Environmental protection	102 Old age
051 Waste management	103 Survivors
052 Waste water management	104 Family and children
053 Pollution abatement	105 Unemployment
054 Protection of biodiversity and landscape	106 Housing
055 R&D Environmental protection	107 Social exclusion n.e.c.
056 Environmental protection n.e.c.	108 R&D Social protection
	109 Social protection n.e.c.

Economic classification

When it comes to the economic classification, GFS provides a clear and detailed framework through which the multitude of different transactions of government can take place. Its immediate purpose is to improve the timely, accurate and comprehensive reporting of government economic and financial activities. This is to guide macro-fiscal analysis, as well as budget formulation, management and evaluation.

FIGURE 5: OPERATIONS OF GOVERNMENT ACCORDING TO GFS 2001

Inflows	Outflows
Revenue	Expense
Tax Revenue & Social Contribution	Compensation of Employees
Other Revenue & Grants	Use of Goods and Services
	Consumption of Fixed Capital
	Subsidies, Grants, Social Benefits, Emergency Relief, and Other Transfers
	Interest
	Other Expense, Capital Transfers, [and Current Contingencies]
Net Operating Balance	
Disposals and Sales of Non-Financial Assets	Acquisition of Non-Financial Assets
Fixed Capital Assets	Fixed Assets
Inventories, Stocks & Commodities	Inventories, Stocks and Commodities
Non-produced Assets	Non-Produced Assets
Valuables	Valuables
Net Acquisition of Non-Financial Assets	
Net Lending/Borrowing (Financing Requirement)	
Acquisition of Financial Assets	Government Lending, On-Lending & Equity Participation
Receipts from Lending Operations	Domestic Lending
Interest Earned on Deposits	Foreign Lending
Receipts from Sales of Stocks and Shares & Privatization	Domestic Equity Participation
Receipts from Foreign Equities	Foreign Equity Participation
Cash balances	
Net Incurrence of Liabilities	
Net Acquisition of Financial Assets	
Incidence of Financial Liabilities	Transactions in Financial Liabilities
Domestic Borrowing	Repayment of Domestic Borrowing
Foreign Borrowing	Repayment of Foreign Borrowing
Accounts Payable	
Financing	
Overall Balance	

Although GFS 2001 advances an accrual approach in the recording of transactions, the framework can also be used in cash accounting environments, pending adoption of accrual. The primary difference will be in the treatment of certain types of transactions, such as capital purchases, and the way in which they are reflected in the accounts. Under cash, for example, the cost of purchasing a vehicle is fully expensed in the year in which it was purchased, while under accrual, the cost would be amortized

over a number of years, reflecting more accurately the use (consumption) of the asset by government. The advantage of accrual accounting can also be seen when it comes to reporting arrears, which will be reflected in the balance sheet as liabilities under accounts payable. In cash based accounting, arrears can only be reported as a memorandum item. Under accrual it is also easier to bring to book other transactions which are not necessarily based on payments or receipts. These are known as other economic flows, such as exchange rate losses and gains, unfunded pension liabilities, and changes in value of stocks and assets, all of which affect the financial position or 'worth' of government. Although the move towards accrual accounting has many advantages, there are important preparatory steps that need to be taken before a country should consider such a move. (For further discussion on this topic the reader is directed to IFAC⁴ and IMF⁵ papers.)

One of the key outputs of an economic classification system is the ability to produce a meaningful balance sheet. Table 6 illustrates the balance structure according to GFS 2001.

Identifying the Resources to Finance the Government - Inflows

Under GFS 2001, the 'classification of the resource' side of the budget follows, for the most part, a generally well established structure of taxes, grants and other revenue (mainly non-tax revenues). Together, they are defined as revenue. Within this, there are separate classifications of transactions which affect the government's assets and liabilities position. Examples are the sales and disposals of physical assets, sales of equity holdings (including receipts from privatization exercises), redemption of financial assets (from its lending operations), and borrowing. The specific items of taxes, non-tax revenue such as fees, range of grants, and so on, vary from country to country. The GFS manual provides a framework and guide on where each of these items should be placed.

Although under accrual, uncollected revenues for which payment demands have been issued, should be recorded as accounts payable, the general consensus is that this may create unrealistic expectations of revenues collectable in future. Many of these outstanding claims may never be paid (for example the company that owes taxes may already be bankrupt, or an assessment may be changed at a future date as a result of audit). Hence the treatment of revenues under GFS 2001 essentially follows cash rules.

The main features to be found in most classifications of resources are illustrated in Annex 1.

Defining the Inputs Required for Government Services - Outflows

Under GFS 2001, the structure for outflows also follows established principles. At the broad level, it separates consumption items from asset-forming or liability-reducing items. Consumption items are grouped together as expense. They are subdivided into well known categories; namely compensation of employees, use of goods and services, transfers, subsidies and social benefits, interest, and other expense. In the accrual

approach of GFS 2001, an additional item is provided for the consumption of fixed capital, which is the part of capital assets consumed during the accounting period. Furthermore, social security contributions are considered as part of compensation of employees. Under accrual, additional provision is made for unfunded social security schemes, particularly pensions, under imputed social security contributions. Finally, under full accrual, some goods and services will only be charged at the time of consumption. This is in cases where stocks are maintained (for example, a ministry may maintain a store of office supplies, which may not be fully consumed during the accounting period. Under accrual, only that part which was consumed would be expensed, while under cash the cost of purchase of the stores would be fully accounted for at the time of purchase. Under cash, these items would be held in reserve until such time as a move to accrual was considered.

The purchase (or any form of acquisition) of assets is separated from expense. These are only consumed at the time of usage. This may be over a period of several years (or even decades in the case of infrastructure). Their treatment will be different depending on whether the country is using accrual or cash-based accounting. Under cash, these will be accounted for at the time of purchase or acquisition. Under accrual they will be expensed at the time of consumption. The remaining outflows included in the GFS framework include transactions in financial assets (purchase of equity and lending) and liabilities (repayment of debt).

The importance of the GFS framework for economic classification of outflows is the prospect of identifying the real cost of delivering services during a particular accounting period. For example, under cash accounting, the cost of building a school is charged during the year of construction, but the benefit of that school is actually spread over several years. In addition, the improved tracking of assets should, in principle, lead to better asset maintenance planning (asset management for short), which can extend the life of the assets.

While GFS 2001 provides a framework for designing outflow classifications, country customization is essential. Items of local importance are then given the necessary prominence. The typical groupings that one would expect for a classification of outflows are also in Annex 1.

2. LINKING POLICY TO BUDGETARY ALLOCATIONS: THE PROGRAMME

One of the most difficult tasks in budgetary management is to ensure that the budget adequately reflects government policies and priorities. Traditional budgets have been focused on an incremental input approach. This has resulted in a lack of clarity in resource allocation and the growth of bureaucracies. The lack of clarity is that resource inputs are disconnected from the delivery of services. Concerning bureaucracies; they are primarily intent on defending past gains and are often reluctant to entertain any reduction in their budgetary allocations, even when their original purpose has become obsolete. Therefore, the system does not facilitate the reallocation of resources towards evolving needs. Recent efforts in Africa have primarily focused on the development of

MTEF as a tool for resource allocation. In practice there continues to be a disconnection between the resulting MTEFs and the adopted budgets.

One of the drawbacks of the MTEF approach practiced in Africa has been the setting aside of salaries and wages from the resource allocation decisions.⁶ This has reduced the effectiveness of reallocation decisions and disconnected staff (as an input) from the goals of MTEF (as the output). Yet, the MTEF approach is essential to establish the medium term nature of public spending; the essential strategic framework of performance budgeting.⁷ It becomes a more effective matrix within which budget allocation decisions are made, if the underlying budgetary management system evolves along with it.

Modern budgetary thinking is clearly moving towards performance, with a focus on outputs and a more consistent and sustainable linkage to government policy. For this to become a reality, the operational structure of the budget must evolve towards one that is focused on outputs (as opposed to inputs) and does not simply follow incremental rules. The structure must be able to accommodate the setting of objectives, to the assignment of specific responsibilities for achieving results, and to systematic review and analysis, to ensure that budgetary allocations reach their intended targets. Once established, such a structure must also be amenable to the assignment of managerial responsibility and accountability.

The following sections review some of the key elements needed to establish a performance-oriented operational structure of the budget.

Identifying government policies and priorities

For a system which aims to improve the linkage between government policies and budgetary allocations, it is essential that these policies and associated priorities, be clearly established. On the face of it, identifying government priorities would appear to be a relatively straightforward task. However, with details, many problems can arise. A number of examples illustrate the point:

- Government policies may not cover all areas of government operations, leaving gaps which are difficult to fill. These gaps are often in the administrative functions of government, where significant resources are allocated.
- Government policies may not be formulated in such a way that can be easily translated into budgetary allocations. For example, it is not immediately obvious how a government policy to promote economic growth can be translated into specific programs of government. Generally more detailed work will be needed to achieve this.
- Sometimes there can be a conflict between approaches needed to achieve a policy. Governments often want to be seen to be spending, whereas the best approach to achieve a particular policy may be to withdraw government operations from a particular area (e.g. banks) and allow other sectors to take responsibility.
- Policies that call for the reduction in budgetary allocations are often difficult to

get approved in Cabinet, as the responsible Minister is likely to resist strongly any such reductions.

- Policies are often connected, with the success of one being dependent on the implementation of another. This can be problematic if the enabling policy is not properly funded or implemented. Typically civil service reforms are one of the most difficult areas, on whose successful implementation many other policies depend.

Even when policies are clearly defined, it is generally not possible to move directly to budgetary allocations without the development of a plan for the particular sector concerned.⁸ For example:

- Without a long term plan for road infrastructure, in which road construction and maintenance activities are properly scheduled within a given resource envelope, it is impossible to determine rationally what resource allocations are needed on an annual basis. This often leads to ad hoc spending based on politically determined expediency and under resourced essential items such as maintenance.
- Policies which call for the expansion of primary school education have often received much attention, particularly from donors. As a result, all too often, we have seen the construction of schools without due attention to the availability of teachers and the provision of classroom materials.⁹
- Expansion of water supplies for drinking and irrigation cannot be achieved without a feasibility study of the sustainability of access to water in a given region. Overuse of water has often resulted in the lowering of water tables, and the return of the same problems a few years down the line.¹⁰

These policies and long term plans provide the essential structure for a new performance-oriented budgetary management environment. They will help to identify the programmes that need to be defined and established. They will also ensure that these programs have clearly understood objectives and outputs to be measured. The programmes must address both recurrent costs and capital investment needs of implementing policies and plans. This in itself will require a change to current practice of separating the Recurrent and Development Budgets, and the integration of tied donor funding within a single budgetary management framework.¹¹

The importance of having clearly articulated policies backed by sustainable long term planning cannot be overstated. Without adequate attention being paid to them, the introduction of a new budgetary structure based on outputs will simply be a cosmetic exercise, without tangible results.

Medium-term context of outputs / service delivery and link to COFOG

In a resource restricted environment, which all governments face in LDCs, it is not possible to implement all policy priorities in any one year. Even if this was possible, practical realities, such as the time taken to build a road or train a teacher, simply will not allow it. Furthermore, many budgetary allocations are semi-permanent in nature (such as the

cost of running schools or the maintenance of roads) and must be ring-fenced if output is to be maintained.¹² Budgetary management structures focused on outputs must therefore be conceived in a medium term context. Programme design should have this in mind, as most programmes, once established, will have a medium to long term existence, although their specific outputs, and in some cases objectives, will be adjusted from year to year.

The design of a performance oriented budgetary management structure, such as a programme budgeting structure, must be clearly linked to output. For the most part, this means a structure based around the various service delivery obligations of government. Therefore the COFOG classification is a good reference point for designing programs, as it covers all functions of government. However, the programme classification must be operational in nature if it is also to link into government policies and long term plans. The UNCDF-developed integrated programme structure is a working example (Chapter 11, Table 12).

Finally, it is important to recognize that programmes require administration to support them, which are an integral and essential part of their cost. For example, the administration of teachers, which may include licensing, employment and assignment management, and other matters of common interest to teachers, and the education policy making units in a Ministry of Education, are essential components of the education programme. Without these, the programme may fail to meet its objectives.¹³

Operational classifications – options

Programme classifications vary significantly from country to country, although in many areas there are common themes that can be distinguished, given similar roles of government. The programme structure should reflect the key medium-term objectives of government. To achieve this, one option is to establish a set of main programmes which are fully linked to these policy objectives. These objectives established for these main programs can be taken directly from policy statements and long term planning documents. These can provide a clear linkage to the policy level. In general, such main programs will focus on outcomes rather than outputs, as they will often be designed above the administrative structure. However, it is important to assign managerial responsibilities in Cabinet for each such programme. Where main programmes cut across several ministries, it is important to establish lead responsibility for each, to avoid disputes in implementation and direction. An example of such a cross-cutting programme would be addressing HIV/Aids. Here, several ministries as well as the Presidency are often involved.

The important innovation that a main programmes' approach can bring is to shift the budgetary allocation thinking from preservation of individual ministerial budgets to seeing all budgetary activity fitting into a clear set of government policy objectives. Getting resource allocations will then depend on what a ministry will contribute to a commonly defined goal. Furthermore the main programme approach is a useful mechanism through which the government can present its overall budgetary objectives

to parliament and get their endorsement before detailed allocation is finalized, maybe in the first stage of a two-stage parliamentary budget session.

Another advantage of the main programme approach is in situations where there are multiple administrative units engaged in implementing the programme. For example, in a decentralized environment, the education programme will have activities in:

- central government (sectoral planning, regulation, curriculum development, some of the larger investments, oversight, monitoring, inspection, and teacher administration),
- local government (some investment, recruitment of teachers and funding of the schools), the schools themselves (school operations), and
- the local community (maintenance of the school premises and provision of teacher housing).

Funding may also be a complex matter, with budgetary resources coming from central government, local government, donors, fee collection at schools and communities. In the case of tertiary education, there is the added complexity that the government policies are being implemented through semi-independent institutions, which are ‘contracted’ to deliver qualified graduates needed for the economy at large.

Operational programs, which collectively go towards achieving the objectives and outcomes of main programs, should be clearly anchored within specific ministries, so that managerial and accountability responsibilities can be fully maintained. These operational programs should have a tangible focus with clearly defined objectives and measurable outputs assigned to each one of them. Complex programs will require the further breakdown into recurrent activities and investment or capacity building projects, each of which will have specific areas of results assigned to them.

In brief, the design of a programme structure is not simply an issue of classification (for that, there is COFOG). It is a matter of ensuring that all operations of government (at whatever level) are fully covered by the structure, that they fit together while maintaining managerial responsibilities for specific deliverables within a medium term perspective over which budgetary allocations are assigned within overall fiscal constraints.

Clearly the introduction of a programme structure for government is no simple task and must be carefully undertaken through in-depth consultation and with clear engagement of the top leadership. Experience has shown that implementation will take several years to complete, given limited capacities to manage the reform. The advantages of introducing a programme structure are many, including a much clearer budgetary linkage to the resource allocations within MTEF, a clearer platform for presenting the government’s programme to Parliament and the general public, the reduction/elimination of duplications of functions in government, a clear focus on outputs and service delivery and understanding of individual responsibilities for civil servants, and a framework for objective verification and reporting of government achievements.

3. FROM PROGRAMME TO PERFORMANCE BUDGETING

Programme budgeting can be seen as a first step towards performance budgeting. Performance budgeting is a much wider concept and covers a range of initiatives all of which are aimed at enhancing the performance of government. Chapter 1 explores performance budgeting from a local government perspective, within the wider (including national) institutional development framework, concerning public expenditure management (PEM). The remainder of this chapter reviews some additional dimensions of performance budgeting.

The additional or more recent forms of performance budgeting, which have been developed over approximately the last fifteen years, aim to establish a tighter relationship between funding and performance, generally but not exclusively as a means of putting greater pressure on agencies to improve their performance. Approximately speaking, the main approaches used to build such a tighter relationship are:

- The use of unit costs for a given output in estimating expenditure requirements,
- Funding ‘incentives’ based upon performance,
- Purchaser-provider models, *and*
- Budget linked performance targets,

It would be wrong to see contemporary models of performance budgeting as alternatives to programme budgeting. They are better regarded as extensions and adaptations of programme budgeting. This is because most contemporary performance budgeting systems use as their starting point the results-based programme classification of expenditure.

Budgeting based on output unit costs

One approach to building a somewhat tighter link between funding and results is through the use of output unit cost measures¹⁴. For example, in primary school education, it is possible to determine a per-student per-year cost, and then to use this to estimate recurrent budget requirements for primary school education by multiplying this figure by the expected number of students. This is a very valuable method when applied to the right types of outputs, and it is for this reason that it is being used increasingly around the world in applicable cases (including, for example, as part of the MTEF process).

However, there are important categories of public sector outputs for which it is not appropriate to apply this methodology. One of the most important of these is heterogeneous¹⁵ outputs, an illustration of which is police criminal investigations such as, for example, murder investigations. Some murder investigations are simple to solve, others very difficult and some impossible. Unit cost therefore vary enormously from one case to another. So even if one knew how many murders the police would need to investigate next year, it would make no sense to estimate the budget requirement by multiplying the expected numbers of murders by the average cost of a murder investigation.

For this and a number of other reasons, the use of output unit costs as the basis of budgeting should be viewed as a tool to be selectively used for certain types of services, and is therefore not a methodology upon which the whole budget can be based. As a generalization, it is a methodology best suited to standardized services which are produced in reasonably large quantities. It should be noted that, for this reason, this is a methodology which, in a federation, is likely to be more widely applicable at the sub-national than at the federal government level, although some areas of federal government, such as universities, may well lend themselves to this approach.

Funding incentives for agency performance

An influential theme in contemporary discussions of performance budgeting is that of financial ‘incentives’ for agency performance. Such incentives can take either or both of two forms:

- **Additional funding for good performance:** the proposition here is that agencies performing well should be given increased budgets because the prospect of increased budgets will motivate them to further improve their performance. And conversely, poorly performing agencies would be motivated to improve their operations by the knowledge that, if they do not improve performance, their budgets would be cut.
- **Retention of savings from efficiency:** an agency producing its outputs efficiently would be able to keep the savings, even though its aggregate funding would not increase. The ‘purchaser-provider’ model discussed in the next section represents perhaps the most important application of this. The issue of what they can spend their savings on, however, needs to be carefully considered, especially in the context of limited overall resources.

The idea in both cases is to emulate the motivational power of profit and loss in the private sector, or of performance pay at the individual level, so as to boost agency performance.

If such agency-level funding incentives are to produce better performance, they must be capable of motivating the individuals who comprise the agencies concerned. For this reason, funding incentives to agencies are often accompanied by provision to permit agencies to use their ‘profits’ to provide financial performance bonuses to their staff.

The idea of additional funding for good performance has been put into practice on a sectoral basis – as part of funding models for allocating funding between multiple providers of the same type of public service. An example is performance bonuses based upon performance indicators such as graduate employment rates which are included in the funding formulas for public universities in many jurisdictions. As in this example, such bonus funding is commonly based upon outcome or output quality indicators (and, by contrast to payments on an output basis – see below – is generally not based upon some measure of the cost of achieving such outcomes/quality, which is often impossible or exceedingly difficult to measure).

Nevertheless, with perhaps only one exception (the Canadian province of Ontario) nothing like this has been put into practice in government-wide budgeting. One of the key reasons for this is that, although it is easy to rate the relative performance of agencies delivering the same type of output (i.e. to rate one university against another), rating the performance of ministries performing very different functions in a robust manner is very difficult.

The primary determinant of budgetary funding levels to ministries should be the relative priority attached by government to the type of output which they produce. It follows that the funding incentives to ministries could never operate to create an automatic link from good performance to an increased budget, or from bad performance to a reduced budget. Given this, any performance-related funding rewards would, like the sectoral schemes, need to take the form of temporary performance bonus funding, separate from the primary budgetary allocation which would be based on expenditure priorities.

At present, the jury is out on the question of whether performance bonus funding would be a useful element of government-wide budgeting, and if so precisely how it would operate.

Budget-linked targets

As noted earlier, the setting of targets for outputs and outcomes is a common feature of managing-for-results systems in many countries today. Generally, however, these targets have little or no link with levels of budget funding of the agencies concerned, and are set quite independently of the budget process. The idea of budget-linked targets is to ensure that the performance targets set should be calibrated to the level of funding provided, and vice-versa.

One leading example of a performance budgeting system based upon targets is the Public Service Agreements system in the United Kingdom, which is heavily focused upon outcome targets. The context of the introduction of this system was a change of government and a view on the part of the incoming government that key areas of public services, such as health and education, were under-funded. The government was, however, concerned with the danger that, unless it put strong pressure on agencies to perform, the extra resources it poured into these sectors might not translate into a commensurate improvement in outcomes for the community. As a result, under the PSA system, agencies receiving significant additional funding were required to sign up to demanding outcome targets. Other target-based performance budgeting systems include that in the US state of Florida, which places equal emphasis upon outcomes and outputs.

These systems have considerable merit. However, the key question they must face is: what does it mean to link targets to funding when the underlying relationship between results and funding is, to varying degrees, an uncertain one? This is particularly the case for outcomes. For example, attempting to link police funding to targets for the reduction in the crime rate faces the difficulty that the crime rate is only partially controllable

by the police, and is determined also by a wide range of other social and economic factors. It is therefore very hard to even guess at what reduction in the crime rate one should expect to achieve with a certain increase in funding to the police, and over what time period. Linking output targets to the budget is somewhat less of a problem, at least in relation to relatively standardized outputs. For highly heterogeneous service, however, it too is difficult.

Part of the answer to this problem lies in the way in which performance against targets is assessed and treated. In a purchaser-provider model, failure to deliver on output targets (which is, in effect, what is involved in a requirement to deliver a certain quantity of output at a certain price) automatically results in penalties (a financial loss), without any process of review after-the-event to determine why the target was not met. By contrast, under a target-based system, it is both possible and highly desirable to have a formal process of review of performance against target, the aim of which is to form a judgment of the extent to which any failure to achieve targets was the responsibility of the agency, as opposed to factors beyond the agency's control.

The conclusion to be drawn from this is that linking targets to budgets is something which should be attempted only when, and to the extent that, the finance ministry is able to inform itself as to what outputs and outcomes it is reasonable to expect agencies to deliver with given levels of funding. To rush into a system when such an information base does not exist is bound to result in the setting of arbitrary targets, which will accordingly lack credibility and motivating force. Budget-linked performance targets can, when the time is right, be grafted onto a programme budgeting system. For a country which is only just in the process of introducing a performance information system and programme budgeting, this should in general be regarded as something to be considered well in the future.

CONCLUSIONS

International experience suggests that:

- The appropriate starting point in the introduction of performance budgeting is the introduction of a programme budgeting system in which expenditure is classified by objective¹⁶, and steadily improving the performance information which is used as an input into the budget process to facilitate better decisions about how limited budgetary resources should be allocated between competing purposes,
- Over time, as the necessary information is collected, the selective use of budget estimation based upon unit cost measures can be added to the basic programme budgeting model – but only for appropriate types of output (principally for standardized outputs produced in large volume, like school education),
- Budget-linked target-setting should not be rushed into, but should be attempted only when central budget decision-makers have acquired the necessary informational base.

This chapter has therefore reviewed the importance of the GFS 2001 framework for the development of budgetary and accounting classifications. It also identifies key elements needed for moving towards a budgetary management structure that provides better links between government policy and budgetary allocations, focusing specifically on the development of a programme budget structure, as a first step towards performance budgeting. The chapter seeks to highlight issues for those considering undertaking such major reforms required to implement PB. It therefore stresses the need for high-level commitment before embarking on this particular journey. Or, as has already been stressed elsewhere; the usual need for political support, top-management commitment and the necessary capacity building measures.¹⁷ must be in place if the PB experiment is not to remain just that.

ENDNOTES

- ¹ Full explanations of the COFOG functional classification can be found in the GFS 2001 manual, which can be obtained from the IMF website at www.imf.org/external/pubs/ft/gfs/manual.
- ² The concept of financial ‘mapping’ is presented in Chapter 1, Part 1, Mapping, as well, from the institutional development perspective of tracking the structure (the hierarchy) and the processes (the delivery of infrastructure and services) of public expenditure management (PEM).
- ³ The concept of ‘functional’ analysis, being the determinant of subsequent institutional development, in the sense of resulting structures, processes and contextual reforms, is also presented in Chapter 1, Part 1, Context.
- ⁴ The International Federation of Accountants (IFAC) has a public sector chapter, in which the interested reader can find information on moving from cash to accrual accounting. The website reference is www.ifac.org/PublicSector.
- ⁵ The GFS 2001 manual and the guide for moving from GFS 1986 to GFS 2001 discusses the issue of cash versus accrual accounting (see earlier website reference). A 2002 IMF Working Paper which discusses the need for accrual accounting in the context of performance budgeting is also available on the website at www.imf.org/external/pubs/ft/wp/2002/wp02240; WP/02/240 is also referred to in Note 1 of the Acknowledgements to this volume.
- ⁶ This disconnection between staff inputs and government outputs is highlighted in Chapter 4 of this book, concerning the Tanzanian finance ministry’s experience.
- ⁷ See Chapter 1, Part 1, Checklist, item 2.
- ⁸ Practical examples are given, from the national perspective, in Chapter 5 of this volume.
- ⁹ The generic performance budgeting manual (Chapter 11, Appendix 1) ensures that no capital investment can be committed unless the recurrent investment is also committed at the same time by the responsible sector (and therefore, in advance of the asset’s construction and initial equipping). This principle is taken from the Eritrean version of the manual.
- ¹⁰ Basic environmental impact techniques can establish such initial liabilities (eventual

reduction in the water table). Consequence analysis also becomes important here – ultimately, the lesser of two evils; see Chapter 1, Note 8. Consequence analysis is designed to highlight dilemmas. Performance budgeting compels difficult choices to be made: see Chapter 1, Part 1, Prioritization.

- ¹¹ For an example of an integrated budget format, see Chapter 11, Table 2, Summary Budget Format.. The objective is the level of programme definition. Every target is a project; whether capital (water harvesting) or recurrent (maintaining the current level of service). For all projects, annual input costs are classified by capital, operations, and capacity. The integration of the performance budget is complete. Further analysis needs to be done to enrich this structure with GFS.
- ¹² Maintenance of the existing service (assumed to be a priority), is a building block of the integrated performance budget (note 11 refers).
- ¹³ In organizational analysis, these are known collectively as ‘staff’ functions, as opposed to the ‘line’ functions of actually delivery the service (teaching the various grades of children). The integrated budget format (note 11) also includes “...’staff’ support (HR, finance etc)” to support the “...maintenance of the service provision – ‘line’...”. Each is classified as a separate project, therefore requiring a definition of outputs or annual targets to be achieved from their resource inputs.
- ¹⁴ Often unit variable cost. This is also referred to in the measurability portion of Chapter 1, section 3.
- ¹⁵ Output heterogeneity describes differences between units of the same type of output in the mix and quantity of activities arising from differences in client/case characteristics. Output heterogeneity can introduce substantial and unpredictable determination of the average cost of outputs.
- ¹⁶ In the annual report, plan and budget (ARPB) format – Chapter 1, Part 2 – every objective delineates a programme of specific projects, interventions over the MTEF period (three-years in the examples), then annualized for the specific budget approval. For UNCDF, the starting point boils down to the programme, defined within the strategic framework of analysis and objective setting: i.e. programme definition.
- ¹⁷ Chapter 1, section 1, Checklist.

ANNEX 1 TO CHAPTER 2

FIGURE 1: CLASSIFICATION OF TAX REVENUE

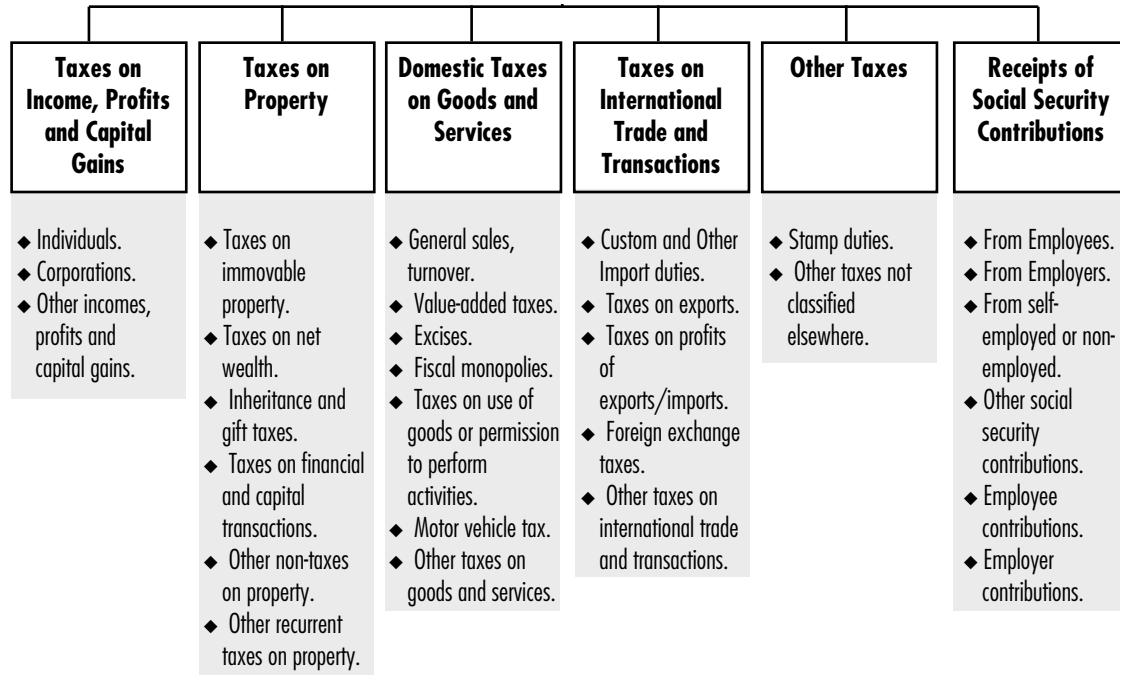


FIGURE 2: CLASSIFICATION OF NON-TAX REVENUE

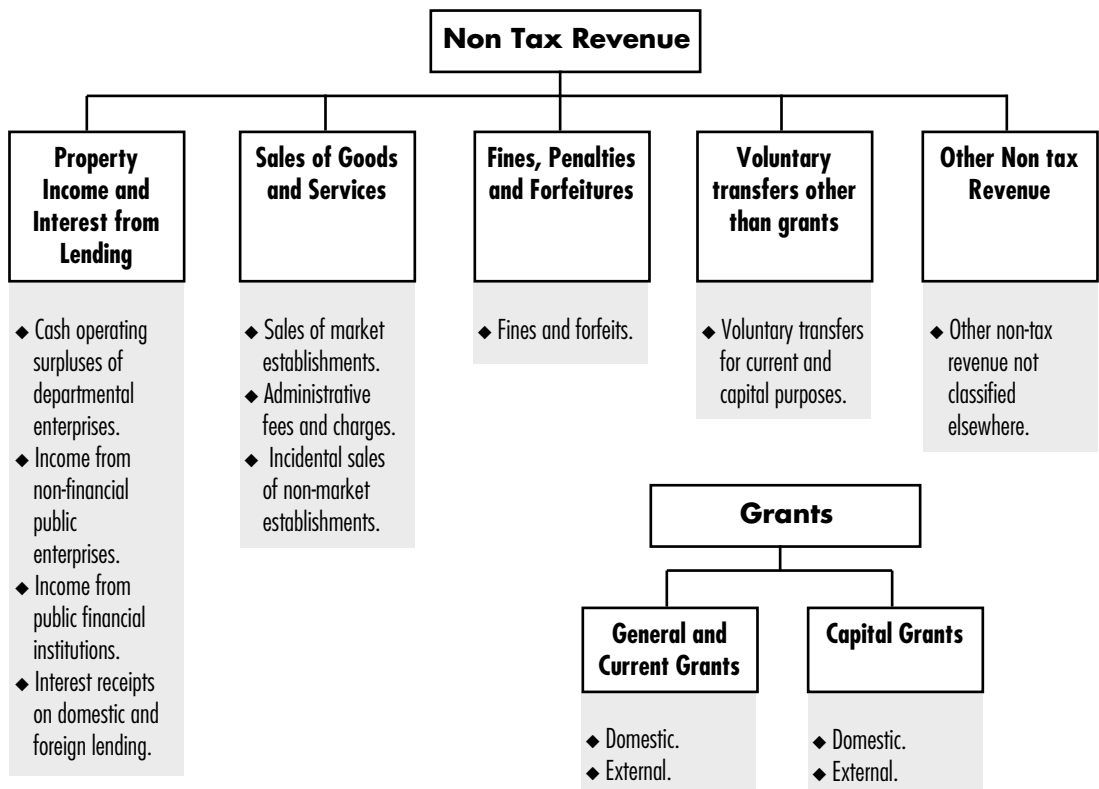


FIGURE 3: CLASSIFICATION OF DISPOSAL REVENUE

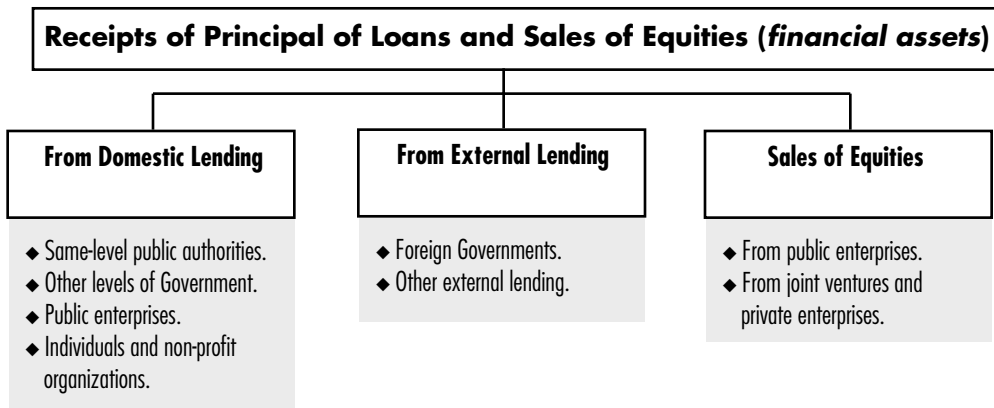
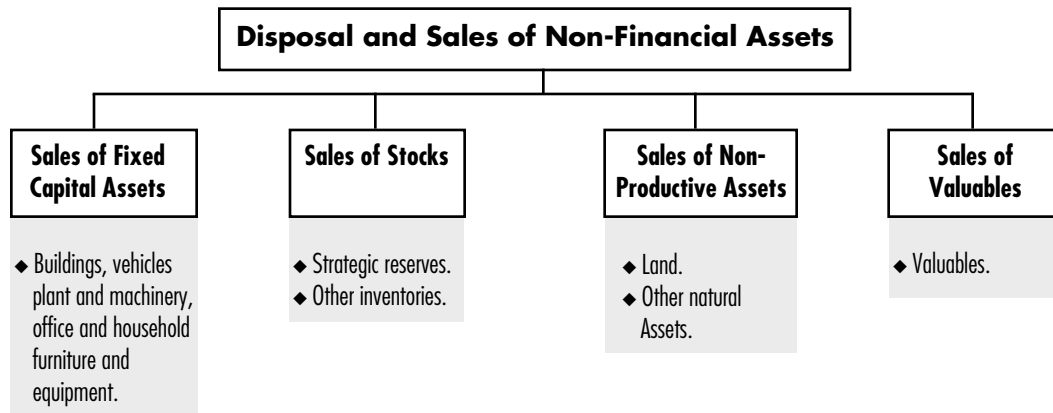


FIGURE 4: CLASSIFICATION OF BORROWING REVENUE

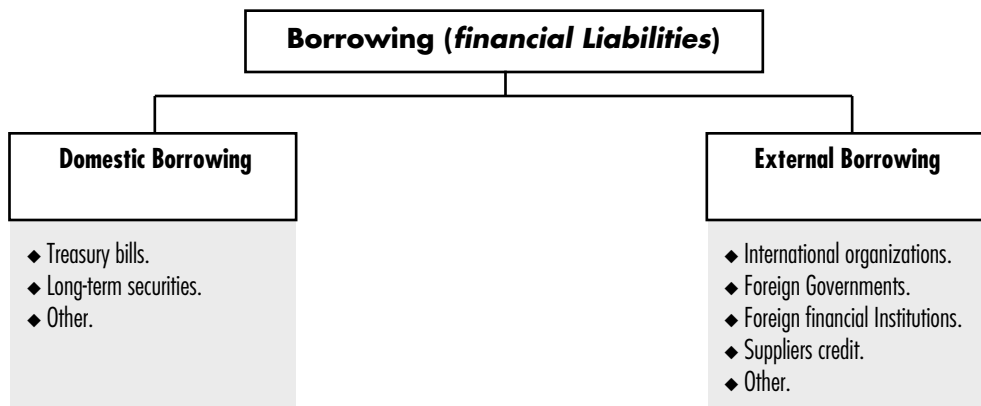


FIGURE 5: CLASSIFICATION OF CURRENT EXPENDITURE

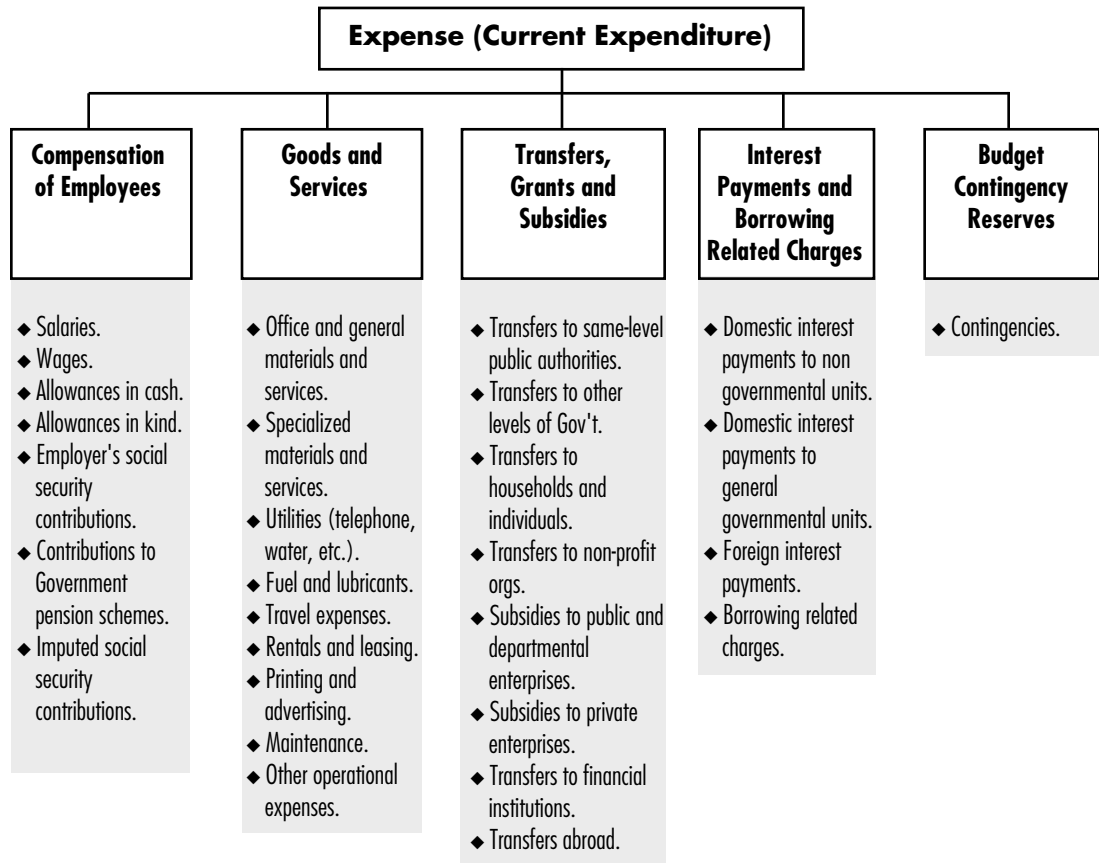


FIGURE 6: CLASSIFICATION OF NON-CAPITAL ASSETS

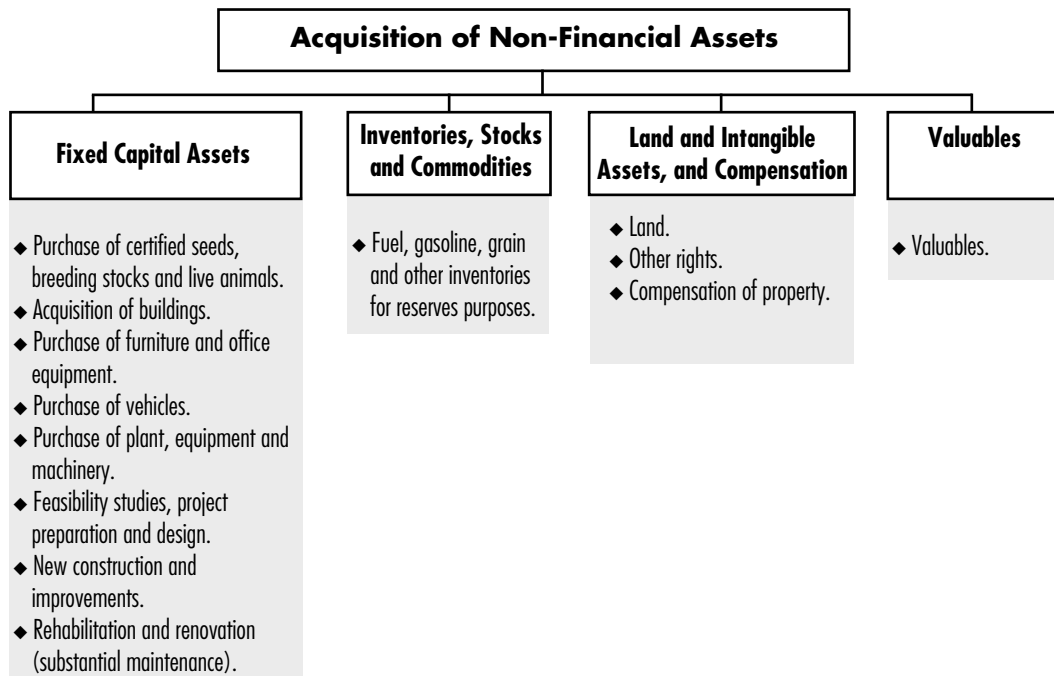
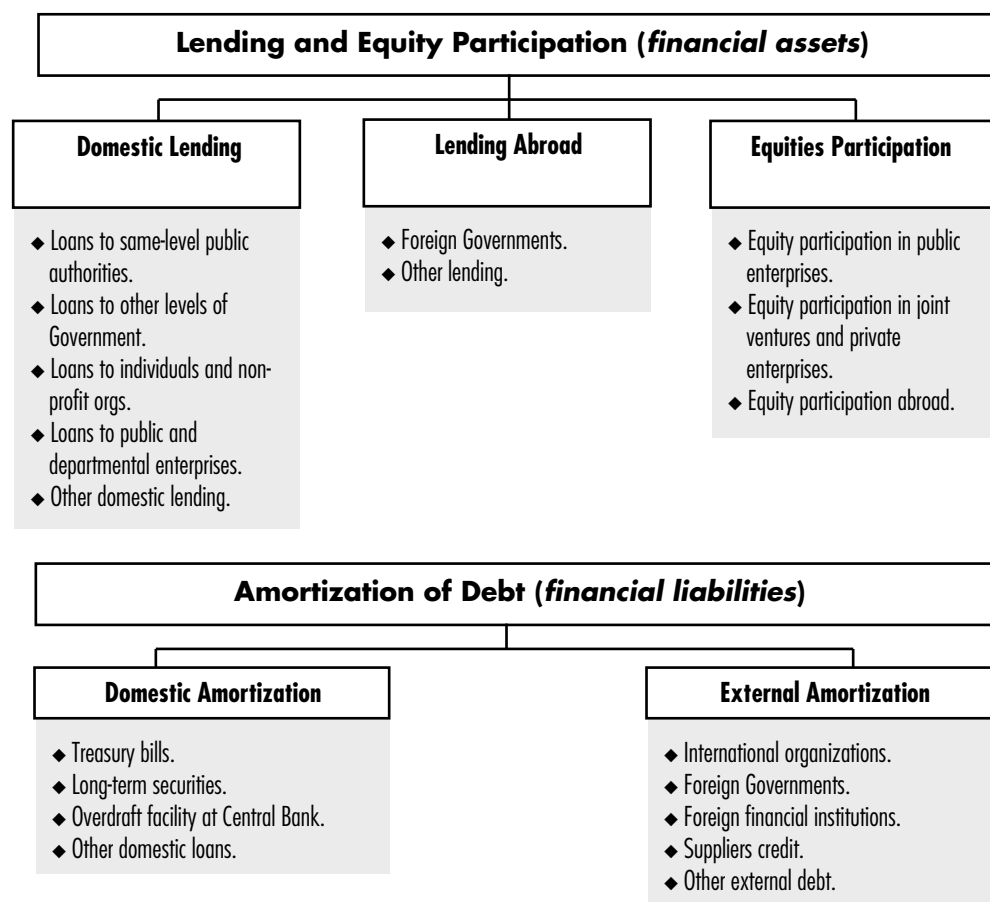


FIGURE 7: CLASSIFICATION OF FINANCIAL ASSETS



3

STRATEGIC PLANNING: THE TANZANIAN IMPERATIVE FOR PERFORMANCE BUDGETING

*E. SHITINDI, PRESIDENT'S OFFICE, PUBLIC SECTOR MANAGEMENT
GOVERNMENT OF TANZANIA*

INTRODUCTION

This paper highlights the experience of Tanzania in instituting strategic planning in the Public Service and its relevance to performance budgeting. Part 1 examines the background to strategic planning in the Tanzania public service; Part 2 outlines the preparation of strategic plans process ministries, and how it is linked to performance budgeting; Part 3 discusses experience so far, challenges issues and lessons.

1. BACKGROUND TO STRATEGIC PLANNING IN TANZANIA

The use of strategic planning is relatively new in the Tanzania public service. Elements of strategic planning in Tanzania public service were first introduced during the Civil Service Reform Programme (CSRP) in 1995/98 under the Organization and Efficiency (O&E) reviews.¹ These looked at ministries' and independent departments' internal structures and processes to improve organizational performance.

At that time organizational performance was conceived a requiring each government office to prepare an "Annual Report and Service Improvement Plan – (ARSIP)". This embodied a strategic framework including a three-year planning horizon and annual performance targets. The ARSIPs were initially piloted in 7 Ministries in 1999/2000, to be the basis for introducing performance budgeting in central government. ARSIPs were to be the mechanism to implement publicly declared service delivery targets as contained in the Annual Plan through to a specific budget for each target.

Strategic planning was introduced as part of the public service implementation of the new "Public Service Management and Employment Policy (PSMEP)". This was adopted by the Tanzanian government in January 1999. The PSMEP was adopted because government decided to take strong measures to improve public service performance and service delivery to the public at large.

The PSMEP required all ministries and independent departments to shift from input-based budgets to output-based budgets. It was within this policy that performance

budgeting and strategic planning were brought into being. From that point on, all public service organizations (PSOs) were required to install a performance management system (PMS), apply performance budgeting instead of traditional incremental, inputs-based budgeting and the current cash-based budget. The performance budget was to be formulated based on the approved outputs to be produced by the organization in accordance with its strategic plan instead of being formulated on the basis of inputs.

Performance management system

From 1999, the government started introducing measures that ensured the institutionalization of a performance management system (PMS) in the public services. Before rolling out PMS, the government developed a broad framework for its installation, known as a performance improvement model (PIM).

In 2000, the government launched the public service reform programme (PSRP). The installation of PMS in the public service was a key reform agenda of the programme. PMS is viewed by the Government of Tanzania as an integrated approach to building a shared vision, understanding and agreement on the results to be achieved and approach, development, assessment and review of activities for continuous improvement in standards of service delivery.

The process of facilitating the installing of PMS in MDAs from 1999 to 2002 was done using public servants. To ensure implementation across the whole of government in a reasonable time scale, consultancy firms were engaged from late 2002. The installation in 25 ministries and 11 independent departments was completed by mid 2004.

The broad framework for introducing and installing PMS was the performance improvement model (PIM). This was developed, tested and officially accepted by the Tanzanian government. PIM is viewed as an inter-linked, three-stage planning process. It involves managers and their staff at the strategic level (for developing medium term plans), operational level (for operational and annual plans) and individual level for personal development and annual performance review and appraisal.

Key elements of PIM

The following are the elements of the performance improvement model:

- **Service Delivery Surveys** – these are meant to provide information on the level of service provided to the public that feeds into the strategic planning process in each ministry. This is to establish benchmarks of the quality of service delivery; identify and recognize their customers and gather information on how they are performing.²
- **Organizational Self-Assessment** – each ministry conducts a self-assessment using the European Foundation for Quality Management (EFQM) Excellence Model. This provides information on areas for improvement and benchmarking.
- **Strategic Plan** – ministries prepare strategic plans, using templates supplied by the President's Office Public Service Management (PO-PSM).

- **Annual Operational Plan (AOP) and Action Plan (AP)** – After preparation of strategic plans, ministries prepare Annual Operational Plans for 3 years, and yearly Action Plans as a tool for implementing the plan. It is at this level that plans are linked to performance budgets. The interface between strategic planning and budgeting is a key pillar of PIM.
- **Open Performance Review & Appraisal system (OPRAS)** – This is a new performance appraisal system that holds each individual employee to account for performance in terms of outputs. It requires every public servant to have a performance agreement. This sets out performance targets that are to be achieved during the year. The agreement is entered between the employee and his/her immediate supervisor.
- **Client Service Charter** – ministries are required to prepare charters that demonstrate a clear commitment to provide quality services to their clients, informing clients and stakeholders about the standards of service that they can expect, the approach that will be used, the rights and obligations of the clients and the channels to be used when seeking redress.
- **Monitoring and Evaluation (M&E) System** – This system has been developed to provide a mechanism for tracking implementation of the strategic plans. It ensures that what gets measured gets done.

2. DEVELOPING STRATEGIC PLANS IN MINISTRIES

Strategic plans are at the heart of the performance management system. They are supposed to be a response by ministries to national strategies and provide a basis from which client service charters and OPRAS are developed. The envisaged benefits of strategic plans include:

- providing a framework for improving performance in a particular MD;
- focusing on priority activities which an MD is capable of implementing;
- linking priority activities within available resources;
- helping to measure performance at all levels of the organization; and
- the whole strategic planning process generates and fosters ownership within organization.

To ensure that ministries own the resulting product, the process of developing ministry strategic plans is supposed to be as participatory as possible. The ministries are themselves involved in the development and articulation of the plans, using strategic plan guidelines that have been prepared by PO-PSM. According to these guidelines, it was envisaged that ministry strategic plans were to be developed in the context of Tanzania's poverty reduction strategy, sector strategies, and used as a basis for the Medium Term Expenditure Framework (MTEF).

Each ministry is required to form a change management team (CMT). This is the change agent within the organisation. Among the first substantive activities undertaken

in the process of installing PMS in ministries are team building and change management orientation.

The strategic plans for ministries are based on critical inputs generated during internal discussion with the senior staff. It also includes the collation of results from Service Delivery Surveys, Self-Assessments, Strategic Planning workshops, Team Building sessions, Change Agents and specific issues identified from documents of the ministries. The plans also incorporate best practices in service delivery standards followed across public services in other countries.

The development of the strategic plans in ministries involves:

- Review and consolidation of outputs received from the strategic planning workshops of each ministry and its MTEF document;
- Situation analysis and identification of critical issues to be addressed through the Strategic Plan by conducting discussions with staff including top management and heads of department;
- Developing the Strategic Planning Matrix containing Key Result Areas, Strategic Objectives, Strategies, Service Delivery Targets, key Performance Indicators and responsibility for outputs.
- Examining the major forces that would facilitate or constrain the achievements of strategic plan (Force Field Analysis);
- Identifying activities or processes that could be outsourced or improved through Business Process Improvement/Re-engineering (BPI/BPR) initiatives.

The final strategic plan document contains the following: Institutional Background; Situation Analysis; Vision, Mission and Core Values; Key Result Areas (KRAs), Objectives, Targets and Key Performance Indicators (KPIs) and the Strategic Plan Matrix.

Linking strategic plans and performance budgets

Figure 1 introduces the link between strategic plans and performance budgets, including other elements of PMS.

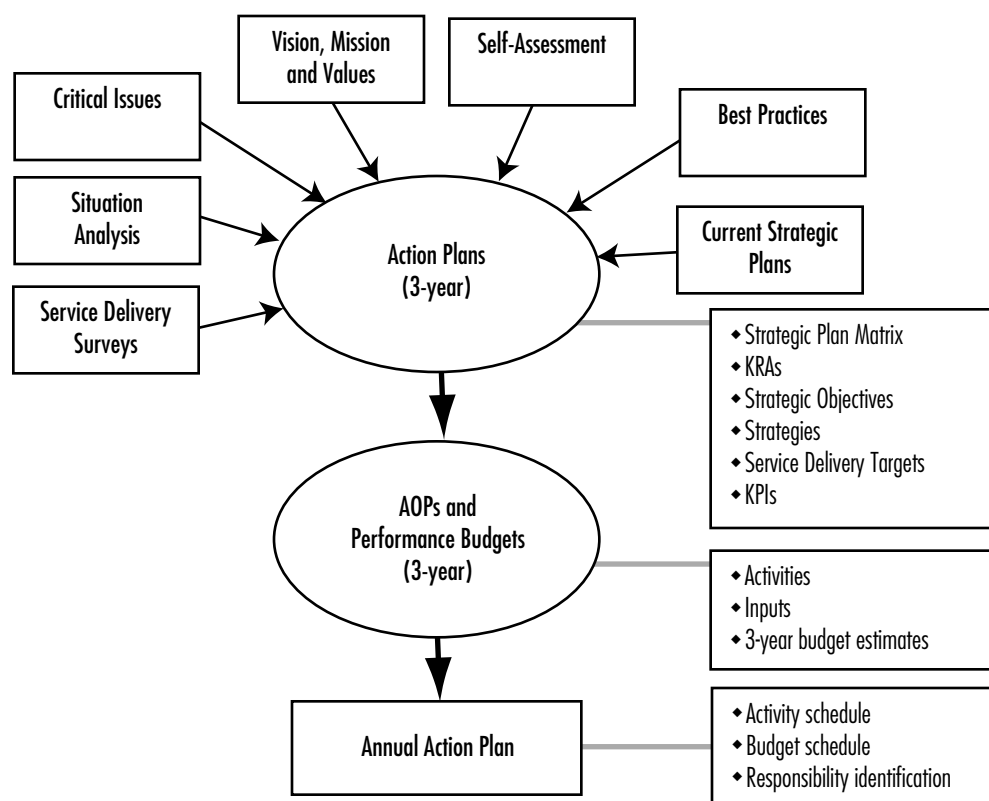
The objectives and targets identified in the strategic plans for each ministry form the basis for preparing a 3-year annual operation plan (AOP) or performance budget and action plan (PB-AP). This provides the central platform for merging the strategic planning process with the budgeting process. This platform provides a real medium term planning framework (MTEF).

The interface between strategic planning and budgeting is a key pillar of PIM. This makes it possible for ministries, once the strategic plans are complete, to detail and cost activities considered necessary in the medium term in order to deliver outputs for each strategy, taking into account the declared resource envelope.

The process for developing PB-APs involves:

- Detailed discussions with the management teams and senior staff on activities to

FIGURE 1. STRATEGIC PLANNING AND PERFORMANCE BUDGETING IN TANZANIA



fulfill the objectives and targets.

- A step-by-step approach to create awareness of the link between the overall strategic plan, performance indicators and the associated budgets to achieve targets within the three year time frame.
- Finalizing the inputs required to complete each identified activity.
- Estimating the budget requirements for each activity over a 3-year time frame using the MTEF framework.
- Codifying each input based on the GFS item list provided by the Ministry of Finance.
- Activities in Action Plan utilized for establishing individual performance agreements (PAs) for OPRAS.

3. LESSONS LEARNED, ISSUES, CHALLENGES AND LESSONS

Strategic planning experience in Tanzania is still relatively new. Its various iterations since 1995-98 (above) culminated only about a year ago, when the process of installing PMS was completed. Yet recent reviews in various ministries suggest that some awareness has been created among public servants about the relationship between organi-

zational objectives and individual objectives through OPRAS. On the other hand, the same collective review revealed the following:

- The quality of some ministry plans is poor and planning is not taken too seriously.
- Ministry plans are not consistent. Institutions maintain multiple plans, one for each audience or promoter of the plan.
- Ministry plans are not used as blue-prints for implementation.
- Little, if any, formal ministry performance monitoring and performance reporting occurs.
- Too many processes have been introduced at the same time, which are beyond the absorption capacity of the ministries.

There are a number of reasons to explain these findings. The following paragraphs highlight issues that may have an impact on the implementation of strategic plans.

Poor linkage between strategic planning and performance budgeting. While achievements have been made in terms of instituting strategic planning in the public service, implementation of the plans have, to some extent, been frustrated because the strategic planning process is not linked to the performance budgeting process. Currently, there are problems of terminologies used and linkage between strategic plans and MTEF formats. Thus, some ministries have found it difficult to implement their strategic plans.

Clear guidelines. The guidelines that were used by consultants and Government facilitators in the installation of PMS were not detailed enough. As a result, consultants tended to deviate from the templates that were provided by PO-PSM. Also, ministries found it difficult to sustain the introduced changes when there were no detailed guidelines to refer to.

Commitment and ownership. Commitment of staff at all levels is important and an imperative for any undertaking. The participation of some of the ministries seems, however, to have been severely hampered by the inability of top management to be committed to the process. There is some evidence that, even for the staff who were involved, they were not always available. This reduced their ability to absorb and internalize the process, thus undermining general sustainability.

Capacity building. Most of the concepts under the PMS are still very new to most of the public servants. Intensive training and re-training is required to ensure that the new culture of result-oriented work is embedded in the service. The emphasis should be given in developing positive values and attitudes that will ensure that the knowledge acquired is used to enhance the performance of the employees. A universal principle is that of building incentives to perform.³

What other countries can learn

Countries that are thinking of introducing strategic planning or performance management systems might consider the following lessons from Tanzania's experience:

- Start with a simplified framework and concentrate on key processes.
- Guidelines and training material should be in place before embarking on this type of undertaking. They are useful for quality assurance and sustainability through on-the-job-training.
- Before introducing the processes it is important to ensure that there is an institutional “fit” of systems and which institution is responsible of which process. For example, is the planning process aligned to the budget framework?⁴
- Commitment at all levels will ensure ownership and success in implementation. There is need to have incentives and sanctions understood by all institutions.
- Capacity building – having competent and skilled people is vital for understanding and implementing the new changes.⁵
- Reward system - finally, reward system is important.

CONCLUSION

This paper has discussed Tanzania’s public service experience in strategic planning and explained its link with performance budgeting. The major conclusion is that coherence and common approaches between planning and budget processes in the public service like Tanzania is key for effective strategic planning.

Editor’s note: *Perhaps the more fundamental point is to suggest that there should not be “common approaches between planning and budget processes” but rather, that there should be a common, that is to say, integrated, approach to planning and budgeting, as one concept. Chapter 1 certainly advocates that position. Chapter 2 offers the basis for an integrated information system to support it.*

ENDNOTES

¹ See Chapter 1, Note 2.

² Appendix 1 to this Chapter provides an example of a framework for measuring local government minimum capacity requirements, as a foundation for service delivery. The example is taken from the Tanzanian regional administration’s planning and management guide (2003). The crucial point is that, as part of Tanzania’s commitment to decentralization: (a) central ministries divested themselves of direct service delivery responsibilities, focusing instead on the policy and legal framework, and general supervision; (b) the regional development secretariats – the deconcentrated offices of sector ministries, responsible for development and service provision – were also transformed from a direct service provider (with over 250 staff) to an advisory and brokerage service for local government (with 83 staff) – the majority of that staff reduction being “ring-fenced” then transferred to local government. The most obvious and hotly contested example was the transfer of the agricultural extension service from the ministry of agriculture to local government.; an argument that ran for four years before the decision in favour of decentralisation. In short, the functions of infrastructure and service delivery were decentralised to the lowest level of competent government; in rural

dominated Tanzania, to district councils. The first step in ensuring successful service delivery is building capacity to perform; Tanzania's targets for which are contained in this Appendix.

- ³ A seminal text in this regard is Israel, A (1987). *Institutional development: incentives to performance*. Washington DC, World Bank and Baltimore, The Johns Hopkins University Press.
- ⁴ See Chapter 1, Part 1, Context.
- ⁵ Capacity building for what? Further to Note 2 above, Appendix 1 overleaf, offers an example

ANNEX I TO CHAPTER 3: LOCAL GOVERNMENT CAPACITY BUILDING MONITORING FRAMEWORK

The functional classifications of ‘management development’, ‘economic development’, ‘physical planning and engineering development’ and ‘social sector development’ concern the generic clusters of most general-purpose local authorities (LAs). In Tanzania’s case, they also represent the four technical spheres (and the supporting structure) of the new regional level of (deconcentrated) government, and its concern to provide “advice and brokerage” services in these areas to its client local authorities.

L.G.A. Minimum Capacity Requirements	Progress Description	Percentage Capacity Building Required to Reach 100%
Management Development		
<p>Local government administration</p> <p>A full committee administration service. This includes agenda setting, committee administration, the drafting and issuing of accurate minutes of meetings. Also includes all human resource development issues. This centres on staff development needs and the resulting actions to satisfy those needs; training programmes and the like.</p>		<p>Personnel in post = 20%</p> <p>Personnel fully trained = 30%</p> <p>Fully equipped and systems in place = 20%</p> <p>Fully productive = 30%</p> <p>TOTAL SCORE = ? %.</p>
<p>Local government financial management</p> <p>Financial management. First is asset creation. Secondly is the need to meet recurrent expenditure. Finally, every council should be looking at ways to increase revenues.</p>		<p>Personnel in post = 20%</p> <p>Personnel fully trained = 30%</p> <p>Fully equipped and systems in place = 20%</p> <p>Fully productive = 30%</p> <p>TOTAL SCORE = ?</p>
<p>Economic analysis and planning</p> <p>Every council is required to prepare an ARSIP/ budget through its supporting O&OD process. The ARSIP should concern all infrastructure and service provision to support the community in performing its economic development. Getting goods to market, for example, means having passable rural roads for the goods to pass along. The ARSIP/ budget will also have to include the institution building measures to ensure that the LGA is able to provide and maintain the infrastructure and services.</p>		<p>Personnel in post = 20%</p> <p>Personnel fully trained = 30%</p> <p>Fully equipped and systems in place = 20%</p> <p>Fully productive = 30%</p> <p>TOTAL SCORE = ? %.</p>

L.G.A. Minimum Capacity Requirements	Progress Description	Percentage Capacity Building Required to Reach 100%
<p>Data collection and statistical analysis</p> <p>Reliable data is essential to planning. No council will be able to plan without having basic data in its possession. The minimum data requirements are suggested as follows:</p> <ul style="list-style-type: none"> • population • economic potential • household income • economic production • basic land-uses (including their percentages) and environmental profile • the inventory and plotting of all arterial or trunk infrastructure (e.g. water, roads, electricity etc.) • primary health care provision • primary education provision. <p>The data should be such that it clearly illustrates the issues arising, which can be interpreted and formed into the development or strategic framework for the ARSIP, through the O&OD process, by the economist/planner.</p>		<p>Personnel in post = 20% Personnel fully trained = 30% Fully equipped and systems in place = 20% Fully productive = 30%</p> <p>TOTAL SCORE = ? %.</p>
<p>Legal drafting and interpretation</p> <p>Draft new and interpret existing bye-laws. It must also be in a position to interpret the generally applicable laws of Tanzania. It must have capacity to approve village by-laws.</p>		<p>Personnel in post = 20% Personnel fully trained = 30% Fully equipped and systems in place = 20% Fully productive = 30%</p> <p>TOTAL SCORE = ? %.</p>
<p>Community and gender development</p> <p>All development programmes must be gender-sensitive. A suggested minimum requirement is therefore that contact be made with all known community groups at least every three months and that a clear set of actions flow from each contact meeting. Also, all potential new groups should be assisted. In addition, each LGA must have a committee that includes responsibility for community and gender development.</p>		<p>Personnel in post = 20% Personnel fully trained = 30% Fully equipped and systems in place = 20% Fully productive = 30%</p> <p>TOTAL SCORE = ? %.</p>
<p>Accounting</p> <p>Each LGA's books of accounts must be properly prepared and maintained at all times, in accordance with the local government accounts manual and the financial memorandum.</p>		<p>Personnel in post = 20% Personnel fully trained = 30% Fully equipped and systems in place = 20% Fully productive = 30%</p> <p>TOTAL SCORE = ? %.</p>

L.G.A. Minimum Capacity Requirements	Progress Description	Percentage Capacity Building Required to Reach 100%
<p>Internal auditing</p> <p>Annual audit plan to test the efficiency and effectiveness of its operations. Such a plan should include both routine and periodic audits.</p>		<p>Personnel in post = 20%</p> <p>Personnel fully trained = 30%</p> <p>Fully equipped and systems in place = 20%</p> <p>Fully productive = 30%</p> <p>TOTAL SCORE = ? %.</p>
<p>Labour laws</p> <p>Arbitrate in and to settle routine labour disputes. This should be achieved without having to refer to an external or higher authority. External reference should only be necessary where specified in law.</p>		<p>Personnel in post = 20%</p> <p>Personnel fully trained = 30%</p> <p>Fully equipped and systems in place = 20%</p> <p>Fully productive = 30%</p> <p>TOTAL SCORE = ? %.</p>
Economic Development		
<p>Agricultural planning and productivity</p> <p>Through the extension service, the council must have the capacity to contact every recognised farmer's groups, or where no groups exist, individual farmers, at least once in any three-month period. The advice offered should be constructive to the point of helping to improve productivity. All service delivery targets (to be achieved with this internal capacity) should relate to sector strategies.</p>		<p>Personnel in post = 20%</p> <p>Personnel fully trained = 30%</p> <p>Fully equipped and systems in place = 20%</p> <p>Fully productive = 30%</p> <p>TOTAL SCORE = ? %.</p>
<p>Livestock development and productivity</p> <p>Through the extension service, the council must have the capacity to contact every recognised livestock keeper's groups, or where no groups exist, individual livestock keeper's at least once in any three month period. The advice offered should be constructive to the point of helping to improve productivity. All service delivery targets (to be achieved with this internal capacity) should relate to sector strategies.</p>		<p>Personnel in post = 20%</p> <p>Personnel fully trained = 30%</p> <p>Fully equipped and systems in place = 20%</p> <p>Fully productive = 30%</p> <p>TOTAL SCORE = ? %.</p>
<p>Co-operative formation and management</p> <p>Through the extension service, the council must have the capacity to contact every recognised co-operative / association at least once in any three month period. The advice offered should be constructive to the point of helping to improve productivity. Also, the advice should encourage the formation of new co-operatives and associations. All service delivery targets (to be achieved with this internal capacity) should relate to sector strategies.</p>		<p>Personnel in post = 20%</p> <p>Personnel fully trained = 30%</p> <p>Fully equipped and systems in place = 20%</p> <p>Fully productive = 30%</p> <p>TOTAL SCORE = ? %.</p>

L.G.A. Minimum Capacity Requirements	Progress Description	Percentage Capacity Building Required to Reach 100%
<p>Trade promotion and investment</p> <p>Every LGA seeks to perform a local economic development service. That service centres on (a) trade promotion, (b) trade investment and (c) traders' association formation. Every council must be able to prepare and implement a marketing strategy for the local authority. This is to encourage the formation of new small enterprises.. It must also be able to issue trade licenses and collect the resulting revenues Finally, the trade officer should be able to conduct periodic and occasional training sessions on basic business management.</p>		<p>Personnel in post = 20% Personnel fully trained = 30% Fully equipped and systems in place = 20% Fully productive = 30%</p> <p>TOTAL SCORE = ? %.</p>
<p>Environmental conservation</p> <p>Every council must have a full environmental data system to record the positive and negative aspects of the environment. This concerns not only attractions and opportunities to be developed but also, degradation, soil erosion, deforestation and so on.</p>		<p>Personnel in post = 20% Personnel fully trained = 30% Fully equipped and systems in place = 20% Fully productive = 30%</p> <p>TOTAL SCORE = ? %.</p>
<p>Natural resource development</p> <p>Aware of the opportunities presented by the natural resources in its area. The results of the environmental conservation analysis should be matched by the natural resource opportunities consideration.</p>		<p>Personnel in post = 20% Personnel fully trained = 30% Fully equipped and systems in place = 20% Fully productive = 30%</p> <p>TOTAL SCORE = ? %.</p>
Physical Planning and Engineering Development		
<p>Engineering design</p> <p>Every council must have a basic engineering design capability. It must be able to (a) prepare engineering drawings and administer contract documents for engineering works. It must be able to run and supervise a contract, being conducted by a private contractor.</p>		<p>Personnel in post = 20% Personnel fully trained = 30% Fully equipped and systems in place = 20% Fully productive = 30%</p> <p>TOTAL SCORE = ? %.</p>
<p>Settlement planning</p> <p>Every council must be able to prepare and update a physical development plan. Such a plan should flow from the issues arising from the data analysis (5.5). The land-use plan is an extension of the ARSIP/ budget noted above. The difference is that this plan is entirely spatial. It is also the basis for guiding the location of development proposed by the private sector. It is therefore the basis for issuing building permits.</p>		<p>Personnel in post = 20% Personnel fully trained = 30% Fully equipped and systems in place = 20% Fully productive = 30%</p> <p>TOTAL SCORE = ? %.</p>

L.G.A. Minimum Capacity Requirements	Progress Description	Percentage Capacity Building Required to Reach 100%
<p>Surveying</p> <p>Every council must have the capability to perform a survey. That survey should include the provision of plot demarcations and resulting pegging. Plot registration should also be included. A basic land management system must be in place. It must be able to run and supervise a surveying contract, being conducted by a private contractor.</p>		<p>Personnel in post = 20%</p> <p>Personnel fully trained = 30%</p> <p>Fully equipped and systems in place = 20%</p> <p>Fully productive = 30%</p> <p>TOTAL SCORE = ? %.</p>
Social Sector Development		
<p>Educational development and administration</p> <p>The council must be in a position to ensure the provision of primary (which includes pre-primary) education for all children of school age in its locality. This means, having an ability to provide and maintain the school buildings and supplying the education service from them. Additionally, the council must be in a position to mobilise the community to build and run post primary (e.g. technical) and secondary schools. This is in order to absorb all the children within the LGA's boundary who have completed their primary education.</p>		<p>Personnel in post = 20%</p> <p>Personnel fully trained = 30%</p> <p>Fully equipped and systems in place = 20%</p> <p>Fully productive = 30%</p> <p>TOTAL SCORE = ? %.</p>
<p>Social welfare development and administration</p> <p>This is a client-based service. It includes family and child welfare, disabled and rehabilitated, and social services. Therefore, it is considered that a basic minimum requirement is to have live case files for every current person or family being dealt with. Additionally all such cases should be visited at least once a month.</p>		<p>Personnel in post = 20%</p> <p>Personnel fully trained = 30%</p> <p>Fully equipped and systems in place = 20%</p> <p>Fully productive = 30%</p> <p>TOTAL SCORE = ? %.</p>

L.G.A. Minimum Capacity Requirements	Progress Description	Percentage Capacity Building Required to Reach 100%
<p>Health development and administration</p> <p>First, emphasis should be in preventive services and public health. Secondly, it should be on primary curative services. As an absolute minimum on the public health side, every household and enterprise in the district should be inspected at least once a month in order to identify and remedy any breaches in public health legislation and by-laws. On primary curative services, every household should access to an appropriate health facility.</p>		<p>Personnel in post = 20% Personnel fully trained = 30% Fully equipped and systems in place = 20% Fully productive = 30%</p> <p>TOTAL SCORE = ? %.</p>
<p>Water development and management</p> <p>Emphasis should be on encouraging the efficient use of safe and clean water for domestic consumption. Every village should have a sustainable water committee and water fund. The water fund is a contribution to O&M for existing sources and to develop new sources. As an absolute minimum, every community water scheme water committee should visited once every three months.</p>		<p>Personnel in post = 20% Personnel fully trained = 30% Fully equipped and systems in place = 20% Fully productive = 30%</p> <p>TOTAL SCORE = ? %.</p>

4 PERFORMANCE BUDGETING: THE CASE OF TANZANIA

*M. MAGAMBO, MINISTRY OF FINANCE,
GOVERNMENT OF TANZANIA*

INTRODUCTION

In the early 1990's, Tanzania faced acute economic and financial problems. These were dominated by costly and inefficient delivery of public services, heavy indebtedness and constrained resources to meet increasing demands for infrastructure and services. In response to this unfavourable situation, a number of reform programmes were initiated to address the problems. These reforms included Economic, Financial and Public Reform Programmes (i.e. ESAF/PRGF), a Public Service Reform Programme (PSRP), Poverty Reduction Strategy and Public Finance Management Reforms. As a result of these interventions, macroeconomic stability was restored. Inflation declined significantly from over 28% in 1995 to single digits in early 1999 onwards. There has also been significant a increase in the gross international reserves. In turn, structural reforms have resulted in a significant portion of state enterprises being privatized or converted into executive agencies.

Within these various reform programmes, Tanzania undertook several inter-related initiatives. It introduced instruments into budget planning and management. This started with the Rolling Plan and Forward Budget (RPFB) in early 1990's and later in that decade, Performance Budgeting (PB) and the Medium Term Expenditure Framework (MTEF).

This paper highlights some of the key public sector reforms undertaken by the Government. It focuses on the experience in implementing PB in Tanzania. It also reviews briefly other related reforms such as the adoption of the Government Finance Statistics (GFS) classification. Other related reforms, namely the Public Expenditure Review (PER) and Medium Term Expenditure Framework (MTEF) and National Strategy for growth and Reduction of Poverty (NSGRP) are also covered.

1. KEY PUBLIC SECTOR REFORMS

The Government of Tanzania decided to take a number of initiatives to improve performance in the public sector. The reform process was addressed from various dimensions. However, most of these reforms focused on enhancing efficiency, effectiveness,

transparency, accountability and good governance. The reforms were implemented under relevant ministries such as President's Office - Civil Service Department (CSD) now Public Service Management (PSM), President's Office - Planning Commission now Planning and Privatization (POPP) and the Ministry of Finance.

The reform programme on civil service originally was called the Civil Service Reform Programme. Later it was renamed the public sector reform programme (PSRP) to give it a wider scope of operation. PSRP takes cognizance of deficiencies in the public service and seeks to develop an efficient, performance based management in line with published code of ethics. Important areas covered in this reform include medium term pay reform, performance based management, merit based recruitment procedures and establishment of client service charters.

The Public Finance Management Reform Programme (PFMRP), Phase I was established in 1998. Programme components included budget management, accounting, policy analysis and tax administration. Among the projects implemented under PFMRP was the Integrated Financial Management Accountability Project (IFMAP). This project was made up of two earlier projects i.e. the Government Accounts Development Project (GADP) and the Interim Budget Development Project (IBDP).

Significant achievements have been made under the first phase of PFMRP and IFMAP in particular. Some of the achievements include the installation of a financial management system in ministries and regions, introduction of a common chart of accounts for budgeting and accounting purposes i.e. the Integrated Financial Management System (IFMS) and improved budget preparation through the Public Expenditure Review process.

Performance budgeting (PB) was introduced to the government system to convert the incremental input based budgeting to output or target based budgeting. This technique of budgeting was initiated as a logical extension of the work done by the Organization and Efficiency (O & E) component of the Civil Service Reform Programmes (CSRP), taking account of the established institutional roles in government. Having finished defining organizational structures, the O and E component of CSRP started to address the issue of improved efficiency and accountability in service delivery. It was established that improved organizational efficiency, effectiveness and accountability could be achieved through the process of Annual Performance Reporting and Service Improvement Planning (ARSIP). Performance budgeting was thus recommended as a tool that could operationalise the whole process.¹

This new approach was expected to improve budget performance as measured by output indicators, unit costs and the measurable deliverable quantity of services for a given allocation of budget resources. After the introduction of each ministry's Strategic Plan and Performance Management System (PMS) – which was results oriented – performance budgeting provided the necessary supportive framework. Performance improvement (through economical, efficient and effective target achievements), was to be reflected in the budget allocation process.

2. PERFORMANCE BUDGETING

PB was intended to ensure effective implementation of institutional perspectives. It was therefore approached from an organizational planning perspective. The main components were:

Vision of the organization

The vision is normally a set of goals that govern the direction the organization aspires to reach. Thus, for example, the Ministry of Health vision could be to aspire to be a dynamic Institution able to significantly improve the health status of all Tanzanians. From this flows the mission of the organization.

Mission of the organization

The mission is a declaration of the type of organization, its main purpose for existence, its stakeholders, core business and its values. It gives the organization direction as to what its scope of work should be.

Objectives

Objectives should be formed as a logical outcome of the mission statement. Objectives are broad statements of what is to be achieved and improvement to be made. Thus where possible objectives can be specific, measurable, achievable, realistic and time-bound. An objective is therefore a particular end-state to be achieved.

Policies and strategies

A policy presents a general principle or shows the direction to be taken to achieve an objective, while a strategy is a specific action required to implement the policy and achieve the objective.

Targets, activities and inputs

Targets are the end state of goods and services to be achieved, while the activities are the actions implemented to achieve the targets. Inputs on the other hand, are the services or goods needed to implement the activities.

Institutional objectives of performance budgeting

It was generally accepted that PB was trying to yield practical benefits. These included:

- (i) To enhance efficiency in service delivery;
- (ii) To enhance management accountability through performance monitoring and review;
- (iii) To improve resource allocation by linking resources allocation to specific quantitative and monitorable targets;
- (iv) To ensure consistency of resource allocation with institutional perspectives in a strategic medium term framework; *and*
- (v) To facilitate a holistic approach to budgeting that would enhance budget integration.

Implementing PB took various steps. First, the then Civil Service Department (CSD) conducted training on annual reports and service improvement plans and performance budgeting at ESAMI in November, 1997. This training was attended by officers dealing with, planning, budgeting and administration in all Ministries, including officers from the Ministry of Finance. In January 1998, the Government decided to introduce performance budgeting to the government's annual step-by-step estimates. This was spelt out in the Rolling Plan and Forward Budget Guidelines for 1998-99 to 2000-01.

Secondly, the Government identified seven Ministries and Independent Departments that could prepare performance based estimates for 1998-99, on pilot basis. The pilot ministries were Education, Health, Works, Higher Education, Energy and Minerals, Water, and Agriculture. These constituted the priority sectors in resource allocation.

Thirdly, the technical officers from those ministries were exposed to intensive training and detailed work over three days in February, 1998, with CSRP performing the training. The purpose of the training was to build technical capacity, to develop modalities of performance budgeting and to prepare an Operational Checklist. The checklist guided the pilot ministries to prepare their performance budget estimates for the 'other charges' (OC) budget for 1998-99. The experience of the pilot ministries provided the groundwork and capacity to assist other ministries and independent departments to prepare and submit performance budgets for 1999-2000. This was extended to the Regional Administration and Local Government for 2000/2001.

Fourthly, a review of the experience gained in the preparation of the estimates was carried out. Coupled with an assessment of the operational checklist and comments arising from training workshops conducted in 1998 and 1999, a Performance Budgeting Operations Manual was subsequently prepared.

All this experience was consolidated in a PB manual. This manual was intended to guide the process of performance planning and budgeting and to be the basis for all Ministries, Independent Departments, Regional administration and Local Government to prepare and submit performance budget estimates in the subsequent years.

The core contents of the Performance Budgeting Operations Manual are:

- Organizational Performance Framework
- Planning and Three-Year Target Setting
- Reviewing Organizational Performance
- Setting Annual Targets and Activities
- Inputs and Resources
- Submission and Review Process

All work to date was based on the principle of "re-introducing planning to budgeting" through PB. Towards the end of this phase of PB development work came the recognition of the over-arching imperative of the IMF-conceived system of government financial statistics (GFS).

3. ACHIEVEMENT AND CHALLENGES IN 'GFS' AND 'PB'

The need for reclassification was felt because of the weakness in the coding system of the Government budget. The structure of the old classification was inadequate to provide for meaningful economic analysis of a performance-based budget. This required a consistent and unified classification to assess results at target level. Further to that, the government accounting system was being computerized. It was therefore seen as prudent to unify the system of budgeting and take advantage of the accounting reform initiative. There was also need to adopt common international reporting standards.

GFS is an international classification method. It attempts to group items of revenue and expenditure into economic clusters. Thus GFS facilitates economic analysis of government transactions within the general government sector, between the government sectors and the other sectors of the economy and the rest of the world. It is designed to provide statistics to enable decision makers to study developments in the financial operations and position of the public sector. GFS is a comprehensive coding system that covers revenue, recurrent and development budgets. It groups items of revenue and expenditure into economic clusters to facilitate analysis of the impact of the budget in the economy.²

Through GFS development projects have been disaggregated into smaller items of expenditure for coding and classification. But most important, GFS facilitates budget integration through a standard coding and classification system.

Reclassification of the budget in terms of the Government Finance Statistics Manual (GFSM 1986) started in 1999. The work was carried out progressively, starting with economic classification of Recurrent Budgets of Ministries, Departments and Regions. After gaining necessary experience, the Councils were later taken on board. Thus by year 2000/2001, the whole of the recurrent budget was processed using GFS item codes. Subsequently, the development budget was reclassified and reflected in the year 2003/2004 Budget Estimate Book (Volume IV).

The following are the main steps taken to operationalise GFS classification:

- A structure of the GFS classification was worked out by the Ministry of Finance (MoF) with the assistance of a consultant;
- An initial GFS item code structure was prepared;
- A bridge table, showing the link between old items and the corresponding new GFS items or sub-items, was prepared;
- Budget officers were trained on the technical aspects of GFS;
- The GFS item code list was revised and used as reference source in coding the Budget;
- Ministries were trained on GFS classifications, to equip them with necessary skills;
- The recurrent budget for year 2000/2001 was processed using GFS codes. The development budget was subsequently taken on board.

PB has been fairly successfully implemented both in central and local government. As already explained, with effect from Fiscal year 2000/01, all Ministries, Independent Departments and Regions, including Local Government Authorities prepared performance/output based budgets. Within the institutional budget presentation, one can trace quantifiable/qualitative milestones/targets and activities which are 'SMART' (Measurable, Achievable, Realistic and Time bound). Other achievements include, increased accountability, transparency and efficiency in resource allocation.

The GFS economic classification, based on GFS Manual 1986, has been completed. All Budget books Volumes I – IV are coded in line with GFS requirements.

Further, Annexes to volume III and IV, that capture transfers to Local Government Authorities are prepared in GFS Codes. Annex to Vol. III indicates details of expenditure allocations to education, health, water, agriculture, roads and general activities, while volume IV provides the details of development projects. In both annexes, resource allocations are linked to predetermined objectives, SMART targets and activities.

To facilitate analysis of performance, segment 2 reference codes are provided in the computerized budget data entry which is composed of:

- Objective
- Target
- Target type
- Activity
- GFS item

An example of this data structure is in Table 1.

The main challenges have included inadequate performance indicators to measure efficiency and effectiveness of interventions/programmes within and between sectors. Improvement in the formulation of targets and activities is still necessary to facilitate performance reviews and assessments. It has been difficult to define and quantify some administrative targets and activities. The other challenge was about the weaknesses inherent in the old budget classification and coding, which were not appropriate for tracking performance in the chart of accounts. This was facilitated by the introduction of Government Finance Statistics (GFS) coding system of the budget estimates and introduction of segment two respectively.

However, because most of the LGA are not linked to IFMS, it has not been possible to make effective use of the segment 2 reference code for budget performance. Now, with the introduction of MKUKUTA (or PRSP II) which is outcome oriented, there is need to strengthen performance reporting. This will not only enhance performance but also improve the accountability of Local Government.

TABLE 1: BABATI DISTRICT COUNCIL BUDGET FY 2005/06 – 2007/08**Objective, Target Type and Activity**

Warrant Holder Code: 500 1		Description: Livestock			Segment
Objective	Target	Target Type	Activity	Description	Segment
A				To improve access and quality of extension service delivered to farmers in the district.	
	01			To improve quality and quantity of cattle products by increasing animal weight from the current 70kg. To 250kg and milk production from the current 8 liters to 20 liters per day by the year 2008.	
		S		Service Delivery	
			01	To sensitize farmers of 82 villages on best methods of livestock keeping by the year 2008.	A01S01
			02	Control the outbreak and spread of livestock diseases in 82 villages by the year 2008.	A01S02
			03	To facilitate 20 official visits outside the district every year	A01S03
			04	To make services and repairs of 2 motor vehicles every year.	A01S06
	03			To enhance capacities of 21 extension staff in various extension skills by 2008.	
		C		Capacity Building	
			01	To train 21 extension staff on various extension skills by the year 2008.	A03C01

4. OTHER COMPLEMENTARY DEVELOPMENTS

Public expenditure review / medium term expenditure framework

The Public Expenditure Review (PER) has been running for several years. The traditional PER function focused on the budget process in terms of management, control and accountability. The underlying objective has been to evaluate budget performance against approved targets and procedures or processes and identify shortcomings and corrective measures. However, since 1998, public expenditure reviews in Tanzania have been conducted on an annual basis, closely aligned with Governments budget cycle. It has been carried out under the direction of the Public Expenditure Review (PER) Working Group, chaired by the Ministry of Finance (MoF). The working group has included a wide range of stakeholders from Government, development partners and Tanzanian Civil Society. This approach has been consistent with the series of initiatives in Tanzania aimed at developing an open process of formulation of policy and budget strategy.

PER objectives are two-fold. First, is to facilitate and improve the implementation of a medium term effort in strengthening budget management, through improved predictability, efficiency and sustainability of the government budget. Secondly, is to evaluate performance against the approved budget frame and output targets in order to ascertain whether funds were spent for purposes agreed and whether the spending units achieved the intended goals. The underlying concern is also to attain an increased shift of donor finance from project to broader budget support in order to enhance the flexibility of allocation across investment and recurrent expenditure items.

The MTEF was introduced as a logical development from the PER process. It was to enhance efficiency and effectiveness in budget management. The three-year time frame was considered as ideal for development of meaningful and sustainable plans and budgets; thus more so than one year or longer periods over three years.

The first phase of the PER process, which was conducted for FY99, focused on the development of the medium term expenditure frame (MTEF). A significant part of the effort in implementing PER during FY 99 was directed at re-estimating the base for the MTEF. The work included revisiting Sector Investment Programs (SIPs), It also included updating cost estimates of providing essential public services, including longer term recurrent costs implication of SIPs, updating donor financing plans, and reviewing the efficacy of systems of budget management including preparations for implementation of fiscal decentralization through local authorities. The main aim of these activities was to prepare more comprehensive Budget Guidelines.

In essence, MTEF is a prioritised three-year integrated Budget, based on performance budgeting within a Strategic Plan. MTEF starts with review of previous and current year's budget performance, evaluation of the available resources and goes on to establish the cost of implementing the activities to attain the set targets. It also deals with prioritization of targets and ultimately, formulation of three-year integrated performance based estimates given the resource envelope in terms of local and donor

funds. This approach enables the linking of resources to the attainment of specified objectives. MTEF emphasizes more on service delivery and meeting the needs of priority stakeholders. It has indeed strengthened performance budgeting at all levels and in all government institutions.

In short, the initial annualized approach to PB has been expanded into not only (the achievement of) an output-based budget format but also, in the context of a strategic framework; the first two imperatives in PB's checklist – see Chapter 1, Part 1. While this states the normative perspective, giving substance to the MTEF through poverty reduction strategies is also crucial. At the strategic level, there should be no disconnection between PRSPs and MTEFs!

The national strategy for growth reduction of poverty (NSGRP)

The adoption of the PRSP in 2000 provided a new momentum for fighting poverty and guidance on strategic resource allocation. Specifically, under the PRSP, the Government committed itself to accord priority status in resource allocation to the following sectors/areas (PRS priority sectors):-

- i) Agriculture (research and extension)
- ii) Basic education
- iii) Primary Health
- iv) Water
- v) Rural roads
- vi) Judiciary
- vii) HIV/AIDS

Under the PRSP initiative (PRSI), Government expenditure policy intentions were assessed on the basis of progress made in improving/raising the funding/budgets of these sectors/areas. Currently PRS sectors budgets account for 51.6% of the total budget net of CFS compared to 45.3% in 1998/99.

The first generation (HIPC triggered) PRS, This covered three years and came to an end by 2002/2003. Unlike the sector focused first generation PRS; the next PRS (National Strategy for Growth and Reduction of Poverty – NSGRP) has introduced the following changes:

- A compared list of strategies across economic, social and political developments has been identified in three broad clusters (growth and income poverty reduction; improvement of quality of life and social well-being; and governance and accountability). This is a shift away from the PRS priority sector approach and cuts across all areas of national development.
- Actors responsible for implementing the cross-cutting strategies have been identified.
- Each strategy is linked not only to a goal, but also to operational outcomes, which in some cases are measurable and SMART.

These changes are expected to facilitate monitoring of performance against the expected result over the medium term.

The new NSGRP (PRS-II) or MKUKUTA is addressing the need to become more outcome-oriented by adopting three clusters:

- i) Growth and income poverty reduction;
- ii) Improvement of quality of life and social well being; and
- iii) Government and accountability

The cluster is the highest level, below it there are goals and then cluster strategies which cut across sectors. Also there are operational outcomes (or monitorable outcome indicators). In addition, the relevant actors, including MDAs, are linked to cluster strategies. The NSGRP therefore emphasizes outcomes. The related cluster strategies will replace the approach of PRS I where only seven “priority sectors” were focused upon.

A Microsoft Access software tool (Strategic Budget Allocation System – SBAS) has been developed to manage the complexity of the budget data on these cross-cutting strategies. The exercise involved two levels as follows:

Level 1:

- MDAs filled out a standardized format (template in the Micro 1 version) of the software for their MTEF requests. The relevant staff in all MDAs were trained on the use of the software between September and October, 2004.
- The data from all MDAs was submitted to MoF electronically (Macro 1 version of the software). The standardized formats of inputs were used by the Budget Guidelines (BG) committee to allocate resources in the Budget Frame to strategic targets and to analyse overall allocations to NSGRP cluster strategies and non-NSGRP strategies.
- Budget Guidelines resource ceilings were issued at vote level (e.g. for each ministry), with a clear picture of how much was projected to be used to finance NSGRP cluster strategies (MTEF targets).
- For Local Government Authorities (LGAs), BG Committee determined the overall resource pool to Councils and distribute across the education, health, roads, water, agriculture and administration sectors. The BG used also the formula based allocation system approved by Cabinet in February 2004, to apply the sectoral pool of resources across Councils so that each could know its share of the total grant from Central Government. This facilitated the planning of their detailed budget for 2005/06 and subsequent years.

The main purpose of level 1 is to improve the formulation of the budget guidelines by enhancing the participation of the MDAs and the linkage with the NSGRP cluster outcomes.

Level 2:*Formulation of annual estimates*

- Once ceilings are approved for each target and hence for each MDA, the MDAs were required to break down the targets into activity and input level for the Annual budget as well as the other years of the MTEF.
- The detailed budgets for LGAs was also broken-down. A major challenge for future budget formulation is to ensure that once the formula is used to determine the LGA – level grants, they integrate the same NSGRP cluster strategies into their MTEF targets just as the MDAs did in the previous budget cycle.

The following outcomes are expected to be achieved from the improved budget formulation process explained above:

- An outcome – oriented budget: The outcome-oriented NSGRP is molding the budget to also allocate resource ceilings at outcomes rather than sectors.
- Consistency between policy and budget: NSRGP Cluster strategies are being linked explicitly to MTEF targets, which will be mapped down to the GFS input levels.
- Standardized inputs to BG: MDAs use a standardized template for filling out their MTEFs which are electronically submitted to the MoF (Macro 1 version of the SBAS strategic Budget Allocation System) for easy analysis.
- ‘Stakeholder’ scrutiny of the budget: MDAs, development partners and others, can easily see the consistency between strategic allocations at target level in the BG and final allocations made to NSGR activities in the annual budget.
- Accuracy and consistent reports of estimates: The programme (macro version of the software) can allocate resources to targets and produce output reports. These analyse various categories of the budget: NSGRP goals, NSGRP targets, MDA distribution and so on. All categories are coded and properly mapped in the system. This improves accuracy and ensures consistent and timely analysis of the budget in various Government documents.

CONCLUSION

This chapter has outlined the key public sector reform initiatives undertaken by the Government in improving and enhancing efficiency in the management of public resources in particular and economic development in general. It highlights the experience in implementing performance budgeting in Tanzania, Government Finance Statistics (GFS) classification and other subsequent developments covering Central Government and Local Government Authorities.

The introduction of performance budgeting was a very important step in the process of improving budgetary allocation and implementation. Resource allocation is now linked to specific, quantitative and monitorable targets. Management accountability

has been enhanced through performance monitoring and reviews. Various steps were taken to introduce performance budgeting in the Government Budget system. Now, all budgets i.e. recurrent and development, are performance based.

Similarly, the adoption of the GFS economic classification has improved the coding of the budget estimates. Analysis of the impact of government expenditure in the economy can be done more effectively than before. The Government took other initiatives to improve accountability and efficiency in the management of the public resources and in putting in place the institutional framework for stakeholder participation in the budget process. The PER process has continued to be an important forum for Public Sector participation in expenditure management issues.

The PER process is also one of the key initiatives in enhancing efficiency in public expenditure management. Inputs from PER are incorporated into the sector plans and budgets. The MTEF, which came out of the PER process, is based on performance budgeting. It focuses on enhancing predictability and efficiency in public expenditure management in the context of a three year timeframe.

The second phase of implementation of Poverty Reduction Strategy (NSGRP) has underscored the importance of performance based budgeting. Originally, resource allocation ceilings were generally fixed at sector or vote level. With MKUKUTA (PRSP II), the focus is now on outcomes/expected performance.

Increasingly therefore, performance budgeting in Tanzania is becoming a reality. It is being embraced in many fiscal reforms for both the central and local governments. However, more achievements seem to have been registered in terms of budget planning. The biggest challenges still remain with regard to performance monitoring and assessment. Development of appropriate software and capacity improvement for the key actors in Central Government and LGs is needed so that performance results from the budget system can be traced and accounted for. The need for an innovative approach to this organizational information systems challenge, is paramount.

ENDNOTES

¹ The editor of this book was the O&E adviser to CSRP.

² Chapter 2 of this book is a detailed exposition of GFS.

5 TOWARDS DECENTRALIZED DEVELOPMENT PLANNING IN MOZAMBIQUE

JOHN BARNES, CHIEF TECHNICAL ADVISOR,
MOZAMBIQUE DECENTRALIZATION PROGRAMME

Editor's note: This chapter focuses on the challenge of building a direct causal relationship between planning and budgeting.

INTRODUCTION

It is widely accepted that Mozambique has undergone a remarkable transition over the last two decades. From a centrally planned economy it has embraced the discipline of the market and IMF-led structural readjustment. It has emerged from a bitter and protracted civil war to enjoy a period of peace and stability. This has now lasted for 13 years. Perhaps most importantly, the country has made a relatively smooth transition from a one-party state to a multi-party democracy.

However, concomitant changes in the field of governance, public sector reform and decentralization have rather lagged behind. To some degree, this is understandable. On the one hand, political and social stability and economic growth have been accorded a higher priority over the restructuring of the state apparatus. There are a number of legitimate constraints relating to the technical and institutional capacity for meaningful decentralization. These are returned to later. On the other hand, the issue decentralization is, as in many countries, a challenge in Mozambique. A regional analysis of voting patterns in the first two multi-party elections in Mozambique¹ show that had decentralised forms of government existed then, the ruling FRELIMO party may have lost control of up to six of Mozambique's 11 provinces. The Government has, consequently, taken an overtly "gradualist" approach to the reforms in the area of governance. This is particularly so with regard to the decentralization of both the functions of and responsibilities for public expenditure. The fact is, that with the exception of an early, but limited, experimentation with municipalization, Mozambique remains a highly centralised state.

Yet there are now signs of a change in the pace of the "gradualist" approach. During the last two years, key legislative and procedural changes have been introduced. These create the opportunity for deconcentration through the transfer of discretionary powers and responsibilities to lower tiers of government. The Ministry of Planning and

Development² has been one of the principal proponents of change. Moreover, it seems to have been influenced by the significant achievements attained in the area of decentralised planning and finance which had fallen within its tutelage.

This paper will start by examining the concept of local government in Mozambique to provide the context for looking at experimentation in the field of decentralised planning and finance. Secondly, it will look at recent legislative and procedural changes that have altered the prospects and potential for decentralised planning. It will show how these changes are being interpreted and implemented in Nampula Province and how the preconditions for performance budgeting (PB) at local level are being created. However, the changes that are being introduced are not without risk. The Mozambican Government and its partners face significant implementation challenges, not least in the capacity of local government to respond to change. These will be considered in the final and concluding section.

1. LOCAL GOVERNMENT AND DECENTRALIZATION IN MOZAMBIQUE

It is often assumed that Mozambique has a system of local government akin to those found in Anglophone, sub-Saharan Africa. These countries nearly all inherited a model of local government based on the British system of district councils, composed of elected members (councillors) representing geographically defined constituencies (wards). Such a system has never existed in Mozambique. Therefore, there is little history or culture of local, democratically elected government. Pre-independence Mozambique was a province of Portugal governed from Lisbon. Although the colonial system of government was abolished in 1978, it was replaced by a highly centralized administration. Here, planning and decision-making was concentrated in the capital Maputo (Cuereneia, 2001).

That is not to say that there is ‘no’ government at local level in Mozambique. However, this should not be mistaken for local government. In fact, the term “local government” is rarely used in Mozambique, preference being given instead to the rather clumsy “local state organs” (*Órgãos Locais do Estado*) a term, which in itself, is indicative. Historically, there have been two tiers of sub-national administration in Mozambique. Currently, this is configured as eleven provinces and 128 districts. Districts are further sub-divided in Administrative Posts and Localities. Districts are relatively large averaging 6,000 km² with an average population of 110,000. However, these averages hide significant regional variations.

It would be misleading to refer to these administrative tiers as Provincial or District Governments. Neither tier is an elected body. Both are headed by representatives, appointed by the governing political party; a Governor in the case of the Province and an Administrator in the case of the district. Both positions tend to confuse the executive and political functions. Both tiers are required to implement central government directives and have limited financial discretion. The result is that their scope to define and implement policies is limited. In general, their role has been largely administrative and in the nebulous sphere of “inter-sectoral co-ordination” (Fozzard, 2002). In fact, until

recently, “District Government” as a legal entity in Mozambique has not existed.

Since the mid 1990s a number of initiatives have sought to reform and modernise this situation and to introduce some element of decentralization into Mozambican government. The first and most radical of these occurred before the first multi-party elections in 1994. Then the National Assembly enacted a system of reform of local government. It proposed the creation of autonomous urban and rural municipalities. These would be led by an elected official, accountable to an elected assembly. The assembly would have a wide range of responsibilities, including education and health care, water supply and roads.

The results of the first presidential and parliamentary elections led to the proposal being radically amended. Although FRELIMO narrowly retained power in these elections, it became clear that support for the opposition RENAMO party, in at least half of the provinces, was such that if local elections were to proceed as originally proposed, then a power base would be handed over to the opposition, particularly in the rural areas. The 1994 legislation was repealed in 1996 and substituted with a far more cautious and limited approach. This envisaged the creation of elected, autonomous urban municipal authorities, known as *Autarquias*. Rural areas were specifically excluded.

Legislation was enacted in 1997, when it was announced that 33 municipalities would be created in the first phase comprising all 23 Mozambican cities and 10 of the 68 rural towns. The first elections took place in 1998. A boycott by the opposition parties, leading to an extremely low turnout, resulted in all 33 being won by the Governing FRELIMO party. The degree of autonomy that the Municipalities have exercised in practice is questionable. Whilst it was envisaged that the majority of Municipal revenue would be raised locally, in practice they have been dependent on central government grants. Moreover, municipalities were granted few additional responsibilities above those exercised before the municipalization process.

The introduction of the municipalities created a third sub-national, administrative tier. At the same time, was the rather incongruous situation in which democratically elected, municipal councils existed alongside appointed provincial and district administrations. Some of the inherent contradictions of this situation have not yet been fully resolved. Nevertheless, despite this and its rather limited nature, municipalization represented the first step on a path to a more decentralised government.

Two other interesting initiatives were introduced before the second general election at the close of the decade. While the municipalization effort represented decentralization in the true sense, all be it on a limited (and gradualist) basis, these initiatives were more related to the de-concentration of functions and procedures. Yet, both initiatives were related to planning functions. As such, the Ministry of Planning and Finance played a pivotal role.

The first was a decision in 1995 to increase the Provinces’ share of the internal investment budget. At the same time, it gave them some discretion over how that budget should be distributed. The idea was a worthy one but was undermined by two coin-

cidental actions - a period of financial retrenchment and the introduction of Sector Investment Programmes (SWAPs). The latter in particular, effectively re-centralised planning and budgeting decisions to the key ministries of agriculture, education, health, roads and water.

The second was the direct endorsement by the government of the introduction of a decentralised planning and finance programme on a pilot basis in the politically key province of Nampula in the north of Mozambique³. The principal counterpart to the programme would be the National Directorate for Planning and Budgeting (DNPO) in the Ministry of Planning and Finance (MPF).

The involvement of the Ministry of Planning and Finance in these initiatives has led some commentators to conclude that it was “an attempt at decentralization by stealth”, in the hope that the cumulative impact of successful experiments would lead to broader institutional changes. These would formalise a role for the district in bottom-up development planning (Fozzard, 2002). In fact, to some degree, this has happened.

2. EXPERIMENTING WITH DECENTRALIZED PLANNING

Mozambican government has long proclaimed the district as the base unit for planning and development. Yet with a few notable exceptions, district planning only began to emerge in the mid 1990s with a sudden increase in donor interventions in the wake of the 1992 Peace Accord. This was no coincidence. A number of development agencies, particularly those working in the field of integrated, rural development at district and community level, found little in the shape of an agreed policy or planning framework within which to orientate their interventions and investments in infrastructure. There was also little community participation in problem analysis and prioritization.

Some development agencies began to work with district authorities and communities to elaborate crude district development plans and the introduction of participative methodologies⁴. For the most part, these interventions were sub-components of wider development objectives. In fact at this time, there was no legal or institutional basis for such work. The plans themselves amounted to little more than the results of problem analysis and the identification of priorities in terms of infrastructure.

By 1997, district planning in various forms was being undertaken in at least 5 provinces. This was supported by international aid agencies. In fact, the extent of district planning activities led the Ministry of Planning and Finance, already exploring the possibilities for decentralised planning, to commission an analysis of the “state of the art” (DNPO, 1997). The resulting report had two important impacts: first, it led to the publication, by the MPF, jointly with the Ministry for State Administration, of guidelines for the elaboration of district development plans. These guidelines were, in fact, largely a composite of methodologies already in use by various development agencies and heavily based on the “log frame” approach. The guidelines were rather crude and simplistic. Yet the fact that the Government had published guidelines at all was significant, especially taking into account there was still no legal basis district planning.

Secondly, the study led to the government negotiating with UNCDF, already active in Nampula province, for the establishment of a decentralised planning project in that province that would act as a national pilot. Nampula was significant in many ways and represented a watershed for decentralised planning in Mozambique. First, it was the first project specifically devoted to decentralised, district and participative planning backed by significant resources for not only plan preparation but plan implementation⁵. Secondly, Nampula adopted a province-wide approach in partnership with central government (through MPF⁶) and in consequence, was well institutionalised in the Provincial Government through the Provincial Directorate for Planning and Finance (DPPF). Through this arrangement, the project was able to access and influence decision-makers at central level, a factor that was to prove one of the projects major strengths and decisive for decentralization in Mozambique.⁷

The Nampula pilot deepened the conceptual basis for decentralised planning. The underlying hypothesis for the project was that decentralised and participative forms of planning, by bringing decision making closer to the target population, would be more responsive to locally perceived priorities. It would therefore have greater impact on poverty reduction. Five years after the project started, an impact analysis produced some evidence to support this (UNCDF, 2004). Other, more academic based, research suggests that the dynamic of central-local state relations is a greater determinant in poverty reduction (Bird, R & Ebel, R., 2005).

Nampula introduced some interesting innovations in the area of integrated planning, on-the-job training and capacity building, the creation of participative institutions and mechanisms, and the use of local development funds. The project is widely considered to be a success by the Government at both at provincial and national level. Symptomatic of this, a little over two years after its inception, the possibility of its replication in other provinces was under discussion. In 2003, UNCDF expanded its programme to the adjoining Cabo Delgado province and in early 2004 a project supported by the World Bank replicated the Nampula model in Mozambique's four central provinces. Thus, within the space of five years the decentralised planning and finance "programme" had rapidly expanded. An inventory recently commissioned by DNPO of all the agencies supporting in the programme identified at least 23 working in eight of Mozambique's 11 provinces with an annual average of \$40 million being invested (DNPO, 2005).

Despite the widely acknowledged success of this decentralised planning in Mozambique, the programme exhibited a number of contradictions and inconsistencies. First, the legal basis for district planning itself was ambiguous. While the guidelines for plan preparation and implementation were published, the legal status of such plans remained questionable. There was no obligation for districts to produce plans and no requirement for sector ministries to take such plans into account. Consequently, the causal relationship between district development planning and ministerial and sector expenditure decisions was weak, to the point of being non-existent! Although some efforts were made to integrate district plan priorities with provincial level sector plans,

the problem was that provincial strategic, operational plans and budget proposals were poorly reflected in plans and budgets, when aggregated at national level; a situation that was exacerbated by with the introduction of SWAPs in the key sectors.

On the other hand, a clear causal relationship between plans and expenditure decisions was evident in situations where discretionary district development funds were made available to the district. This was the case in Nampula through use of UNCDF local development grants. However, whilst LDGs facilitated plan implementation and guaranteed some credibility to the planning process, they raised some sustainability questions. In essence, would government be prepared or able to guarantee the availability of discretionary development funds through the state budget. This question turned out to be decisive.

The evolution of decentralised planning in Mozambique, coupled with legal and capacity constraints, has resulted in a form of strategic planning at district level. This has tended to concentrate on mobilising a consensus around a strategic vision and broad development objectives, combined with a portfolio of infrastructure projects. The plans were integrated in that they adopted a multi-sectoral and coordinated approach to resolving locally defined problems. Yet until recently, the level of coordination and integration into sector and national plans was relatively poor. However, in the last two years, some key legislative changes have suggested that this situation may change.

3. DECENTRALIZED AND INTEGRATED DEVELOPMENT PLANNING

In 2002 a law, sponsored by the Ministry of Planning and Finance, was passed to establish a State Financial Administration System (Law 9/2002) known as SISTAFE. Rather surprisingly, public expenditure management, budgeting, accounting and auditing had, up until this point, been governed by laws passed by the Portuguese colonial government over 100 years before, based on a ‘double-entry’ accounting system.

The rationale for SISTAFE is to modernise public expenditure management and in particular overcome a number of problems identified in the programming and execution of the state budget, notably⁸:

- The lack of a systematic linkage between plans and budgets;
- The fungibility of funds and the lack of mechanisms to identify the source of finance for specific expenditures.

SISTAFE is designed within the GFS framework developed by the IMF. It introduces a budgetary coding system, a chart of accounts, a single treasury account and a mechanism by which budget units can draw on funds in ‘real-time’, electronically, through an on-line system, known as e-SISTAFE. Also, it broadens the scope of expenditure classification, by introducing two new classifiers, for source of financing and programmes. These changes are designed to tie budget allocations more closely to government objectives. They are also to permit the inclusion in the budget of funds from donors and other sources that currently do not pass through the State’s payments system and are not registered in the public accounts. The changes also introduce the possibility for

performance budgeting. The government has committed itself to the introduction of such approaches.

SISTAFE, which is an integral part of the public sector reform programme, also has important implications for the territorial dimension of planning and budget management. The objective of SISTAFE is to:

“Establish and harmonize rules and procedures for programming, management, execution and control of the public exchequer, so that it is used effectively and efficiently, as well as to produce information, in an integrated and timely manner, regarding the financial administration of the organs and institutions of the State.” (GoM, 2002)

Therefore, in so far as decentralised planning and financing requires the channeling of public expenditure to provincial and district levels, SISTAFE provides the legislative and administrative framework for its disbursement and management.

The following year, 2003, saw the approval of the Law for Local State Bodies known as LOLE (Lei dos Órgãos Locais do Estado). This rather cumbersome title is probably best translated as the Local Government Act. Yet for reasons explained above, the term “Local Government” is in itself not entirely appropriate to the Mozambican context⁹. LOLE (law n.º 8/2003) defines the role, responsibilities and status of provincial and district governments as “de-concentrated units” of the central state. It reaffirms their subordination to central government and legally formalises central-local relationships. To some degree, these were already accepted in practice. However, LOLE also seeks to make the local state more cohesive and integrated, tipping the balance between the sectoral ministries and the territorial units of the State in favour of the latter.

Whilst to some degree maintaining and legitimising the status quo, LOLE introduces some important changes. These are already beginning to have a profound impact and are most significantly felt at the district level. LOLE, for the first time, establishes the “District Government” as a legal entity. It consists of the district administration and a number of “District Services”. It accords to it the status of a “budgetary unit”, giving it the responsibility to prepare its own budget and expenditure proposals and receive budget allocations.¹⁰ Moreover, the district development plan is, for the first time, legally recognised as the principal instrument for planning and budgeting. The law’s principal sponsor was the Ministry for State Administration but in these latter two components, the influence of the Ministry of Planning and Finance is clear.

Detailed orientations relating the implementation of the law, in practice, are provided in a separate set of “Regulations”. These were finally approved in April of 2005¹¹. The regulations show the extent to which the planning and budgeting instruments, developed during the first phase of the decentralised planning and finance programme, have influenced and been incorporated into law. For example, there is full reference to the district development plan, the provincial (strategic) plan, and the provincial and district annual operational plans (PES¹²) and budget, with clear guidelines about their respective hierarchy and the respective roles of the community, the local government and the central organs in their approval.

Furthermore, the legislation makes reference to methodological issues in that operational plans and budgets are to be guided by provincial and district development plans and not only centrally defined, 'government policy'. Also, in order for the district to fully incorporate relevant income and expenditure in its budget, it will require information on central level expenditure proposals carried out at provincial level and district level. The operational modality for decentralised planning, based on multi-sectoral technical teams established at provincial and district level, is also recognised.

Greater emphasis is given to the district and provincial governments as a whole instead of to individual line agencies. The Provincial Governor accumulates the additional executive power to authorise district level investment in health and education; the Governor may delegate this responsibility to district governments. The District Administrator and the District Government become responsible for service delivery in the district. A new post of Permanent Secretary is established at both levels to provide the institutional memory to these bodies and to facilitate them in their work – deploying the multi sector teams referred to above.

Finally, there is recognition of the participatory and inclusive nature of decentralised planning and financing. *Conselhos Distritais*¹³ are given a role in the preparation, approval and implementation of the planning instruments at district level in addition to a wider requirement to consult and involve the community in decisions. *Conselhos de Coordenação* between district and administrative posts and between district and province provide institutionalised channels for the communication necessary for the full implementation of the LOLE. Whilst the legislation does not refer directly to them, it is anticipated that *Assembleias Provinciais*¹⁴ will have role in the approval of the provincial planning instruments.

LOLE defines the district as the base unit for planning in Mozambique. These two pieces of legislation, together with their respective regulations, provide a framework for decentralised planning and financing that realises this vision. Indeed, it is on this basis that the new MPD has this year started to elaborate a national strategy for the expansion and consolidation of the decentralised planning and finance programme.

But how will this vision be implemented in practice? Experience from the UNCDF decentralised planning and finance project in Nampula Province together with some related innovations introduced for the 2006 budget give some early indications of how things may pan out.

4. FROM VISION TO REALITY?

In Nampula Province, annual operational plans (District PES) were introduced into the district planning cycle after the elaboration of the first district plans. Budgeting of these plans was limited, at first, to the programming of UNCDFs local development funds to infrastructure projects identified as being priorities in the PDDs. However, more recently the PPF has been supporting the elaboration of integrated and budgeted annual operational plans known as PESODs¹⁵. A necessary pre-requisite to this was the introduction more transparency in the collection and management of local receipts.

Districts have the duty to collect a number of receipts at local level comprising local and national taxes, licences and other fees. In some cases, for instance, the yearly national reconstruction tax, the majority of the funds collected are passed on to central treasury (via the Province) but in most cases up to 60% of the funds collected are retained by the district. With the support of the PPF, the provincial Government introduced in some districts and on an experimental basis a system known as SISRECORE¹⁶ – a system for the register and control of receipts. The results were impressive, in some districts the volume of receipts increased tenfold within a five year period from as little as \$10,000 a year to over \$100,000 a year. The secret of this success was that the system was based on giving incentive to the collectors, the introduction of transparency and proper accounting mechanisms and the retention by the district and the administrative post of their respective portions of the receipts.

With the more effective organization of local receipts, the PPF turned its attention to the bigger challenge of the preparation of an annual plan/budget at district level where to date the linkages between the planning and budgeting process had been weak. In this respect Nampula Province rose to the challenges introduced by LOLE by showing how the concept of the district as a budgetary unit might be implemented in practice.

The two principle instruments in this process are the district development plan, the strategic planning component, and the annual operation plan (PES) which converts strategic objectives into prioritised actions. The next step was to integrate a budget component into the district PES in which anticipated receipts were balanced against proposed expenditures (current and investment) to give a balanced annual plan/budget. In accordance with the SISTAFE principle of universality, districts were required incorporate all sources of income in the preparation of their budget. These were basically threefold:

- Transfers from the central treasury liquidated in local treasuries;
- Non-fiscal receipts and retained portions of fiscal receipts (as described above);
- External resources from projects and programmes negotiated by sub-national governments (for example, UNCDFs LDGs)

Through SISRECORE, the district was able to forecast anticipated receipts for the following year and information relating to the external funding plans of international development agencies (like UNCDF) and NGOs (for example SNV and CARE) were relatively easy to collect. The challenge lay in the integration of sector expenditures (again recurrent and investment) at both provincial and ministerial level. This was a process that local project staff described as “tortuous” but although time-consuming, it resulted in a situation in which, for the first time in Mozambique, operational plans and budgets at both district and provincial level were integrated and harmonised, an aspiration at Ministerial level which, in fact, was far from being fully achieved¹⁷.

Without doubt, this was an important step forward. Yet, two important caveats should be taken into account. First, the district budgeting process is more of a mapping

exercise, in that it contemplates all expenditure which may be executed at district level but not necessarily by the District Government itself. That is to say, the District will actually manage a small proportion of the funds envisaged in its “budget”. Secondly, SISTAFE is clear that there is only one budget in Mozambique and that is the centrally defined state budget approved by parliament. In this sense the district budget is a proposal. It cannot be approved by the district government; it is aggregated into a unitary budget at central level which is then submitted to parliament for approval.

Despite this, the innovative work undertaken in Nampula has had two important impacts. First, it creates the possibility for the introduction of performance budgeting at local level regardless of the fact that this is some way from being introduced at national level. The pre-requisites for PB are effectively in place in Nampula. The strategic context for conditioning resource allocation exists in the form of a 5-year district development plan. Strategically defined and ranked priorities are converted into an annual plan/budget which contemplates all income sources and links strategic objectives to specific actions. Finally, a structured coding system, in the format of SISTAFE, creates the possibility for expenditure tracking.

Nevertheless, this work is still at an early and experimental stage in Nampula. PB assumes that one real test is of resource allocation against future intentions, tempered by recent performance (see Chapter 1, Part I; Checklist) This performance assessment component of the PB cycle will be introduced next year for the preparation of operational plan /budgets for 2007.

The second important impact of the Nampula PPF has been the decision by DNPO to make discretionary investment funds of around US\$ 300,000 available to each of Mozambique’s 128 districts in 2006; thus putting the MPD in a lead role in the implementation of LOLE. The move, which results in part from a renewed emphasis placed by new Government¹⁸ on the district as the development pole, effectively mainstreams the decentralised planning and finance programme which, up until this point, was still considered as a pilot. Under guidelines issued by DNPO for the preparation of the 2006 budget, the funds made available to districts are principally for physical infrastructure projects. These must be identified using participatory planning techniques and involve, where they exist, district consultative councils. Moreover, the districts have to prepare a budgeted plan, which is harmonised with sector spending proposals.

The move is a far-reaching and courageous one and not without risk. There are concerns that many districts, especially those that have not yet been integrated into the PPF, will have problems in complying with their obligations in terms of the preparation of a harmonised and integrated PESOD. Moreover, there are concerns about execution capacity, transparency and accountability in the application of these funds. Failures in these respects could actually undermine the progress made in the area of decentralised planning, and the case for decentralization in itself - or a least a more progressive interpretation of LOLE. Nevertheless the move also represents a major success for those like UNCDF (and others) advocating the introduction of decentralised and participative planning methodologies.

CONCLUSIONS: PERFORMANCE BUDGETING - THE IMPLEMENTATION CHALLENGE

A little over a decade ago, decentralised planning and finance hardly existed in Mozambique. Those that advocated it were questioned over its viability and practicality. Indeed, only a few took the exercise seriously. As this paper has shown, there has been a remarkable shift to a situation in which decentralised planning and participative methodologies have effectively been mainstreamed through the introduction of new legislation and procedures. Moreover, the MPD is currently preparing a national strategy for the decentralised planning and finance programme. This will guide its development and evolution over the next ten years.

Despite these positive developments, some cautionary notes are necessary in relation to the policy context, the organizational structures and the planning and budgeting processes which underpin and determine the success of institutional reform and development. There has been some attempt to reform and restructure sub-national tiers of government and introduce participatory approaches. However, it should be emphasised that, outside of the municipalization programme, the changes introduced at provincial and district level represent a deconcentration of administrative responsibilities. This is quite different from decentralization in its true sense. Although the Mozambican government remains committed to the publication of a decentralization policy, the Mozambican state, despite recent legislation, remains, for the time being, relatively centralised. Efforts under the public sector reform programme for a wholesale restructuring of the state apparatus are proceeding slowly in the face of institutional resistance.

Moreover, under the Local Government Act (LOLE), Districts can make budget proposals but cannot approve their budget. District and provincial budgets are aggregated at national level into a single “State Budget” (Orçamento do Estado), which is then approved by parliament. Thus, the decentralization process in Mozambique has not yet reached the stage where districts (or even provinces) have any substantial autonomy or discretionary power.

Concerning the specifics of PB; while the pre-conditions are being created for the introduction of performance budgeting at district level, it is still very much an “add-on” to existing processes rather providing an underlying new concept for the local planning and budgeting process. In turn, at central level, despite progress on GFS through the (gradual) introduction of SISTSAFE, there is still some degree of scepticism as to whether the essential preconditions for programme (and performance) budgeting are in place or can be created in the short to medium term (for example, see DNPO, 2003).

With regard to the policy context, some significant challenges remain. With regard to the organizational and procedural context, here too a number of areas still need to be addressed in order to consolidate and build on the progress achieved to date.

Organizationally, the foremost challenge relates to human and institutional capacity. This is particularly at sub-national tiers of government, where the challenge is to

adapt to, promote and implement the changes envisaged in the legislation and procedures that have recently been introduced. In the public sector reform programme, this is referred to as “change management”. LOLE and SISTAFE in particular will require the restructuring of district government in order for it to assume some new responsibilities. This will include the need to establish a district planning and finance department and a district treasury both of which, to date, have not existed. More fundamentally, the range of skills and experience required for the implementation the new legislation are rare at district level. This will require significant investment in the public service training system especially in the areas of management, planning and budgeting, execution and auditing. A change of “mind set” will be required to think in terms of the “District Government” as a homogenous unit rather than a collection of sector representatives, with a district administration and in terms of a service delivery orientated approach. This thinking is not yet evident at district level on either score.

As mentioned above, there is particular concern regarding whether many districts have the capacity to manage and execute the discretionary development funds they are being allocated for 2006 and equally whether the private sector has the capacity to respond to such a challenge. Moreover, there are concerns about the ability to manage these funds in a transparent and accountable way, given a widespread lack of auditing procedures at district level. Yet, as illustrated in this paper, the district budget process is, in reality, little more than a mapping exercise. Few of the resources shown in the district budget are actually managed and executed by the district itself. Management and execution is still, mostly, undertaken, by sectors at provincial and (even) ministerial level. As noted above, districts, despite being designated budgetary units, do not (yet) have a treasury function or a district planning and finance service. Thus, it is likely that whilst district governments will be able to plan and budget for their discretionary investment funds, they will probably only directly manage and execute a small part of them. In the longer term, therefore, the challenge is to gradually increase the proportion of the discretionary investment funds actually managed and executed by the district itself.

With regard to process, a particular challenge for PB lies in the question of the synchronization of the planning and budget cycle in Mozambique. The operational planning and budgeting cycle starts at provincial level in June of the year prior to the plan year. Therefore, by necessity, it would have to start at district level in April of that year. In other words, preparation of the operational plan and budget for 2007 would start in April 2006 meaning that any performance assessment can only be undertaken for the previous year, 2005 (i.e. two years prior to the plan year).

On this note, greater attention needs to be given to performance monitoring and evaluation. There are concerns, for instance, over the adequacy of the annual monitoring and reporting process, an integral part of the PB cycle. This concerns whether the information systems and analytical and report writing skills are sufficient for sound assessments of performance. There is also a question of promoting a greater degree of downward accountability, through the introduction of appropriate communication techniques to ensure that those who participate in the planning process are adequately

informed of the outcome of their involvement. If not, there is a risk of undermining the planning and implementation process.

The degree to which local communities can meaningfully participate in the planning and budgeting cycle is also questionable. The ranking of priorities is an important part of the PB concept yet consultative councils are, for the most part, composed of local small holders and traders who have had limited educational opportunities. For many members of consultative councils, simply the act of attending a meeting is a major commitment. This has to be balanced against many other competing and more basic demands. Given this, together with a historical and cultural deference to authority, to what degree can we expect the members of consultative councils to participate meaningfully in a debate on the merits of district annual operational plans, priorities and budgets?¹⁹ At district level in Mozambique the “democratic deficit” has been in part resolved through the creation of consultative councils. But these should not be seen in the long term as a substitute for democratic local government.

These challenges are not peculiar to sub-national tiers of government. At national level the lack of an adequate financial management framework, systems and audits creates serious problems of inefficiency, accountability and transparency in the collection and application of funds. The causal relationship between planning and budgeting is still weak. A single, integrated, harmonised planning and budgeting system, linking medium term strategic planning and fiscal objectives with annual operational plans and budgets, has still not been fully achieved at national level (though progress on this is significantly greater at district and provincial level in Nampula Province!). Moreover, sub-national planning priorities and budgets are still poorly integrated into the national planning and budgeting system. Recent legislative and procedural changes will require a framework for intergovernmental fiscal transfers with clear criteria, which create some degree of certainty for provincial and district government. The decision to give all 128 districts the same level of discretionary funds for 2006 is acceptable on an interim and experimental basis, but is not logical in the long term.

It is assumed that the introduction of SISTAFE will resolve some of the shortcomings and inconsistencies of the existing public expenditure management system. It certainly has this potential. Yet its implementation presents major technical and logistical challenges to the extent that it has not yet been successfully introduced into any one ministry on a pilot basis. Indeed, the timetable for SISTAFE’s “roll out” seems to be slipping, continually. In so far as SISTAFE is an on-line system, requiring a minimum level of technical and institutional infrastructure,²⁰ it is difficult to foresee when it will be extended down to district or even provincial level. There are also concerns that SISTAFE will be used as a simple accountancy package rather than in its full potential as a financial management and planning tool (for example, see PAP, 2005 and DWG, 2005).

Finally, the changing situation in Mozambique creates challenges for donors like UNCDF and UNDP. The introduction of discretionary development funds for districts obviates further need for development grants provided by UNCDF and others. The need now, at local level, is not so much for capital investment funds, but for increased

investment in technical assistance and capacity building to ensure that sub-national tiers of government have the capacity to plan and budget for the use of those funds and undertake the execution phase in an efficient and transparent way.

Efficiency and transparency are hallmarks of PB; defined in Chapter 1 through accountability and measurability. In the context of SISTAFE and the other institutional pre-requisites (see Technical Preamble to this volume, on Mozambique), PB needs to be pursued with vigour. There are institutional development opportunities to be harnessed.

REFERENCES

- Bird, R & Ebel, R. (2005), "Subsidiarity, Solidarity and Asymmetry", ITP Paper 0509, Institute for International Business, University of Toronto, Unpublished.
- Cuereneia, A. (2001), "The Process Of Decentralization And Local Governance In Mozambique: Experiences and Lessons Learnt", www.uncdf.org/countries/mozambique/local_governance/technical_review_reports/Acuereneia.php.
- DNPO (1997), "District Planning in Mozambique", prepared by Jackson, D. Unpublished
- DNPO (2003), "The Prerequisites for the Introduction of Programme Budgeting: Theoretical Concepts and Practical Application", prepared by Jim Stevenson for FoPOS.
- DNPO, (2004), "The Implications of Decentralization and Deconcentration for the National Planning and Budget System" prepared for DNPO by Jackson, D., Bazima, V., and Salomão, R., Principia, Cascais, Portugal, 2004.
- DNPO, (2005), "Support by Development Agencies to the Decentralised Planning and Finance Programme, Mozambique", prepared by Allen C., & Hunt, C., June 2005, Unpublished.
- DWG (2005), "Input to the Mid-year Review of the PAF, 2005", First Draft, Unpublished.
- Fozzard, A. (2002), "How, When and Why does Poverty get Budget Priority? Poverty Reduction Strategy and Public Expenditure in Mozambique", Working Paper 167, May 2002, Overseas Development Institute.
- Ministry of Planning and Development (2005), "National Strategy for Decentralised Planning and Finance, Draft for Discussion", National Directorate for Planning, prepared by David Jackson, August 2005, Unpublished.
- GoM (2002), "Lei do Sistema da Administração das Finanças do Estado" (SISTAFE), Law 09/02, Imprensa Nacional, Maputo 2002.
- GoM (2002), "Decreto 17/02 sobre o Regulamento do Lei do Sistema da Administração das Finanças do Estado" (SISTAFE), Imprensa Nacional, Maputo 2002.
- GoM (2003), "Lei dos Órgãos Locais do Estado" (LOLE), Law 09/02, Imprensa Nacional, Maputo, 2003.
- GoM (2005), "Decreto 11/05 sobre o Regulamento do Lei dos Órgãos Locais do Estado" Imprensa Nacional, Maputo 2005.
- Hodges, A. and Tibana R., (2005) "The political Economy of the Budget Process in Mozambique". Principia, Cascais Portugal, 2005.

PAP (2005), “Joint Review – 2005 Aide-Mémoire”, Final version, May 12, 2005, Unpublished.

UNCDF, 1994, “Companion Report Mozambique: Independent Programme Impact Assessment of the UNCDF Local Development Programme”, prepared by ECI Africa, March 2004, Unpublished.

ABBREVIATIONS

DNPO	National Directorate for Planning and Budgeting (in the MPD)
DWG	Decentralization Working Group
FRELIMO	Mozambican Liberation Front
GFS	Government Financial Statistics
GoM	Government of Mozambique
LDG	Local Development grant
LOLE	Lei dos Órgãos locais do Estado - Local Government Act
MPD	Ministry for Planning and Development (pre- 2005, MPF)
MPF	Ministry of Planning and Finance (Post 2005, MPD)
PAP	Programme Aid Partners
PB	Performance budgeting
PDD	Plano Distrital de Desenvolvimento - District Development Plan
PES	Plano Económico Social – Socio-Economic Plan (an annual operational plan)
PESOD	PES Orçamento Distrital – a budgeted district annual operational plan
PPFD	Decentralised Planning and Finance Programme
RENAMO	Mozambique National Resistance
SISRECORE	Sistema de Registo e Controlo de Receita - System for the Control and Registering of Receipts
SISTAFE	State Financial Administration System
SWAP	Sector Wide Approach
UNCDF	United Nations Capital Development Fund

ENDNOTES

¹ 1994 and 1999.

² Until the end of 2004, the Ministry of Planning and Finance

³ Nampula Province accounts for some 25% of the total population of Mozambique and is one of the most agriculturally productive.

⁴ The German aid agency GTZ was typical of this approach in which participative district planning was introduced as part of a wider integrated rural development project. However, there were others.

⁵ A perceived weakness of previous decentralised planning initiatives and one which was highlighted in the Government’s study, was that few financial resources were available for plan implementation and thus there was a danger of the district planning exercise in itself

raising false expectations and undermining its credibility. The Nampula Pilot addressed this problem by employing UNCDF LDG to guarantee funds for execution of priorities identified in the planning process.

⁶ DNPO was in fact the official counterpart institution whose Deputy Director the Project Director.

⁷ This too was a weakness of previous decentralised planning efforts. In many cases they were not even linked in to the provincial tier of Government let alone the national level.

⁸ Conceptual Model for SISTAFE, Technical Unit for the Reform of Financial Administration (UTRAFE), MPF, March, 2003.

⁹ For convenience the acronym “LOLE” is used.

¹⁰ Previously, districts had not prepared a budget proposal and had only received transfer from the provincial government for running costs.

¹¹ Mozambican Law tends to be rather vague and open ended. Its exact meaning is subsequently defined and clarified in a Regulamento. By-law the regulations should be published no later than 6 months after the law’s enactment. In the case of LOLE it was two years

¹² PES: Plano Económico Social – Social Economic Plan - in effect, an annual operational plan

¹³ District Consultative Councils – established by the PPF to facilitate participation in the district planning process

¹⁴ Provincial Assemblies that will be elected for the first time in 2007.

¹⁵ PES Orçamento Distrital – a budgeted district annual operational plan.

¹⁶ Sistema de Registo e Controlo de Receita.

¹⁷ DNPO had been promoting the idea of a “processo único” - an integrated planning and budgeting system - for some years but was still some way to achieving this

¹⁸ A new Frelimo Government was elected in December 2004 headed by Armando Guebuza following the decision by former president Chissano to stand down. This has resulted in substantial changes at ministerial level.

¹⁹ Editor’s note. This argument is in marked contrast to the experience in Yemen.

²⁰ SISTAFE requires access to an on-line computer (which in itself requires a reliable telephone line and electricity supply) and a bank. There are few districts which can currently satisfy these criteria.



LAYING THE FOUNDATION FOR PERFORMANCE BUDGETING IN YEMEN

ALADEEN SHAWA, CHIEF TECHNICAL ADVISOR,
YEMEN DECENTRALIZATION PROGRAMME

Editor's note: The framework for PB was presented in Chapter 1. It focused on the structure and analysis required to fulfill its planning requirements, through an annual report, plan and budget (ARPB). This chapter, focuses on the analytical steps required to achieve an ARPB and the institutional demands placed on the reform process.

ABSTRACT

This paper describes the experience of the Decentralization and Local Development Support Programme (DLDSP) in Yemen as it began to introduce Performance Budgeting (PB) into the process of formulating an integrated development plan at the District level. It describes the stage of institutional readiness of local government (LG) institutions, elected councils and communities for the introduction of PB concepts into their planning and budgeting procedures. It then outlines the gaps that were found in the institutional structures at all levels of government and community participation that are being addressed. This is in order to ensure that the reformulation of these processes will be facilitated and the introduction of PB will be supported and its value understood. The paper then describes the gradual process through which current methodologies in planning and budgeting, as well as attitudes, are having to be modified and restructured. This has entailed a total reorientation of the approach to defining the development needs of districts and the production of a work plan that accurately responds to them while factoring in priority, capacity and expected measurable outcomes.

1. INTRODUCTION

The Republic of Yemen has inherited a very rich and long tradition of participation by localities in the decision making processes of regional or central systems of government. This took a wide variety of forms. The prosperity and stability of the various ancient civilizations of Yemen has, in some historic records, been directly associated with the ability of their ruling dynasties to engage the region's tribes through the creation of intricate forms of local level representation and participation. This tradition grew out of necessity dictated by unique social structures, topographical variety and complexity,

patterns of location of population centers and the equitable distribution and access to the country's limited natural resources. All of these factors continue to exist. Yet some of them have undergone an accelerated process of change only during the latter part of the last century.

During Yemen's more recent history, decentralized governance and the guarantee of participation and representation of the country's population and regions continued to be a demand by the various political parties. It became well articulated after the unification of the country in 1990 and more so after the civil war of 1994. Thus, in addition to it being a well proven and effective governance tradition in Yemen, decentralization was also articulated as a primary demand by all political parties, as the foundation for stability and the ability of a recently unified nation to rebuild its future.

Driven by this recent history, and guided by its evolving and distinctive sociopolitical mosaic, the Government of Yemen articulated its Local Authority Law (LAL) 4/2000. It was put into practice in 2001, through the creation of two levels of administration at the local level, the Governorate and District and the election of local councils for each.

Yemen's population is estimated at 18 million. The highest densities occupy the highlands and the fertile regions of its coastal plains along the Red Sea and the Gulf of Aden/Arab Sea. The country is divided into 21 Governorates and 333 districts. These are characterized by diverse topographical and socio-economic qualities. This makes it imperative that approaches to representation, governance and local development be responsive and carefully tailored.

In addition to an elected local council, Executive Organs (EO) were created at both the Governorate and District levels. These represented central and sector ministries, with (vertical) accountability lines to them on policy related functions and to the local authority (horizontal) on service delivery related roles and responsibilities. An administrative structure (Diwan) was created at each local level. A Governor and a District Director were appointed as heads of each council and executive directors for their respective administrative unit.

Four years after the enactment of the LAL and the establishment of the Governorate and District local authorities, a number of challenges have surfaced relating to the overall legal framework, the structure of the sub-national government and its resultant processes. The articulation, categorization and prioritization of these challenges has become a core focus of the Decentralization and Local Development Support Programme (DLDSP). This has shifted some of its efforts towards assisting the Government to develop and implement a national strategy for the implementation of decentralization reforms in Yemen.

2. THE DECENTRALIZATION AND LOCAL DEVELOPMENT PROGRAMME

The DLDSP was conceived by UNCDF. Its first phase (2003-2004) was funded primarily by UNDP and the Yemen Social Fund for Development (SFD). During that phase, the programme piloted an improved Public Expenditure Management (PEM) system

and practices in six districts in two Governorates. It combined that technical input with support to the investment budget of participating districts. The goal was to increase the level of their programmable resources for improving services and mobilizing economic development. Within that technical support package, the DLDSP also piloted the concepts and methodologies of Performance Budgeting (PB) within the integrated planning and budgeting phases of the process. In addition, the programme identified fiscal decentralization policies as the source of some of the primary challenges facing the effective implementation of this new system and the need to empower the evolving local authorities. To address this issue, it initiated a programme through which such policies were evaluated with the goal of lobbying for their reform through dialogue with the Ministry of Finance (MoF). Through its pilot, the DLDSP was able to assess the experience of the local authorities and to review the evolving institutional structures, capacities and practices that were in use four years after the initiation of decentralization. These assessments enabled the programme to assist the Ministry of Local Administration (MOLA) to articulate and categorize the most important challenges with the purpose of informing and guiding policy dialogue.

By the end of the first phase, DLDSP succeeded in attracting significant support from donors active in Yemen. The donors began to perceive the programme as the unifying framework and methodology for channeling decentralization support initiatives in the country. At the startup of its second phase (2005-2007), the DLDSP's support base expanded to include the Social Fund for Development, the United States Agency for International Development (USAID), DANIDA, and the Government of Italy in addition to its core support from UNDP and UNCDF. Its geographic coverage grew to include 28 pilot districts in six Governorates representing the wide variety of topographical, socioeconomic and political characteristics of the country.

The second phase includes an expansion of the substantive scope of the programme while strengthening its ongoing district level capacity building activities in PEM and the policy support initiative with MOLA. At the Governorate level, the DLDSP will work on clarifying the division of labor between the two levels of local government and will focus on developing governorate capacity in strategic/regional planning with an emphasis on economic development and large-scale infrastructure. During this phase and in close coordination with MOLA, the programme will be supporting and guiding the process for articulating the National Decentralization Strategy (NDS) and its implementation programme. It will also develop and manage a fund mobilization campaign. This will finance required policy studies and the implementation of policy and structural reforms, including capacity development, recommended by the strategy.

DLDSP's Capacity Building Programme in PEM:

The capacity building programme implemented by the DLDSP at the district level, aims to put in place the institutional reforms, particularly concerning structures, capacities, procedures and systems to enable a local authority to achieve the following basic outputs:

- a. An accurate and up-to-date assessment of the state of delivered services and socio-economic development at the local level generated through participatory systems for identifying and prioritizing need.
- b. An effective and user-friendly information system that documents this state of development and enables the tracking of change and the monitoring of development and performance indicators.
- c. An integrated medium-term plan (3-5 yrs) and an annual investment programme which reflects an equitable, logical and strategic allocation of resources towards improving services and resulting in tangible and sustainable local development.
- d. The capacity to implement these plans and to effectively monitor the economy and efficiency of the execution of their programmes and projects and their effectiveness at achieving a district's measurable development goals and addressing its strategic development challenges.

All of the above outputs constitute the foundation for PB. Their quality is a prerequisite to PB's effective introduction and the achievement of its desired objectives. To introduce the processes and capacities needed to achieve these outputs, the DLDSP has piloted the following sequence of activities and has initiated the implementation of an on-the-job training programme to develop the skills and procedures needed to carry them out. This technical support package is developed by a project technical team operating through MOLA. It is delivered to pilot districts by District Facilitation Teams (DFT) seconded by the programme from relevant administrative departments and executive organs at the Governorate level.

3. THE STAGES OF THE 'PB' ANALYSIS THROUGH THE 'ARPB FORMAT

The stages of PB analysis through the annual report, plan and budget (ARPB) format, are defined in section 2 of Chapter 1 of this volume.

Building participatory systems and channels for equitable representation of 'community voice'

Access to reliable and representative information on community needs and aspirations can only be secured through sustainable and equitable systems of community participation. Effective participatory systems provide the foundation for the entire process of understanding the state of development in a locality. It pinpoints the strategic areas where intervention is needed and monitors the impact of such interventions on the life of target populations. The quality and level of equity that this system is able to ensure usually determines the extent to which local decisions for public resource allocation meet their objectives, address poverty and satisfy the needs of all communities.

Building a participatory system, which guarantees the equitable and efficient flow of information between communities and local government, requires time and must be allowed and be supported to evolve organically. It will depend heavily on the nature of

sociopolitical structures in a target area. It will also be determined by the sophistication of community representation and the reliability and quality of channels of communication between these structures and elected council members.

The challenge of building such a system in Yemen's localities is as complex as it is in any other developing country. However, its own distinctive characteristics, that stem from the long and politically turbulent history of evolution of its societies and the multitude of ethnic and social backgrounds of its population, take this already complex situation to another level. Given the nature of Yemen's social structures and the dominance of the tribal system as well as the presence of a cast-based class structure, the level of leverage and 'voice' of the various segments of society varies significantly. Through the DLDSP's initial field evaluation of the dynamics between local councils and the various segments of communities, it became very clear that lower cast groups and communities, represented by weaker/smaller tribes, are marginalized and in effect, unable to influence decision making processes related to the definition and prioritization of need and the allocation of public resources.

In many regions, council members rely on their access to powerful tribal leaders for defining community/district needs and priorities. This phenomenon tends to marginalize lower leverage groups. Their position is further disadvantaged by an evolving but still flawed electoral zone designation system. This contributes further to the marginalization of less powerful and under represented social groups. These factors curtail the equitable flow of community voice into the decision making process of the local authority and undermines its attempts to determine accurately the direction and to review the impact of its intervention/investment programmes. A summary of some of the most important factors that contribute to the challenge the DLDSP is facing, as it attempts to pilot the strengthening and activation of effective participatory systems at the district level follows:

1. The remote location of villages and rural population concentration areas.
2. A cast system which leads to the marginalization of under classes and the under development of channels of representation that could accurately convey their needs.
3. The newness of the local authority system and the limited experience of elected council members in the development of channels of communication with their constituents.
4. The limited budgets available to local authorities and council members to develop and maintain communication forums with local population.
5. The dominance of traditional/male focused communication forums that generally ignore the needs of other segments of a local population.
6. A high illiteracy rate in general and particularly among women.
7. A limited awareness of the local authority system and the rights and responsibilities of council members and other local authority entities and communities towards each other.

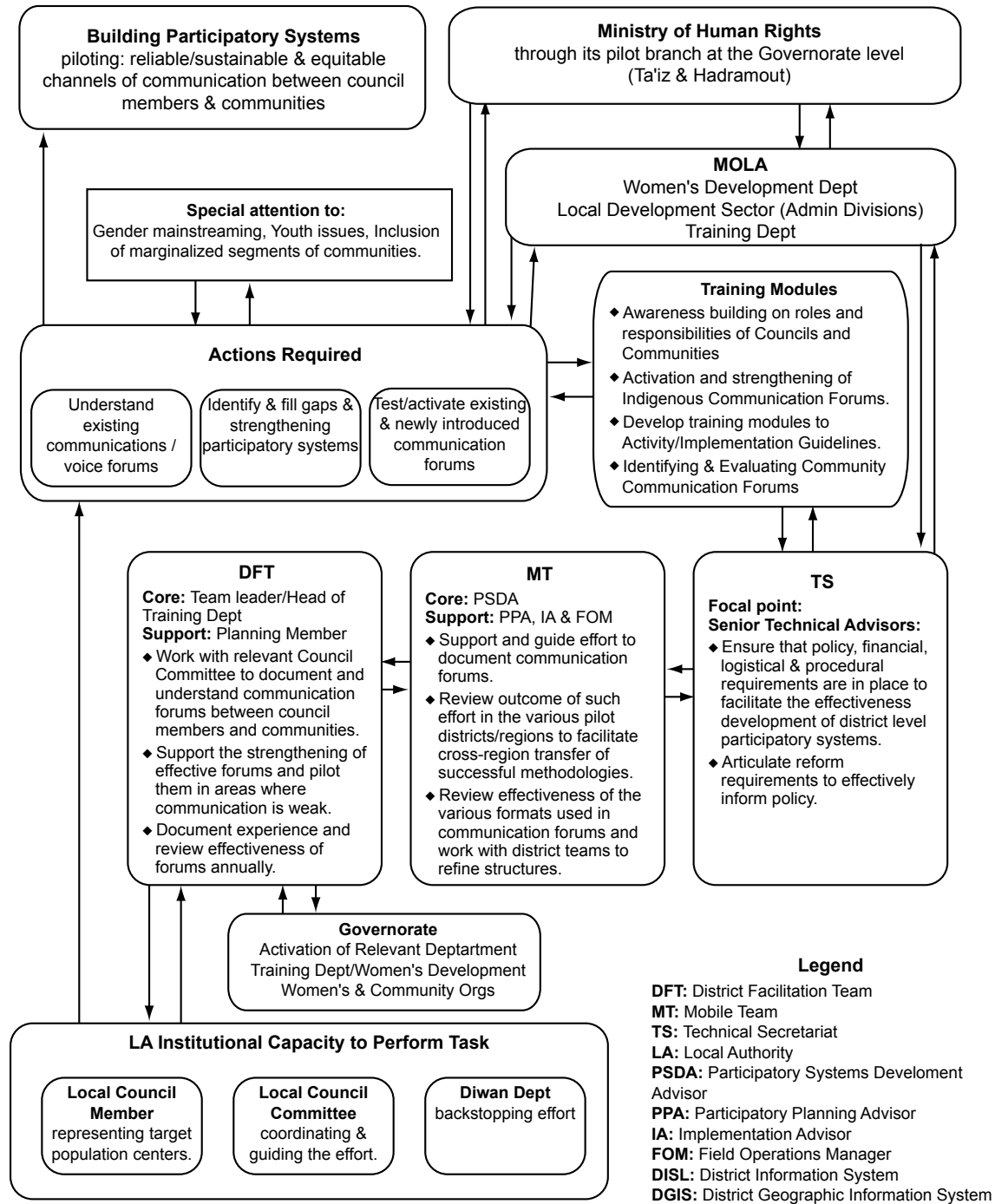
The DLDSP pilot aims to strengthen, activate or introduce equitable and sustainable channels of communication between communities and their elected representatives. This is done to ensure that a working participatory system is in place to function as the foundation for the follow-up phases of planning, budgeting and impact (performance) assessment. Given the short history of Yemen's current local government system but the long history and complexity of the structures of its civil society, much work needs to be done to accurately link them together. Towards this end, the DLDSP is working on a number of fronts to achieve this objective as illustrated in Diagram 1 and described below.

The DLDSP has developed a series of actions that it is supporting the LA to implement, to achieve the objective of this phase. These entail the initiation of field investigations in pilot regions to gain an in-depth understanding of existing communication forums and mechanisms that are being effectively used by elected council members or by other community representatives to articulate to community needs. As a follow-up to this initial step, the DLDSP has begun to investigate cases where communities are being marginalized, the reasons for that and to look into ways through which such occurrences could be reversed. The investigation also aims to understand why some communication and participation forums or methods work, why others do not and to test whether effective ones could be replicated in other regions with communities that possess similar socioeconomic characteristics.

The DLDSP has deployed its DFTs and MT to determine the type of support and facilitation that elected council members need in order to utilize existing and effective forums, strengthen them and establish new ones where they do not exist and particularly, for communities that have been marginalized. In order to ensure that council members are sufficiently supported, the DLDSP will begin to focus on developing relevant capacity within specific Diwan departments as well as Council Committees in support of this effort. To develop such capacities within the district Diwan, the DLDSP will introduce field investigation methodologies, pilot and guide field research and expose Local Authority participants to examples of effective communication forums documented elsewhere in Yemen (see DFT and MT boxes in Diagram 1). To ensure that the policy environment, institutional structures and operating budgets facilitate and support the achievement of these objectives, DFTs and MT members convey their observations and recommendations in this regard to the Technical Secretariat to use as input in related policy dialogue.

Given the complexity of this area of intervention and the need for a focused and sustained level of intervention, the DLDSP has also begun to coordinate with other international and local agencies engaged in interventions that aim to strengthen community participation and the development of local voice forums. This approach will enable the DLDSP to focus on the core of its operations. These focus on developing the capacities of local authorities while ensuring that the interface with communities is being developed and activated.

DIAGRAM 1: BUILDING PARTICIPATORY SYSTEMS



Baseline data collection and/or reassessment of development needs

An effective planning and budgeting process is heavily dependent on accurate information. This is derived through reliable and well functioning participatory data collection and needs assessment mechanisms and a reliable data archiving and analysis infrastructure and capacity. The introduction of PB requires the integration of complex monitoring mechanisms that enable the effective tracking of performance indicators and information flows that inform efforts to improve performance.

Given the limited level of development of the recently created local authority system in Yemen, this information infrastructure, including its systems, procedures and capacities, is only at the initial stages of formation. Its information accessing mechanisms, capacities for assessing need and monitoring impact and performance have yet to be put in place. This reality represents a primary challenge to the effective introduction of PB.

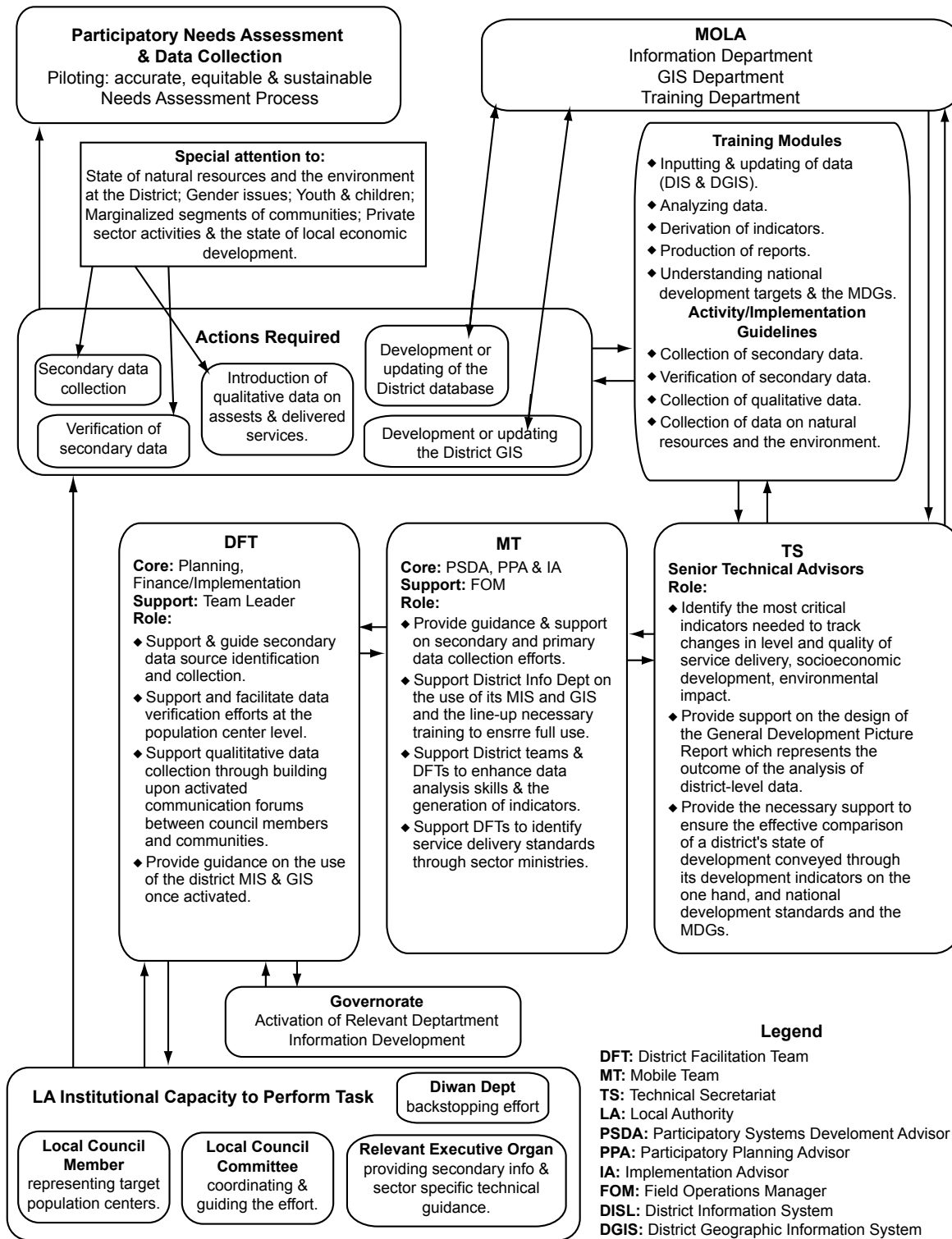
As outlined in Diagram 2, the DLDSP objective under this phase of its support activities, is to introduce accurate and effective data collection and needs assessment systems at the district level. This is in order to provide a reliable foundation for planning, budgeting and performance monitoring activities that follow.

Through the deployment of the DFT, the programme activates district level capacity to undertake and support a broad data collection campaign to document the state of service delivery, scope and scale of economic activity and social development in each pilot district. This campaign begins by supporting district teams to identify and access sources of secondary data on the level of service coverage, the scale and value of economic activity partially available through executive organs at the governorate level. Very limited secondary information is found at the district level due to the incomplete establishment of district level executive organs and a yet inactive information department at the district Diwan.

The initial phase of secondary data collection is followed by a primary data collection effort. This is designed to verify and adjust secondary data and to introduce the critical input of the local population to supplement quantitative data sets with a qualitative dimension. This activity relies heavily on the participatory systems that were to be developed in the previous phase. The data generated through this process represents the foundation and a critical prerequisite for effective performance through impact monitoring; the ultimate test of Performance Budgeting.

In this phase, the DLDSP focuses on providing support and guidance to council members (each in the area they represent) as they tap into their area's participatory systems to access primary information from communities. The DLDSP stresses mobilization of the district Information Department as the lead coordinating and guiding entity for this effort. The Programme also activates the role of the council committees to provide backing to council members and communities as they work together to articulate and prioritize need. The committee members also work with council officials on enhancing their communication and data accessing skills. In support of the activities

DIAGRAM 2: PARTICIPATORY NEEDS ASSESSMENT AND DATA COLLECTION



of this team, the Programme also mobilizes the district EOs to verify information on their particular sectors.

The DLDSP is also introducing the following capacity within the district information department to ensure its ability to effectively manage and analyze collected data and to make it accessible to all concerned.

The ability to use such data to improve the accuracy and equity of the needs assessment and priority setting processes.

The capacity to use this data to generate indicators that function as reliable benchmarks for monitoring economy, efficiency and effectiveness of interventions and to track overall development and level of progress towards achieving national targets and the MDGs.

Given the underdeveloped structure for data collection and information management at the district level and the limited or total absence of information management capacity, the programme will support the implementation of these activities annually for the three years of DLDSP duration.

Challenges faced in developing district information management infrastructure

The evolving but yet incomplete institutional structure and capacity of the district local authority in Yemen contributes to the challenges faced while developing the systems for data collection, archiving, analysis and updating. The information department (ID) at the district diwan is the entity which is supposed to function as the backbone for the data collection, analysis and needs identification process. However, in most cases, this department has not yet been activated and if it is staffed, they are usually unskilled and ill-equipped.

Financial

The recurrent budget allocated to the various components of the district authority to perform tasks related to data collection and needs assessment is very limited.

Council Members

Council members who should function as the primary instruments for accessing and developing community voice and building equitable channels of communication between a district's population and the decision making process managed by the local authority, lack the resources to perform this role. Their transportation and subsistence costs are only covered for attending the quarterly council meetings and receive no funding for any outreach functions.

Information Department

The operating budget of the district Diwan is also very restrictive and the share of the ID within it is extremely low. This reality prevents an activated ID to play any significant role in this process.

Executive Organs

Executive Organs (EOs) also lack the necessary operating budget needed to enable them to play their role in the data collection on service coverage and quality evaluation process. In most cases, data kept by these entities is outdated and could not serve as a foundation for accurate needs assessment or impact and performance evaluation.

Procedural

LOL designates the role of needs assessment in the area of service delivery to the EOs. The role of local council members is confined to a supervisory or a consultative one. This designation renders the role of the Diwan's information department redundant rather than central. It also contributes to the fragmentation of the district's body of information. It therefore detracts from the district's ability to view it as an integrated set and to use it as the foundation for integrated planning. This structural flaw sets the stage for sector thinking and sector planning and priority setting.

Articulating / updating the district's "General Development Picture report"

The transition from information collection and analysis to the drafting of a coherent and usable report, which effectively presents the district's state of development, poses a significant challenge for most of Yemen's district local authorities. The ability of a district to clearly convey the general challenges it faces and the strategic opportunities it could further develop, as well as the level of effectiveness of its interventions, is constrained and limited. In addition to limitations in data analysis and report writing capacity, the problem partially stems from the delegation of this task to the Executive Office. This office is a weekly or in some cases, monthly forum. It brings together the District Director, General Secretary, heads of the council committees and the directors of the Executive Organs to review district affairs. This structure and the assignment of this important role has, in effect, reinforced the sector-based approach to analyzing and addressing development challenges at the local level. Its periodic meeting schedule and the absence of a permanent high capacity secretariat for supporting its functions and elaborating its decision, has reduced its role to that of a coordinating body and not an integrating one. This is a fundamental issue.

This institutional gap presents a critical challenge for the effective launch of the integrated planning process and the insertion of PB tools within it since it occupies its pivotal starting point. Addressing this gap requires the reformulation of the district's institutional structure and the introduction of reforms to the by-laws of the local authority law. It will also require the readjustment of the roles of the various components of the local authority system in a manner which places the responsibility for this fundamental function with a permanent and capable entity. Such an entity must be centrally positioned in the local authority structure and authorized to manage and integrate its planning and impact monitoring related functions.

What is being piloted by the DLDSP

Districts are increasingly using MOLA supplied reporting forms to document their transactions. However, they tend to rely on disintegrated and incomplete data and oral information to debate and make decisions related to the allocation of their public resources and the monitoring of the performance and impact of their annual interventions. They rely primarily on informal and undocumented oral discussions of the state of development and the challenges that face their districts; taking place mainly within the Executive Office and among the members of the Management Committee. The ability of council members to participate or gain access to useful written information, that would help them make educated decisions, remains very limited. Interaction between them and members of the Executive Office and/or the Management Committee, takes place mainly during the LA quarterly statutory meeting.

The DLDSP is introducing the General Development Picture Report (GDPR) to function as the depository of all information that LAs need to make sound and informed decisions. This report lays the ground for guiding and monitoring the strategic direction of the development efforts (present and future) undertaken by the local authority and its partners. It also provides a practical measure of the gap that exists between the district's state of development and strategic national objectives both sector specific or general.

The DLDSP is aiming to make sure that the GDPR becomes a central input to the first statutory meeting of the local council on the 15th of March, which 'kick-starts' the planning and budgeting process. During this meeting, the local council, executive organs and district director and administration review and discuss the state of development of their district, gaps in services and opportunities that should be pursued during the following year and begin to set priorities for resource allocation. They also review the impact of the implementation of last year's plan and investment programme and the economy and efficiency of its execution. In short, the planning and budgeting intention is tempered by the review of recent performance.

Pilot objectives

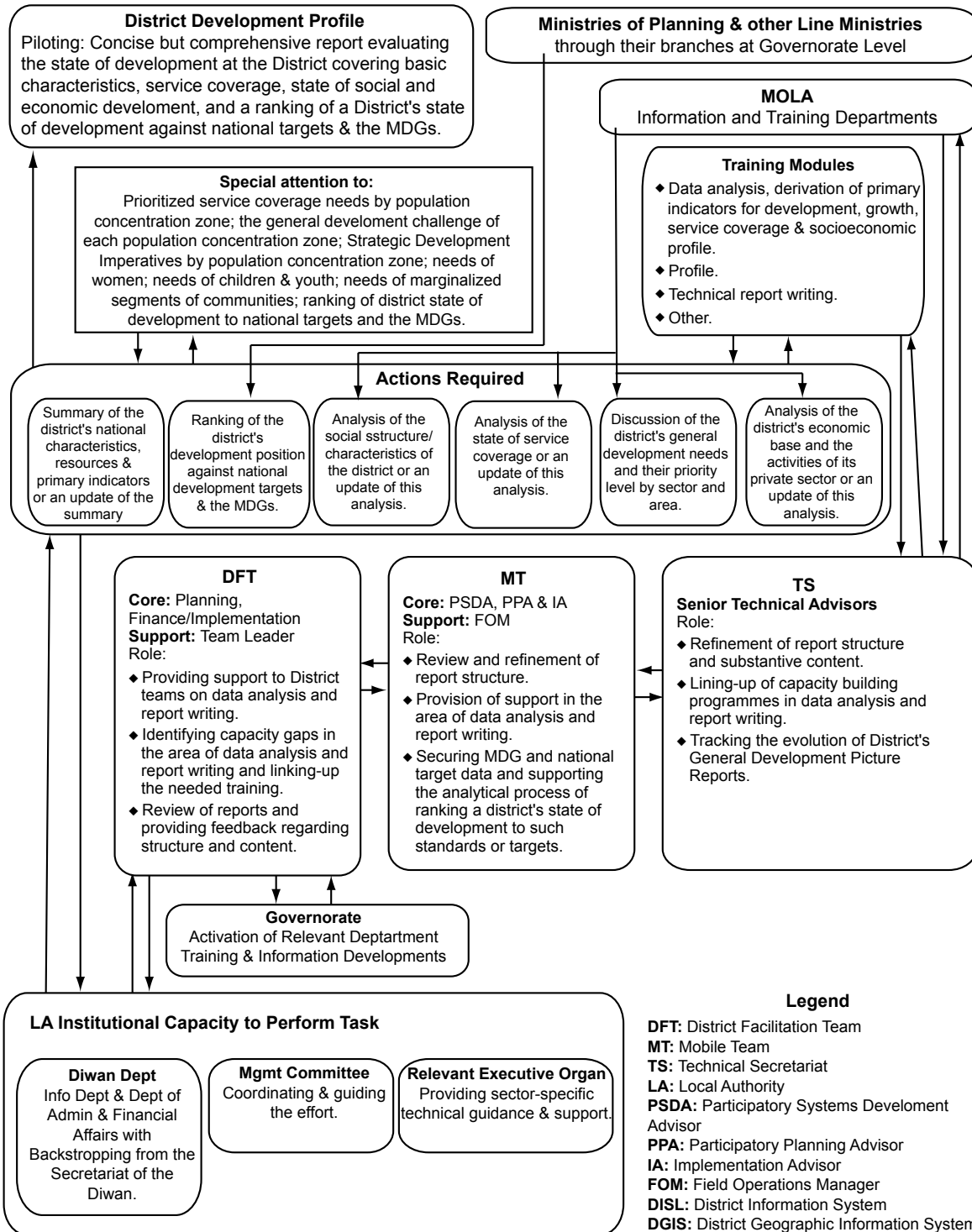
The DLDSP is introducing the methodology and structure for developing a report which provides a concise but comprehensive profile of a district's main characteristics, state of service coverage and quality, pattern of socioeconomic development and information on revenues and expenditures. The report also benchmarks the districts level of development and performance compared to national targets and the MDGs.

As outlined in Diagram 3, to achieve all this, the DLDSP is working on both the institutional restructuring (LA Capacity box) as well as capacity building (outlined in the DFT and MT boxes in Diagram 3) of the relevant components of the LA to enable the compilation of this report.

Actions undertaken

As outlined in the Actions Required box in Diagram 3, a series of activities and related

DIAGRAM 3: ARTICULATING THE GENERAL DEVELOPMENT PICTURE REPORT



capacities are being introduced. Specifically, the DLDSP is introducing the capacity for converting quantitative and qualitative data into a usable report. This profiles the district's overall state of development and annual progress made. The report describes the district's main topographical, political and socio-economic characteristics. It documents the levels of service coverage, the pattern and location of economic activities and the gaps and deficiencies that exist in both. It then benchmarks the level of development of the district to national development targets and sector goals as well as the MDGs.

Developing LA institutional capacity to produce the GDPR

To support the carrying out of the above analysis and the drafting and updating of the GDPR, the DLDSP is introducing a team configuration to be tasked with this role. This team represents a core unit within the planning and budgeting working group, described in the following section of this report. The GDPR drafting and updating team will receive training in data analysis and report writing as well as in presentation and communication skills.

The process for developing the district's integrated plan and budget

During their four initial years of existence under the newly introduced local authority system and as a result of limited capacity, most of Yemen's districts relied on the governorate executive office and its executive organs to develop and implement their annual plan and investment programme. This situation is changing gradually as district level capacity evolves and as governorates begin to delegate more powers to them within the scope of the LOL. Almost all plans produced by districts (through governorate support) during the three initial years since the creation of the local authority system, were annual and consisted of lists of sector specific projects with line-item budgets. No supporting information or analysis was included and no clear objectives were specified nor development targets set. In most cases, project ideas were compiled by executive organs and only reviewed and endorsed by council members during quarterly council meetings, an indication of limited accountability to the elected body and absence of community participation in the identification and prioritization of need.

Encouraged by the technical support provided by the DLDSP, most governorates with participating districts, have accelerated authority delegation to districts to assume a broader range of responsibilities. During the initial phase of the programme, eight pilot districts received the backing of the DLDSP to develop their data collecting infrastructure, information databases and support for the articulation of their General Development Picture Report and the drafting of their integrated 3 year plan and budget. The eight districts were able to produce satisfactory Annual Reports Plans and Budgets (ARPB). This on-the-job capacity building process also enabled the DLDSP to develop the first draft of the Integrated Planning and Budgeting Manual. It is now being tested in the 28 pilot districts that represent the current geographic scope of the programme.

The effective introduction of the necessary capacity for the management and guidance of an integrated planning process requires a number of prerequisites to be in

place. The existence of an appropriate institutional structure, where a clear designation of roles and responsibilities and the capacities required to perform these responsibilities, is a critical starting point. However, what is proving to be another very critical input is the capacity of the participants (or at least some of them) in this process, to think analytically and strategically, and to follow a logical sequence of cognitive activities that cumulatively lead to the production of an integrated strategic plan.

What is being piloted by the DLDSP

The DLDSP is piloting an alternative institutional structure for coordinating the development of the district's integrated development plan. This proposed structure aims to ensure the presence of a permanent entity to manage this process, monitor the impact of its interventions and modify its direction, constantly. Furthermore, this structure ensures that council members through the committees, the information department and the department for financial and administrative affairs are permanent members of this team. In turn, Executive Organs are also incorporated directly and play a technical advisory role.

The DLDSP is also piloting the methodology for developing a three-to-five year district integrated strategic plan and a single year investment programme. The following series of stages for the development of the integrated district plan are being introduced by the DLDSP in the 28 pilot districts (see Diagram 4 for a schematic representation of the process). Each stage requires a mix of the above mentioned inputs and therefore presents a variety of challenges during this piloting and capacity building phase. This must be gradually addressed in order to ensure the sustainability of this process and the capacities it requires.

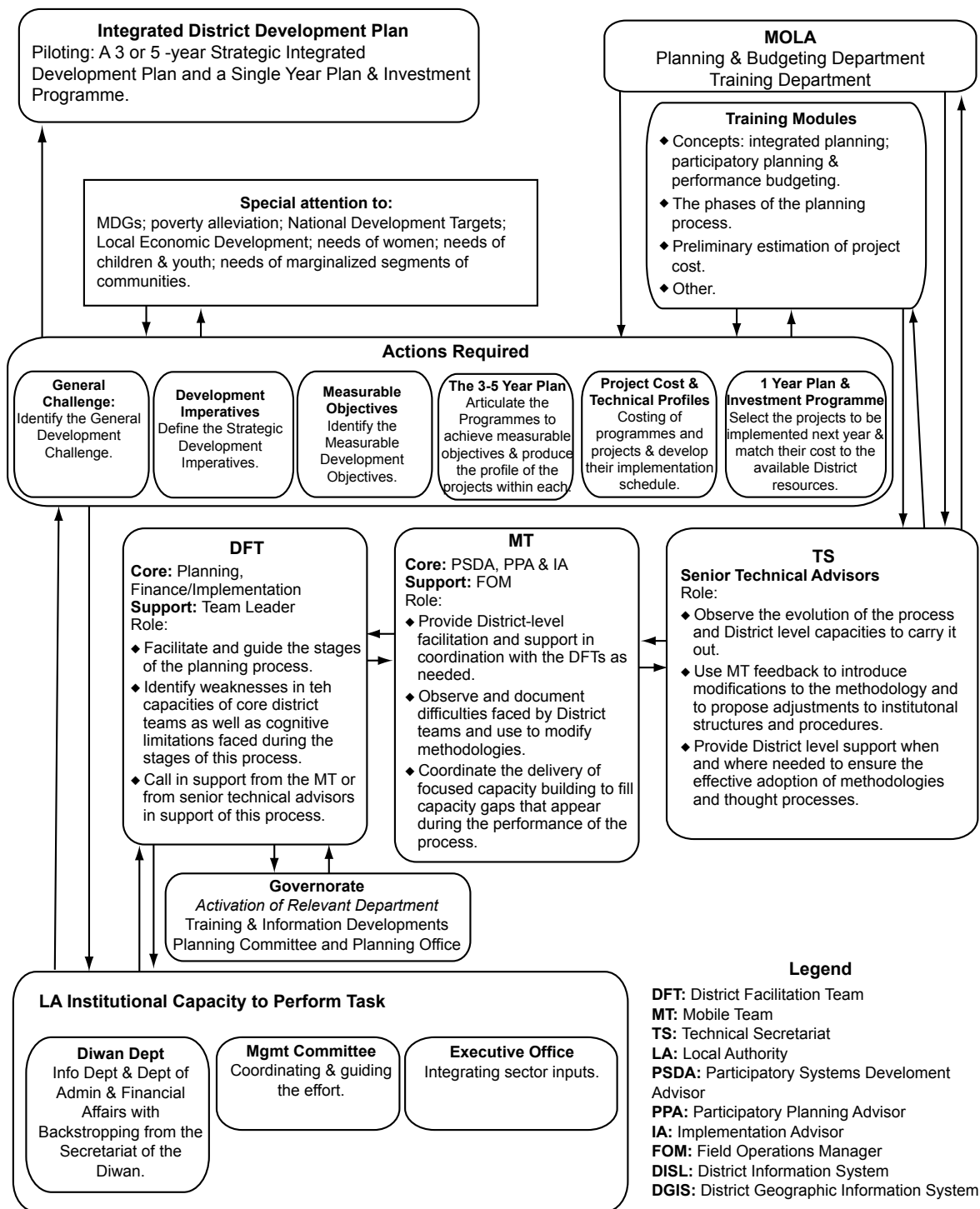
Articulating the “General Development Challenge”

The discussions and reviews carried out during the council's March meeting that are informed by the GDPR, should result in reaching consensus regarding the district's overall development vision. This is conveyed through a statement articulating the district's general development challenge. Grounding this statement in a nuanced analysis of a district's state of development and the gap that exists between its stage of development on the one hand and its own aspirations as well as those defined by central government on the other, provide the parameters for setting the strategic direction of its future plan of action. Returning districts that have already articulated this Challenge and are in the process of implementing their medium term development plan (3-5 year) will reassess the validity of this statement annually and fine tune its focus as necessary.

Challenges faced during this stage:

- During this stage, the tendency among participants is to quickly focus on specific problems faced by the district and usually have great difficulty in looking at the whole picture and identifying its broad area of challenge.
- The presence of a strong tradition of sector thinking, which usually leads directly to project proposals by-passing the entire process of strategic thinking.

DIAGRAM 4: THE INTEGRATED DISTRICT DEVELOPMENT PLAN AND ANNUAL INVESTMENT PROGRAMME



- Difficulty for most of the participants (particularly council members) to think about the district as a whole and tend to focus primarily on the areas they represent or come from.
- The limited time that participants are able to allocate to this stage of the process because most council members are volunteers and need to return to their personal lives and jobs and their costs for spending more time on this phase are very confined.
- The absence of a dedicated and permanent entity within the local authority structure to continue to manage this process and to actively develop and ensure the quality of the output to be generated through this stage.

Defining and Prioritizing the “Strategic Development Imperatives”

Once the General Development Challenge has been defined and agreed to by the participants, they should identify the Strategic Development Imperatives that must be tackled in order to address the overall development challenge. These imperatives usually relate to multiple sectors. Their accurate definition is critical since they lay the foundation for the integrated planning approach. Once imperatives are identified, they must be prioritized through a consensus reaching process. This is a critical step since it will guide the prioritization of objectives and programmes.

Challenges faced during this stage:

- Identifying the imperatives that relate to the general development challenge represents a challenge to the participants in the process.
- Identifying imperatives that relate to multiple sectors goes against an ingrained tendency to think along sector lines.
- Maintaining the link between this stage of the process and the source of information (the GDPR) that should continue to be guided, represents another challenge, requiring a return to the analysis of the district’s state of development.
- The prioritization of imperatives kick-starts the negotiation process among council members and among executive organs. The tendency among both groups is to pull for their geographic area (in the case of council members) or their sector (in the case of executive organs).
- The management of this process and its mediation during imperative prioritization, is informally supported by the district director and the general secretary of the local council. Supporting evidence derived from the GDPR is seldom used because of the absence of a formal facilitation, technical support and process management entity to see this process through:

Setting “Quantifiable Development Objectives”: Medium-Term Development Programmes (The 3-5 Year Integrated Development Plan)

The process for setting the Measurable Development Objectives, that correspond to the defined and agreed upon imperatives, must be grounded in an in-depth understand-

ing of the state of development of the district and the multi-sectoral quantitative and qualitative data that would justify their orientation and scale. It must also be grounded in full knowledge about the resources available to the district (its own as well as through other external-national and non-government, including donor sources) that could be allocated to achieve these objectives. For these reasons, this stage of the process will require access to the district's sources of information. This includes data on its state of development as well as data on resources it could directly or indirectly programme.

Challenges faced during this stage:

- Limited availability of data given the fact that pilot district information infrastructure is at its early stages of development.
- When information is available, working with quantitative and qualitative information to set reasonable development objectives represents a serious challenge to districts. This is the result of a lack of data analysis capacity necessary to derive indicators but it also relates to the limited ability to identify the correct indicators to use for specific objectives
- The unpredictability of the level of resources that will be available to districts annually through the central subsidy and own and shared revenues represents another area of challenge. The lack of coordination of external sources of funding (donors & national funds) at the district level also makes it difficult for districts to predict potential contributions. The limited coordination also makes it difficult for districts to convince external sources of funding to finance the district budget and to adhere to the district generated integrated plan.

Translating Objectives into Programmes & Projects:

Objectives are achieved through the implementation of programmes that constitute a series of projects/strategic targets that fall into a number of sectors. For example, a programme designed to achieve the objective of reducing the spread of Malaria in a certain district may require the following interventions:

- The draining of a pond which has become a breeding source for Malaria carrying Mosquitoes.
- The installation of a waste water system in the affected areas
- The installation of a water distributions system in the affected areas
- The upgrading of an existing clinic to provide effective treatment to infected patients
- A road connecting a series of remote villages that fall within the affected area to the main road to enable access to medical services and to facilitate the spread of information about the prevention of the spread of Malaria
- An awareness campaign to educate the exposed population regarding prevention methods

The point here is that the objective, and the programme flowing from it, is determined by an analysis of the development environment. It is not determined by the specificity of the sector's organization. This is the crucial difference between the inter-sectoral development planning tradition and the less-rigorous and less demanding sector-specific work – encapsulated in sector-wide analysis and planning (SWAPs). Poverty-reduction strategy papers (PRSPs) and the resulting medium-term expenditure frameworks that are meant to flow from PRSPs, are in the horizontally integrated development planning tradition. PB's strategic framework (the first substantive part of the council's annual report, plan and budget – ARPB) is meant to be the bridge between conventional development planning and the organizationally-specific planning and budgeting concerns of PB.

The process of developing an effective multi-sector programme that would accurately help achieve a measurable objective requires a high level of coordination between sectors. It also requires that sector organizations contribute high quality sector-specific technical input to ensure that the right intervention at the right scale is proposed. It will also require the objective and unbiased input of council members in order to achieve equity and effectiveness of resource allocation.

Once the series of projects required to achieve an objective are selected, their preliminary technical specifications will have to be identified in order to determine initial cost estimates and the time frame for implementation. This will enable a district to obtain a rough cost estimate for each of its development programmes and a cumulative estimated budget for its integrated three-to five year development plan.

Challenges faced during this stage:

- The concept of a multi-sector programme continues to be challenging for members of a local authority given the tendency to gravitate towards sector solutions.
- The development of a well-structured programme, with accurately selected projects, requires a high level of coordination between executive organs. The absence of a dedicated entity within the structure of the local authority, which manages this process and follows up on the development of these complex programmes, detracts from a district's ability to carry out this stage of the process effectively.
- The limited sector specific technical capacity of a district's executive organs leads to inaccurate project proposals resulting in the development of flawed programmes.
- The usual absence of technical capacity at the district level for project formulation capacity causes errors in project selection for achieving specific development objectives.
- As a result of the restrictive recurrent budget allocated to a district which is set centrally with limited relationship to actual operating and service delivery cost, a district is unable to determine its own recurrent budget and has therefore not developed the capacity to determine what it actually is. The absence of a district recurrent budget in the districts plan (both annual and medium-term) which

relates to its actual operating and service delivery costs renders district plans as partially effective in achieving a district's development objectives.

- The inability of a district to access resources for covering the cost of its capacity building needs also detracts from the effectiveness of its integrated plan.

Deriving the One Year Plan and Investment Programme – the Budget Bid

At this stage and after the development of the programmes of the district's medium term (3-5 years) integrated development plan, deriving the single year investment programme (annual budget) becomes straightforward. The basic guideline to use for extracting the annual plan and budget is the value of the allocation which is the sum of the central subsidy and a district's own source and shared revenues. In the case of Yemen, this stage is where programme based budget intersects the standard line-item budget. This requires that former be converted to the format of the latter in order to ensure acceptance during follow-up review and approval stages at the governorate and central levels.

Challenges faced during this stage:

- The absence of technical capacity at the district level to develop project specifications and cost estimates contributes to the development of inaccurate investment programmes and leaves the district vulnerable during the procurement and implementation phases.
- The unpredictability of the district financial allocation makes it difficult for a district to accurately define the scope of its annual plan

The Annual Performance Report (APR):

Yemen's districts have had no formal or technically grounded means by which to assess the economy, efficiency or effectiveness of their investment programmes and are not able to gauge performance of their development initiatives. This has had a negative impact on their ability to evaluate the cost of implementation of investment projects and the efficiency with which they are accomplished. They are also unable to assess the level of impact of these interventions or gauge their contribution towards achieving development objectives.

The gradual introduction, through the DLDSP, of capacity in PEM and methodologies for carrying out participatory data collection and needs assessment, integrated planning and programme based budgeting, is beginning to lay the foundation for the formal tracking of performance. It is also introducing the prerequisites for the monitoring of the economy, efficiency and effectiveness of interventions. This foundation is critical for the introduction of PB and the effective utilization of Programme Based Budgeting.

What is being piloted by the DLDSP

DLDSP is piloting methodologies for measuring the economy and efficiency of project implementation, the effectiveness of executed development programmes and their

contribution to achieving the sought after development objectives. This information constitutes the needed inputs for producing the APR.

Actions to be undertaken:

The required actions are summarized in Diagram 5 (overleaf). The DLDSP is introducing the capacity within a district to carry out the needed analysis to determine the economy with which projects are being implemented. This activity could be performed at any intervals during the project implementation cycle, with the goal of ensuring that costs are in line with project budgets and implementation time frames. The DLDSP is also introducing capacity for assessing the efficiency with which a project is being implemented. Both of the above steps are mainly technical in nature and rely heavily on accurate information derived from a well-structured budget and technical progress reports that track the level of technical completion and corresponding expenditure.

The DLDSP is also introducing methodologies for monitoring impact of interventions and the extent to which these are contributing to the fulfillment of the measurable objectives that were set by through the district plans. This methodology relies on a complex mix of qualitative and quantitative information, partially derived through technical sources and assessments. It is also heavily reliant on the feedback of users/target communities conveying their level of satisfaction with the new asset and the services provided through it.

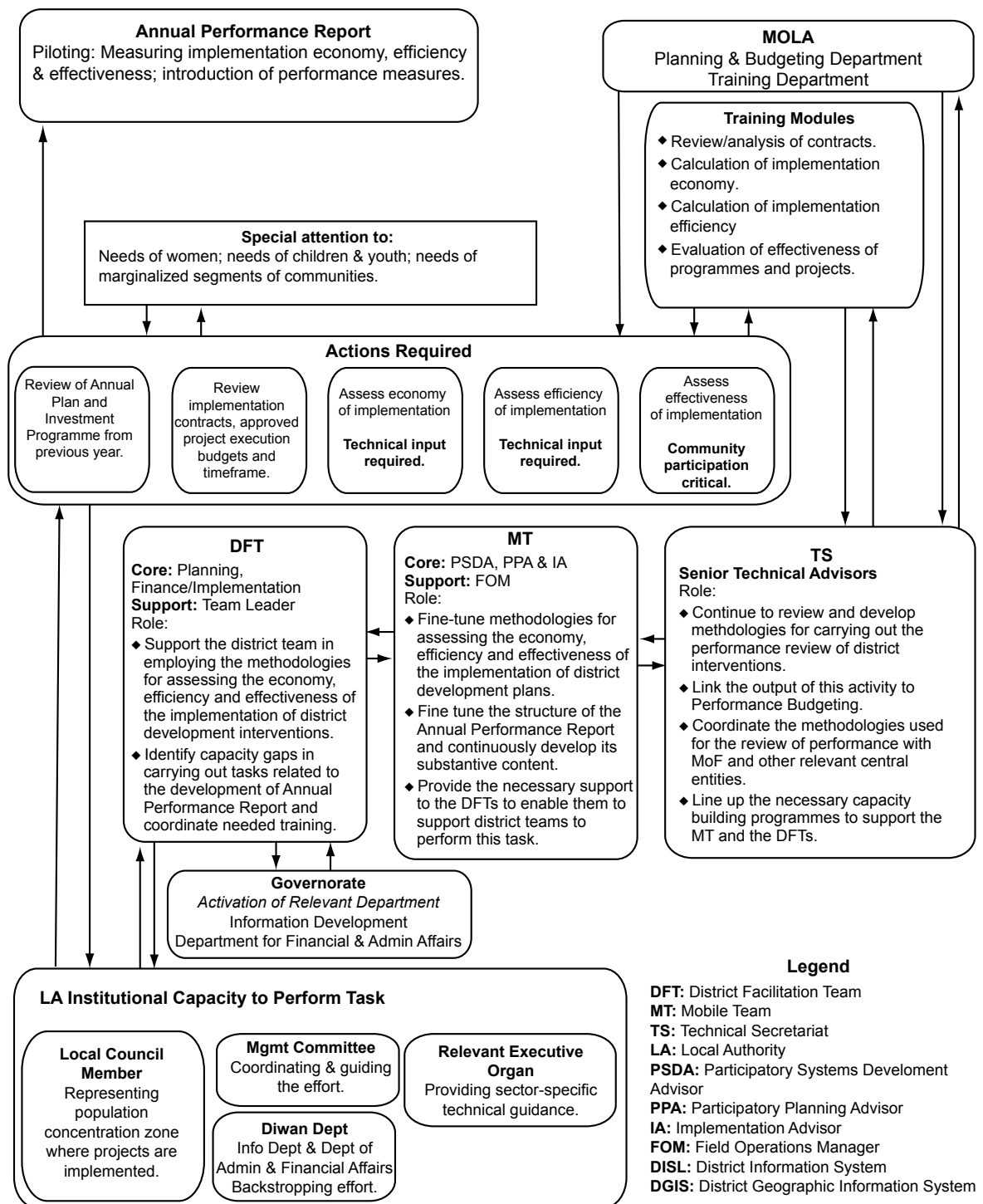
Developing LA Institutional Capacity to produce the APR

The DLDSP is proposing that a team derived from the Planning and Budgeting working group, be used for carrying out this role and producing the APR. This team will be created in every pilot district and will receive training in methodologies for assessing the economy and efficiency of project implementation. This effort will also focus on introducing the necessary systems that are needed for tracking the technical progress of project implementation and the expenditures made to date. This system will also enable the district LA to track the unit cost of project implementation inputs. Initially, this will be through nationally collected unit cost averages and then gradually this information will be localized to reflect cost efficiencies achieved through locally accessed inputs.

Anticipated Challenges

Limited technical capacity and specialized knowledge in the various construction techniques, equipment and material for the various service sectors such as education, health, water, roads and others, undermine this effort. To address this issue, the DLDSP is investigating various options for introducing multi-sector technical capacity into the district Diwan. This is to function as a source of technical support for the planning, budgeting, project development and costing processes, as well as to provide project implementation supervision services. This effort is coming up against constraints related to limitations in operating budgets and rigidity in the allocation of new posts to districts. Furthermore, the allocation of project execution responsibilities to sector ex-

DIAGRAM 5: DEVELOPING THE ANNUAL PERFORMANCE REPORT



ecutive organs at the district level by the LAL has resulted in a lack of willingness among these organs to relinquish this role; they oppose the pooling of technical and execution capacities into a single entity within the district Diwan. To address this problem, the DLDSP is working on piloting the introduction of a central technical unit within the district Diwan to provide the needed support for project development, supervision of implementation and the assessment of its economy and efficiency.

CONCLUSIONS

The experience of the DLDSP in Yemen indicates that sound systems for accessing, archiving and analyzing information on the state of development and service coverage and quality in a district is one of the critical prerequisites for monitoring performance and the introduction of Performance Budgeting. Such systems would also function as the foundation for the integrated planning and budgeting process which builds upon it. This system must include effective and sustainable information accessing mechanisms, grounded in operational participatory processes, that ensure the equitable engagement of all segments of a district's population. It must also include effective forums for such participation to take place and ensure substantive communication between elected council members and targeted communities. Information generated through this system and channeled through these forums, should be processed efficiently so that local authorities can decipher any information category they need to support their decision making activities. This is crucial as they allocate economically limited district resources, evaluate the efficiency of implementation and effective impact of their interventions.

Capacity at the district level, to convert quantitative data into a usable and easy to understand analytical reports, which summarize the state of development of a district, must be built. This is in order to ensure that all stakeholders can be equally informed and be empowered to participate fully in decision making processes to allocate district resources. The quality of such reports and the accuracy with which they convey a district's state of development, will have a direct impact on the quality of a district's plan and its effectiveness in addressing its development challenge.

The DLDSP's experience also indicates that the aggressive piloting of methodologies and concepts of integrated planning and performance budgeting at the district level is critical for laying the necessary foundation for a coherent approach to setting development objectives and implementing programs and projects that accurately contribute to their achievement. Such methodologies are displacing set ways of thinking that are grounded in sector (silo) planning approaches and line-item budgeting. These have contributed to the implementation of fragmented interventions that are inaccurate and difficult to track in terms of impact and implementation efficiency. However, this pilot is facing a series of challenges that stem from resistance from line ministry branches at the district level, interested in maintaining decision making control over the allocation of sector specific investments. Resistance also stems from cognitive inflexibility among district level officials and council members. This curtails the smooth transition from sector thinking and the 'laundry-list' approach to addressing development needs, to an

integrated and performance-based approach instead.

However, the most significant challenge facing the programme in piloting an improved PEM and developing the foundation for PB, stems from severe limitations in recurrent budget allocations for district authorities by central government. These limitations prevent the full activation of council members to mobilize community participation. They also restrict the ability of district administrative departments to perform their roles. These include carrying out basic support (or ‘staff’) functions such as information and financial management, revenue collection and the ‘line’ functions; provision of technical support and supervision over project implementation activities and the management and upkeep of district service assets. Furthermore, these limitations have severely affected the ability of line ministry branches to perform their sector specific role of guiding and supervising service delivery and ensuring the gradual achievement of sector targets and global development goals.

In the final analysis therefore, PB challenges the silo-thinking of sector-specific planning, in favour of a horizontally integrated approach to the development process, supported by PEM, through the modality of ARPBs. In this programme, the development at the local and governorate levels are (in the longer-term) designed to fit with envisaged reforms in the Ministry of Finance, to be supported by the conceptual work of IMF on GFS, supported by the World Bank.

7 GENDER-RESPONSIVE BUDGETING: CONCEPT AND INTERFACE WITH PB AT THE LOCAL LEVEL

NALINI BURN,
CONSULTANT

Editor's note: While the normative framework for PB has been analysed in the first two chapters and presented substantively through country experience in Tanzania, Mozambique and Yemen, there has been no significant mention of the gender dimension to budgeting. If the policy and budgeting process is seen as integrated, then it follows that gender equity can be influenced by budget planning and implementation. The next two chapters consider gender-responsive budgeting in this light.

INTRODUCTION

Gender-responsive budgeting (GRB) is a very broad and fast developing field. There are many evolving conceptual frameworks and methods and there are varying forms and levels of intervention. Interestingly, the developing countries are leaders in the field, ahead of Europe and the United States. Developing country initiatives have tended to focus on national budgets, while some practical applications at the regional as well as local / municipal levels are found in many European countries. GRB initiatives (GRBI), although they have tended to apply similar, widely disseminated frameworks and tools, are also diverse in terms of the institutional actors involved; where the initiative and impetus comes from, whether from public administration, parliamentarians or NGOs.

The majority GRBIs focus more on gender analysis of existing budgets, albeit as entry point to advocate for gender-responsive budgeting. In most of the cases, these initiatives fail to get beyond the sensitization and training workshops. When they do go further, they stumble on the follow-through, mainly because of the difficulty of sustained and on-going technical support relating to how to practise it.

With very few exceptions, GRBIs have not engaged with performance budgeting (PB) and the broader class of results-based budgeting (RBB). At the conceptual level, the book by Rhonda Sharp¹, one of the pioneers of gender budgeting in Australia, is the only major publication on the subject. The focus is mostly at the national level. There have however been some local level initiatives combined with national level initiatives.

This paper will limit itself to a results-based gender-responsive budgeting approach.

It does not enter into the details of gender analysis of budgetary allocations and gender audits of budget expenditures. It is more focused on setting out the distinguishing features of gender-responsive budgeting for results (GRBR) - indeed rights-oriented budgeting – and on exploring its common ground with PB. As such, it focuses on the expenditure side and not the revenue side of the budget. It looks at the potential synergies between the two approaches, how they can be mutually supportive and enriching, particularly in building efficient, effective and equitable chains of results, linking budgetary allocations, inputs, outputs and development outcomes. There are brief case studies of past and ongoing GRRB initiatives, to illuminate the processes and practices at local level, to bring out the common ground and differences with PB (see Chapter 8). The paper considers the prerequisites and challenges faced by GRBR. It also reflects on the extent to which these are both shared by and can be addressed through PB.

This chapter paper is organised in two parts:

- Part One concerns the principles, conceptual framework, scope and meaning of gender-responsive budgeting for results.
- Part Two considers the interface between gender-responsive budgeting for results and performance budgeting.

Chapter 8 contains the case studies, which show attempts to weave, practically, this interface, particularly at local level.

1. GENDER-RESPONSIVE BUDGETING FOR RESULTS

The purpose of gender-responsive budgeting

The purpose of gender-responsive budgeting (GRB) is to make states accountable to their commitments to gender equality and sustainable development. GRB involves actions to change policy and budgetary processes so that fiscal measures regarding revenue and expenditure take into account the disparities in income, resources, assets, decision-making between women and men. Specifically the concern is for public expenditure to be more oriented to the differentiated needs, priorities and perspectives of women and men. GRB uses gender analysis to uncover the disparities among women and among men, which provide a rationale for public expenditure targeted to these groups. This is in order to address both gender equality and poverty reduction objectives. GRBR uses a results-based approach. It seeks to draw the chain of results, linking public expenditure, physical investment and service provision, actual access and utilization of these services and the outcomes in terms of capacities, livelihoods and well-being of women and men.

A gender approach induces a different way of seeing, thinking and practising development. If the purpose of planning and budgeting is to achieve transformation in the lives of people – men, women, girls and boys – in their livelihoods and well-being, the approach to take is to:

- Start from people's lives, from their situation.

- Decide on what are the priorities based on an analysis of their situation.
- Decide on the results one wants to achieve and work out what needs to be done to achieve that result, given the resources that can be made available.

Gender analysis is needed all along the line with such an approach. There are four interlinked reasons why this is so. First, people-oriented, pro-poor budgeting cannot be abstract. It has to be concrete and focus on real people. Individual people are not all the same, and cannot be presumed to be the same: there are known differences innate to people: sex, age and ethnicity. Then there are differences based on contextual variables, such as economy, society, culture, geography, environment and climate. These differences among women and among men and between women and men depend on different contexts, and can change over time. These changes may be dependent on a number of factors. Some of these differences may be great, some small. Some may be meaningful, some not.

Secondly, people cannot be considered as isolated, unrelated individuals: They live in society, form relationships and groups. Relationships between women and men are the basis of this social and economic organization, whether in the family, household, or other institutions. The differences and relationships are linked. It is this social cooperation which gives rise to a particular division of labour, of resources and of responsibilities. Because of this relationship, what affects one individual can affect the other, indirectly. Yet the nature of the relationships cannot be presumed to be symmetrical, equal and equitable between women and men.

Thirdly, what individual women and men, of all ages and in different contexts, can make of their lives depends on their situation:

- The activities they do;
- The resources they can use;
- The power they have to make decisions, to have, control assets and dispose of them;
- The rights, the entitlements they have and actually enjoy;
- The obligations they face; and
- The norms, rules and values they live under.

These interlinked dimensions shape the differences, the nature of the relationships between women and men, as well as their well-being.

Fourthly, these dimensions will affect how individuals can benefit from and respond to government policies and budgets. This, in turn, will reflect on the effectiveness and success of policy objectives. Thus, governments need to take into account these differences and relationships. This is the case because they will have a differentiating impact on different individuals and groups, even when there is no discrimination, exclusion or preference intended. At the same time, the inequalities, in terms of opportunities, prospects and well-being, are grounds for governments to take action.

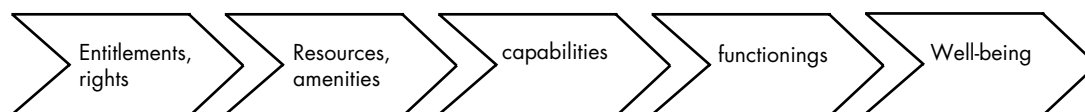
The rationale for gender-responsive budgeting

A valuable framework for public action to achieve transformation in women and men’s lives is the one that underlies the human development paradigm, developed by Amartya Sen and enriched by others. Sen² provides a framework for understanding existing situations and the possibilities for transformation. Rights and entitlements enable the securing of assets or resources. It is outlined in Figure 1. This shows the chain of conversions from entitlements and rights to access to resources. These lead to capabilities and “functionings” and together culminate in achieving well-being.

Capabilities are the potential of converting entitlements over goods and services into a range of functionings;(health, nutrition, education). Functionings are “all of the various ways a person may value doing or being”(Sen 1985). Functionings lead to achievements in terms of well-being. Naila Kabeer (2000) in particular has extended Sen’s paradigm to embrace broader issues of empowerment, agency, choice, freedom. Kabeer emphasises that the three dimensions of resources, agency³ and achievement are indivisible for determining the meaning of gender inequality and women’s disempowerment or disadvantage, and how to change the dynamic. In developing such a positive chain of results, there is a need to act on structures, institutions, processes and norms. It is also crucial to foster the ability to act among disadvantaged individuals and groups.

There are diverse reasons why governments are compelled to take action to make policy planning and budgeting more gender-responsive.⁴ There are the global rights

FIGURE 1: A RIGHTS FRAMEWORK FOR HUMAN DEVELOPMENT AND GRBR



and policy frameworks that bind states to achieve gender equality and address women’s disadvantage as well as to achieve development goals. The national policy frameworks are increasingly results-focused and purpose-driven. This is now common-place through the poverty reduction strategy papers (PRSPs). They target the achievement of the Millennium Development Goals within a specific time frame. There are overarching strategies for poverty and inequality reduction. The focus of public action extends to impacts on the population and cannot just be limited to outputs; the delivery of public services, the application of rules and regulation. These routine missions of government agencies and the sectoral programmes are now to be more closely aligned to the overarching frameworks in PRSPs and their resulting medium term expenditure frameworks.

In a policy framework characterised by privatization and liberalization, the rationale for public expenditure is limited to what the market cannot do in terms of efficient al-

location of resources. A central tenet of public expenditure management (PEM) is that the grounds for public intervention rest on the existence of market imperfections and failure: public goods, externalities, missing markets as well as inequalities. All questions of allocation, distribution and redistribution, which are at the heart of fiscal policy, have specific gender dimensions and are underpinned by gender relations.

Non-market services are a powerful rationale for a gender-responsive approach to managing public expenditure. Not taking non-market services into account can lead to a significant misallocation of resources as the following sections will analyse further. These non-market (unpaid) services of the care economy⁵, are performed mostly by women in providing for human beings and sustaining the social fabric. In fact, they underpin the operation of marketed goods and services but are hidden resources. They are not reflected in market transactions, economic data and state processes and instruments. They provide a link between economic and social dimensions. State intervention has a significant influence on the care economy and can regulate the relationship between the care economy and the market economy.

3. A GENDER-RESPONSIVE POLICY CYCLE

Gender-responsive budgeting is both political and technical. It covers the entire policy cycle. It is not just concerned with the budget as a specific instrument. Thus, it sees the budget as the financial translation of the policies and objectives of the government. GRBR is predicated on a closer alignment of policy planning and budgeting as an integrated and therefore, not as separate and poorly articulated processes.

GRBR starts from the development outcomes that are needed and works towards the budgetary implications. It then compares the actual budgetary outcomes with the development outcomes in order to improve effectiveness and progressively attain goals. There are several broad steps in the gender-responsive policy cycle, as Figure 2 illustrates.

1. Start with a situation analysis which yields information on the socio economic and environmental conditions governing the lives of women and men;
2. Compare this information against development norms and standards such as human rights conventions and goals such as MDGs as well as targets;
3. Respond with gender-responsive appropriate policies and intervention strategies, through a more inclusive process of identifying options and making choices;
4. Translate these into medium term expenditure and annual budgetary measures and actions;
5. Monitor the performance results; *and*
6. Feed the monitoring information back into better performance, in order to achieve the desired outcomes.

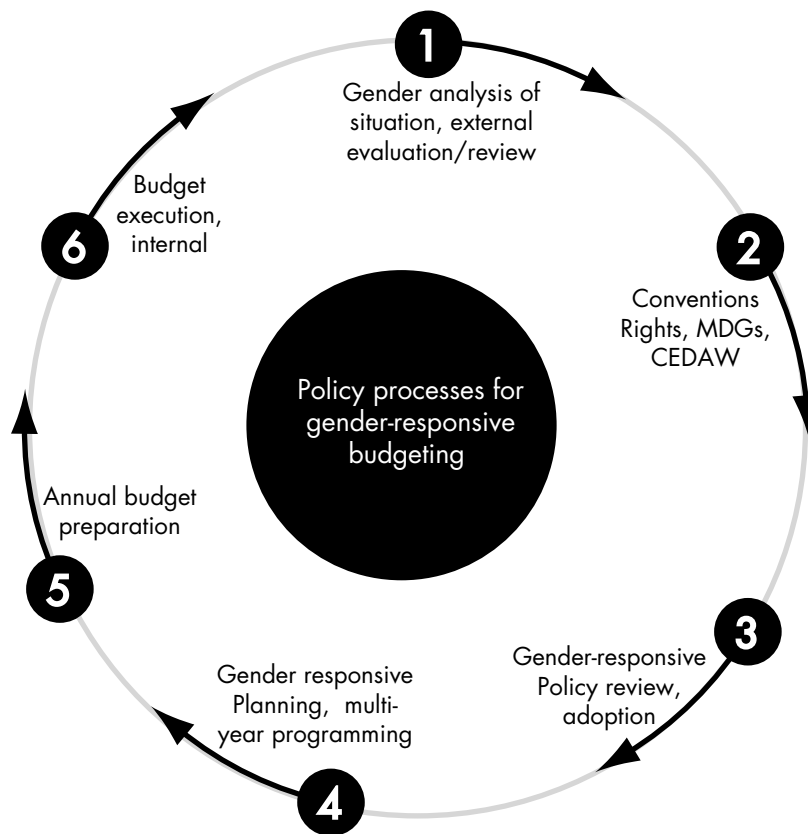
Step 1: the gender-aware situation analysis at micro level

The situation analysis generates data and information at the micro level of individuals, households and communities and at the meso level of firms, organizations, institutions such as markets. At the level of individuals and households, the information is spatial and disaggregated by location, quite simply because people live in specific places. Infrastructure is physically fixed, whether funded from national and/or local budgets. There can therefore be a mapping of household level data with data on budgetary outputs.

The tools of gender analysis are applied to the situation of women and men, to discover what this situation is and how it evolves in diverse contexts. Gender analysis is specifically geared to the understanding of specific contexts and localities, as it does not consider women and men as homogeneous categories. It does not presume anything about what differences there are and neither about the nature of the relations between women and men. It does not assume a particular configuration of activities, resources, assets, power and decision-making which describe a situation. It uses generic methodologies to give the means to know, to find out and produce gender-sensitive and policy-relevant information, as illustrated in Figure 2.

Gender analysis needs to be used to design the data collection instruments, to gen-

FIGURE 2: A GENDER-RESPONSIVE POLICY CYCLE



erate data that can be disaggregated by sex and other variables and to interpret the data. The data collection instruments are household surveys and censuses, and other qualitative and participatory methodologies to capture the perceptions and priorities of women and men.

The design of the data collection instruments needs to be informed by gender-responsive budgeting concerns such as the situation of women and men, girls and boys regarding different dimensions of poverty and inequality, their conditions of access to and actual use of public infrastructure and services. This is because budgets have a primary impact through redistributing resources to women and men by spending on services, infrastructures and income transfers. Yet they also have secondary impacts through their influence on employment, growth and inflation.⁶

Gender-aware poverty analysis

To have an understanding of poverty, there is a need to have information of how individuals survive on \$1 or \$2 a day and how households operate at this level of income. There is surprisingly little systematic information on this in national and even less in local data sets. If one only has \$1 a day or less and no physical assets, then one only has time and human metabolic energy to mobilise natural resources⁷. Without time and energy it is impossible to mobilise natural resources. One can also have claims on other people's time and energy. These are intangible, social resources⁸. At the level of basic subsistence therefore, survival depends on one's energy and time budget, which is limited relative to the uses it can be put. Resources of time and energy can be used to produce items of consumption for survival, such as food and other basic necessities. They can be used to obtain money; either through working for somebody (having access to the labour market) or selling goods and services from working (informal enterprises). There is then a time/energy budget plus a money/consumption budget. Money can buy the time and energy of others. It can increase consumption. Yet that depends on having the time and energy to generate the money in the first place. There is in fact an energy-poverty trap.

The poverty line (for income poverty) is set in terms of the money expenditure on basic items of consumption (the household consumption budget). The question that is posed is 'what is the time and energy budget at or below this poverty line'? Both women and men are faced by the depletion of their time and energy for little return when they are income-poor and when they are deprived of access to modern energy services which could substitute for their own time and energy. For women and girls this can be particularly acute. For poor rural women and girls particularly, the time and energy use is devoted to collecting water, firewood, grinding, pounding, processing foods, collecting "wild" food ingredients, cooking, serving, washing and cleaning up, just to provide food daily. This is if the material resources are available in the first place. Also, this is only part of women's and girls' total workload. Women cumulate many tasks and obligations. Besides housework, they are mainly responsible for caring for members of the household, children, the sick, disabled and the elderly. These are the tasks of the

caring economy; also unpaid, invisible in statistics and uncounted⁹. The energy used is not just physical but psychological and emotional as well. It can be individual energy or collective and social energy. Women also grow food and contribute to growing cash crops either as unpaid family labour or paid labourers. These competing uses of time lead to opportunity costs (of time/energy) in terms of for instance:

- growing food;
- growing cash crops for income;
- resting;
- going to school;
- participating in civic, community, cultural activities;
- having free time; *and*
- doing these better and more productively and satisfyingly.

Census, survey data, using both quantitative and qualitative methods and participatory methods of socio-economic enquiry, need to be able to generate information about the direct and indirect (opportunity costs) of poverty, and to link the multiple dimensions and dynamics of deprivation from a gender perspective. It is based on this fine-grained knowledge that the relevance, the complementarities as well as the trade-offs among poverty and inequality-focused policies can be gauged, between economic production and social reproduction¹⁰. There are nationally representative household surveys such as household expenditure surveys, which generate income poverty data and “human” poverty data – in terms of status in employment, nutrition, health and education – as well as the use of socio-economic infrastructure. Yet there are no time use statistics which can provide a holistic understanding of women and men’s related livelihood strategies and the costs of “time/energy” poverty in terms of human capabilities and well-being.

Step 2: rights, goals and norms.

The gender-aware situation analysis provides a baseline against which the goals, targets and objectives derived from human rights instruments and international conventions and commitments can be compared.

The Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) is one which most states have ratified, are accountable to and need to report on. It carries an obligation to ensure gender equality in relation to all human rights. Human rights create entitlements for individual women, men, girls and boys, turning them into rights-holders. States have a corresponding obligation to protect and fulfil these rights. They are the duty bearers, particularly if they have ratified those instruments.

Comparison of baselines, produced by situation analysis with human rights norms and standards, provides a measure of the extent to which rights are being violated and what needs to be done to realise them.

All the human rights instruments have to provide the basis for formulating and

implementing budgets¹¹. The International Covenant on Economic Social and Cultural Rights “specifies that state parties have the obligation of achieving progressively the full realization of the rights recognised... to the maximum of available resources” (Elson 2005). CEDAW for instance can set standards to evaluate the results of GRBs and the implications of public expenditure for gender equality. The preliminary report by Diane Elson on monitoring government budgets for compliance with CEDAW lists the following issues:

1. “Priority given to gender equality and advancement of women in distribution of public expenditure between programmes.
2. Presence of discrimination against women and girls in the distribution of public expenditure.
3. Adequacy of public expenditure for realization of obligations to gender equality.
4. Gender equality in the impact of public expenditure.
5. Gender equality and public expenditure reform.” [Elson 2005]

For the first issue, there is no general internationally applicable benchmark that can be set for a gender equality expenditure ratio. Unless particular programmes are analysed for content and impact in a social context, it is not possible to identify which programmes promote gender equality and the advancement of women. While this conclusion makes international monitoring of budgets difficult, it does point to the need for programmes and budgets to be constructed on the basis of a context-specific situation analysis.

On the second issue, the recommended benchmarks are that:

- Per capita expenditure on comparable services provided separately to women and men should be equal;
- The share of expenditure going to women should be at least equal to their share of the relevant population, for programmes delivering services to both male and female on an individual basis; and
- Equal weight to be given to women’s and men’s priorities for public services provided for collective consumption and cannot be provided in individual units –such as street lighting, sanitation systems, policing, paved roads.

The third issue, the adequacy of public expenditure for the realization of obligations to gender equality, concerns the appropriate level of public funds. This can only be ascertained by agreeing on the desired impacts, working out the outputs to achieving them, the activities to generate the outputs, then working out the costs of provision and comparing them with the finance allocated in the budget.¹² The GRBR implications of this recommendation are evident.

The MDGs provide the goals and targets against which the adequacy of public expenditure can be assessed. The situation analysis and the examination of CEDAW

underscore that women's equality and the enjoyment of rights are critical to achieving social and economic priorities. Not all important rights issues are present in the MDGs and there is no rights discourse in the MDGs. However, the human rights instruments give directions on gender equality in the areas covered by each of the goals and beyond. There are no MDGs concerning employment and the right to work, no goal on reproductive rights, no targets concerning violence against women, and there is a restricted list of targets and indicators for the gender equality goal. However, even if goal 3 is specifically about gender equality, all the goals and targets are recognised as inter-dependent and have to be formulated and achieved in a gender-responsive manner.

Nevertheless there is global consensus and commitment to achieving the goals, even among the Bretton Woods Institutions, the World Bank and the IMF. The MDGs are evolving as an overarching framework for development interventions that states have committed themselves to. The targets are time-bound and measurable. They are mutually reinforcing so that progress in one goal affects progress in another.

On the agenda of GRBR therefore, is the need to link up with initiatives to engender the MDGs, adapting them to the country context and specifically to the local contexts within countries. This is because national averages on which the baseline and targets are based, mask many inequalities among regions and groups in terms of impact indicators – health, nutrition, education, employment, poverty status. These differences are also gender-related. There are inequalities among women and among men, as well as between women and men. National MDG reporting, which is now fairly well-established, is one side of the coin. The other side is to make progress towards achieving the MDGs, not just reporting on the state of affairs. The MDG costing initiatives have used diverse methodologies with widely differing cost estimates even for the same countries. Few seem to be based on an approach of developing the appropriate gender-responsive chain of results to achieve them and the relevant indicators and information to know whether progress has been achieved, and if not, why not.

To be able to practice GRBR within the context of the MDGs, the relevant impact targets and indicators need to be further worked upon, through an iterative and participatory process of learning-by-doing, so that they provide a basis for planning, programming and budgeting to achieve them. In framing a nationally driven MDG as an instrument for action with the relevant targets and indicators, the participation of both women and men to reflect their perspectives and priorities are important. The Moroccan case study, in Chapter 9, gives some more information on such an initiative.

Step 3: gender-responsive policy review: the PRSPs

Highly Indebted Poor Countries (HIPC) have to formulate and implement poverty reduction strategy papers (PRSPs) as a condition for debt reduction and obtaining funds under the Poverty Reduction and Growth Facility (PRGF). MDGs and PRSPs have been separate policy processes to start off with, spearheaded by different development cooperation agencies and linked to different ministries, planning for the former and finance for the latter. Now, there is increasing articulation among them. It is becoming clearer

in the wake of the 2005 PRSP review process, that the PRSPs are increasingly being seen as the overall strategic framework to achieve the MDGs and longer term visions and plans, where these exist in individual countries.

PRSPs are based on aligning policy, planning, budgeting and monitoring and evaluation. They are intended to be developed through broad-based participation and consensus. However, the impetus for developing PRSPs comes from the ministries of finance, with close technical and policy support from the Bretton Woods Institutions. PRSPs tend not to be developed from the ground up, despite the building blocks which on the surface mirror the sequences for GRBR: These four building blocks are diagnosis, strategic priorities, budget and monitoring and review, till the next cycle.

The evaporation of gender-responsiveness in PRSPs

The poverty diagnosis is meant to inform the strategic policies which then have to be made operational through a process of planning, programming and budgeting. In reality, each of these blocks tends to be either pre-cast or governed by pre-determined policy stances. In practice, the participation of sectoral and line agencies has been through their pre-existing policies and programmes, including sector-wide programmes (SWAPs), which may or may not be pro-poor and/or gender-responsive and not informed by the poverty diagnosis in the document. The strategic policy actions are culled from these sectoral actions and through the influence of the key players in the thematic/sectoral task forces. It is not unusual to find very good gender-sensitive diagnoses, which do not get translated into strategic actions, operational measures and programmes. This is only part of the picture. Gender issues are often stated as a cross-cutting but often, this is another reason for its further evaporation: it is everybody's concern and therefore no one's in particular.

PRSPs and public expenditure management (PEM)

How then is one to engage with PRSPs and their operational implication in terms of gender-responsive budgeting?

PRSPs and PRGFs make macroeconomic stabilization and structural change a condition for accessing debt relief funds. Among the main pillars in national PRSPs, there is a constant menu: macroeconomic stabilization, economic growth, and pre-determined strategies regarding privatization and liberalization. Public Expenditure Management (PEM) principles are built into the core features of PRSPs. Three basic levels of outcomes are targeted under PEM, which correspond to different phases in budget processes:

- Level 1 outcomes: macro-economic - there is aggregate fiscal discipline
- Level 2 outcome: strategic - there is an allocation of resources in line with strategic policy priorities
- Level 3 outcome: operational - there is an effective, efficient and economical use of the resources allocated.

PRSP pillars for level 1 outcomes concern macroeconomic stabilization. For level

2 outcomes, the relevant pillars, for growth or poverty-reduction, are delineated along economic, social, environmental and governance (including decentralization) dimensions. Within these there are further breakdowns along sectoral lines. Level 3 outcomes focus on efficient and effective delivery of outputs of goods and services. They are the results intended through the public expenditure reform process:

- from public expenditure reviews in order to streamline budgetary systems, processes and procedures,
- to switching from an input-based centralised budgetary logic to an output or performance-based logic, *and*
- to learn through monitoring, review and evaluation, how to improve performance and enhance efficiency and effectiveness.

Possible policy incoherence and negative development outcomes

There are some basic questions to ask in a gender-responsive review of this policy agenda:

- What should be the links among the three levels of outcome?
- What are the trade-offs among them, the impact of giving priority to one to the possible detriment of the other levels?
- What should be the appropriate considerations for an efficient and equitable mix of policies at all three levels?

These questions are crucial because GRBR is focused on outcomes in terms of gender equality and human development. It is its *raison d'être*.

Macroeconomic stabilization can create the enabling conditions for economic growth but at the same time, it can have negative impacts in terms of level 2 and level 3 outcomes: there are good macroeconomic outcomes, but bad development outcomes. There is then a key issue of policy coherence. For instance, there may be adequate donor resources and internal capacity to ensure desired health outcomes, but the inflow of foreign funds is stopped because of concerns that it will reduce the export competitiveness of the economy through the appreciation of the exchange rate. In this case the achievement of Level 1 outcomes is at the expense of level 2 outcomes and human lives, affecting the achievement of MDGs concerning infant and maternal mortality more directly and HIV/AIDS, malaria and tuberculosis.

The human development impacts in general and gender-specific impacts in particular are negative, given the role women play in the care economy. Level 1 outcomes concern macroeconomic indicators which do not give a full picture of impacts on the real economy, because the Gross domestic product does not include the non market services – unpaid labour – which sustains and makes economic activity possible.

A particular focus of GRB is to engage in dialogue on macroeconomic policies and their social content. Aggregate expenditure needs to match aggregate resources. The level at which they match has particular implications for poverty reduction and gender

equality. State expenditure is important for attaining development objectives. The line item and economic classification of budgets makes it possible to analyse the macroeconomic impact of budgets. Yet, to make macro economic policy pro-poor and gender-responsive, the social impacts have also to be tracked.

Levels 2 and 3 outcomes should be about positive outcomes in terms of the lives of women and men, girls and boys and the progressive realization of their rights. Level 2 outcomes concern the allocation of resources in line with strategic priorities. What should be these priorities and who should be involved in identifying priorities, choosing among them and ranking them, and on what basis?

The gender-aware criteria for strategic priorities

Once the aggregate resource envelope compatible with level 1 outcomes has been determined, through the determination of the medium term fiscal framework, the basis for prioritization is to consider situations where state intervention is necessary. The premise under PEM is that public expenditure is justified where markets fail to work efficiently in the allocation of resources (already mentioned above). Public expenditure is also justified where there are inequalities leading to poverty and vulnerability. Misallocation of resources arises if markets fail to estimate correctly the resources used, to value correctly the costs and the benefits of using resources. In both cases they are underestimated.

Positive externalities exist where the benefits in one use or for one individual also generate uncounted benefits for others, have knock-on effects on other dimensions, which market transactions fail to capture. The social returns to girls' education are higher than the private benefits. It leads to other benefits, such as increased nutrition, levels of well-being of the children and other family members. These benefits occur because of the transmission through gender relations.

In the case of the unpaid care economy, the market fails to account for the hidden costs of the resources used, because they are invisible and uncounted. There is both misallocation of resources and inequalities where there is time and energy poverty for poor rural women.

Taken together, these strong grounds for state intervention should provide criteria for prioritization of government actions. It is not possible to have a gender-blind approach to this rationale. The gender analysis is powerful because the understanding of gender relations can map both the link between outputs and impacts and through its cross-cutting nature, make intersectoral linkages. The external influences bearing on the realization of impacts can be illuminated by the analysis of the situation through a socio-economic gender diagnosis. It is on the basis of this rationale that GRB can make a claim to improve and strengthen results-oriented budgeting. At the same time, it locates gender issues at the heart of prioritization exercises at Level 2.

There is a need for vigilance in gender-aware policy appraisal and monitoring of PRSPs, to ensure policies and actions are coherent and mutually reinforcing. Charging user fees for instance on grounds of economy and efficiency can lead to perverse results

in terms of effectiveness, by excluding access by the individuals and groups who are most in need of services.

The elaboration of MTEFs is the locus for affirming the gender-responsive case for the appropriate level of public expenditure and its interlinked priorities, not just the negotiation of different sectoral envelopes. The sectoral MTEFs are seen as an advance in bringing greater coordination among different priority programmes and projects. However sectoral approaches can lead to compartmentalization at a broader level of aggregation. This can frustrate the search for impacts, which entail multi-sectoral interventions. One potential way out is through a gender-aware, territorial, decentralised/ deconcentration approach, which can facilitate multi- or cross-sectoral interventions in a defined geographic area.¹³

4. THE INTERFACE BETWEEN 'GRBR' AND 'PB'

Steps 4 and 5 : planning, multi-year programming and budgeting

The three E's shared by GRBR and PB

The Steps 4 and 5 concern planning, programming and budgeting. It is in this area that the interface between gender-responsive budgeting for results and performance budgeting is the closest. Results-based budgeting typically involves the specification of a chain of results - from inputs to outputs to impacts. Under PB, policy, planning and budgeting are intended to be integrated. The key point is the linking of allocations to a strategic framework, such as a plan. Performance can then be measured in relation not just of inputs (how much has been actually spent compared to how much has been allocated) but in relation to what the allocation has been spent on and for whom. This can be specified at the level of outputs, but also at the level of each point in the chain of results. Performance can be in terms of impact, where the effectiveness of the output in leading to impact is in question, or in terms of output, where the efficiency of translating inputs into outputs through activities is the performance measure.

Part I should have made it clear what the interface is between performance budgeting and GRBR, for anybody familiar with PB. Part II is written to mesh with the central elements of Chapter 1.¹⁴ Thus, in order to bring out the commonalities and differences in approach, it is to gauge how PB enables GRBR while GRBR can in turn enhance PB.

Acknowledged links between GRBR and PB

The synergies between GRB and PB have been recognised by leading exponents of the GRB field; Rhonda Sharp and Debbie Budlender. Sharp, who pioneered gender budgeting in South Australia before 1995, has written a UNIFEM publication that describes performance budgeting and the scope it provides for GRBs. She suggests that the three E's of performance budgeting; the measures of economy, efficiency and effectiveness, be supplemented by a fourth E, *equity*, to make performance budgeting more responsive to the gender equality and equity concerns central to GRB.

Debbie Budlender of the South African NGO, CASE, the Community Agency for Social Enquiry, has been the key resource person and champion of the Women's Budget Initiative in South Africa. In a booklet, again commissioned by UNIFEM, about gender budgeting with a rights-based focus¹⁵, she introduces the section on some basic budgeting concepts thus: "The ideas in this booklet will work best in a country that is using some form of performance-budgeting". If not she argues, it would be necessary to delve into the logical framework of the programmes that are being budgeted. That means looking at the way in which the chain of results between inputs, activities, outputs and impacts have been worked out.

There is a clear expectation that PB is based on impact and output based budgeting and not input-based budgeting. It would be however wise not to assume that, since performance-based budgeting provides a logical framework for gender-responsive budgeting, it is conducive to it.

Experience with performance budgeting shows that it is easier to focus on outputs, whereas it is more important and meaningful to focus on impacts.¹⁶ It is certainly an improvement over 'line' and input-budgeting and incremental budgeting. But it could limit the agency's vision and mission to existing outputs, which may be poorly geared to impacts, whether from a gender-responsive perspective or not.

The key question is the process by which this chain is worked. Under GRBR, the preceding steps are important particularly the situation analysis. One has to work backwards from impacts to inputs, via outputs. In this section the threads of the situation analysis of poor women and men are picked up.

The strategic context of PB: From outcomes to inputs approach to programming under GRBR

"PB is conceptually redundant without a strategic context to condition the resource allocation process" (McGill, Chapter 1). The context is on impacts and outputs to achieve them.

GRBR has a particular path to connect them. The best practice for GRBR is to start from impacts, which are identified from a rights-based or needs-based perspective and then work out the chain of results needed to achieve these outcomes, as depicted in Figure I. If the chain of results is not well-specified or cut short at the level of outputs, which are more under control of the agency, there is no guarantee of effectiveness or certainly gender-responsiveness in terms of equity and effectiveness.

The first step 1 contains the elements that help formulate, align policies, plans and programmes. The next step is to undertake an analysis of the determinants of the problems identified; to construct a hierarchy of causes that underpin the baseline situation. For instance, one can ask why women's tasks take so long and uncover why there is no effective access of relevant socio-economic infrastructure, even though the data shows it is physically present in the locality. One can also ask and find out why it is women who cumulate these tasks. Depending on the context, it may be due to the norms that dictate women's obligations. It may be due to their inability to secure rights over resources to

fulfil those obligations and to the lack of power to impose a different and more balanced division of tasks and responsibilities within the household, to change the norms.

This exercise of constructing a hierarchy of causes can be done through a combination of available data and logical reasoning. The latter can be used to formulate hypotheses which can be confirmed or refuted by further data collection. It is best done with local knowledge, in a participatory manner.

This step is an intermediate one to developing a package of appropriate intervention strategies. It is through these evidence-based steps that a results-chain, the links between impact objectives and the outputs that are geared to achieve them, is constructed, with indicators for each link in the chain.

It is after the linked phases of analysis of causes to development of strategic solutions and interventions, that the overall programme and sub-programmes can be coherently devised and detailed programme design can be made¹⁷. GRBR works backwards from relevant impacts to the linked outputs and from outputs to the activities needed to produce them and the inputs needed. It is bottom-up programming. This is best done as part of programming exercises involving multiple partners. Again the most conducive terrain to engage in this process is local space, which is more congenial to a horizontal, cross-sectoral approach.

The shared focus of socio-economic infrastructure and services

What public expenditure related strategies can be employed to address the interlocking disadvantages of time/energy, income/consumption and capability poverty?

- The state budget can reduce the time/energy burden of both unpaid work that is meant to be recorded in national accounts¹⁸ – water, firewood, food processing – as well as care economy work¹⁹. It can do so by enabling access to modern energy services and technologies which substitute for human energy and time. This is the case for energy, transport, water, roads, economic infrastructure which increases the productivity of these tasks.
- The state budget can reduce or increase the “care burden” on women and girls. It can reduce public expenditure on social infrastructure, health, education, childcare and shift the costs to mostly women providers in the household and community or it can do the reverse.
- The knock-on effects of easing the “care burden” are to release productive energies, enhance capabilities (better education and health), facilitate civic and political participation, and reduce gender inequalities in these areas.

Developing the targets

It is in target-setting areas of PB, focused on planning and programming for infrastructure and social services delivery, that the common ground of GRBR and PB is manifest. However there can be divergences in approach regarding delivery of services. GRBR starts from the needs of users/rights holders to work out the activities of service

providers/duty bearers. When PB is introduced into an input-focused, technocratic culture of service delivery, this culture can tend to be reproduced. It is then difficult to switch to the user rights/outcome culture and discourse. To avoid this it is better to begin to think of outputs not in physical terms, such as a clinic, water, but in terms of services effectively and equitably used. Then the activities are the provision and delivery of the infrastructure and services, as Figure 3 shows.

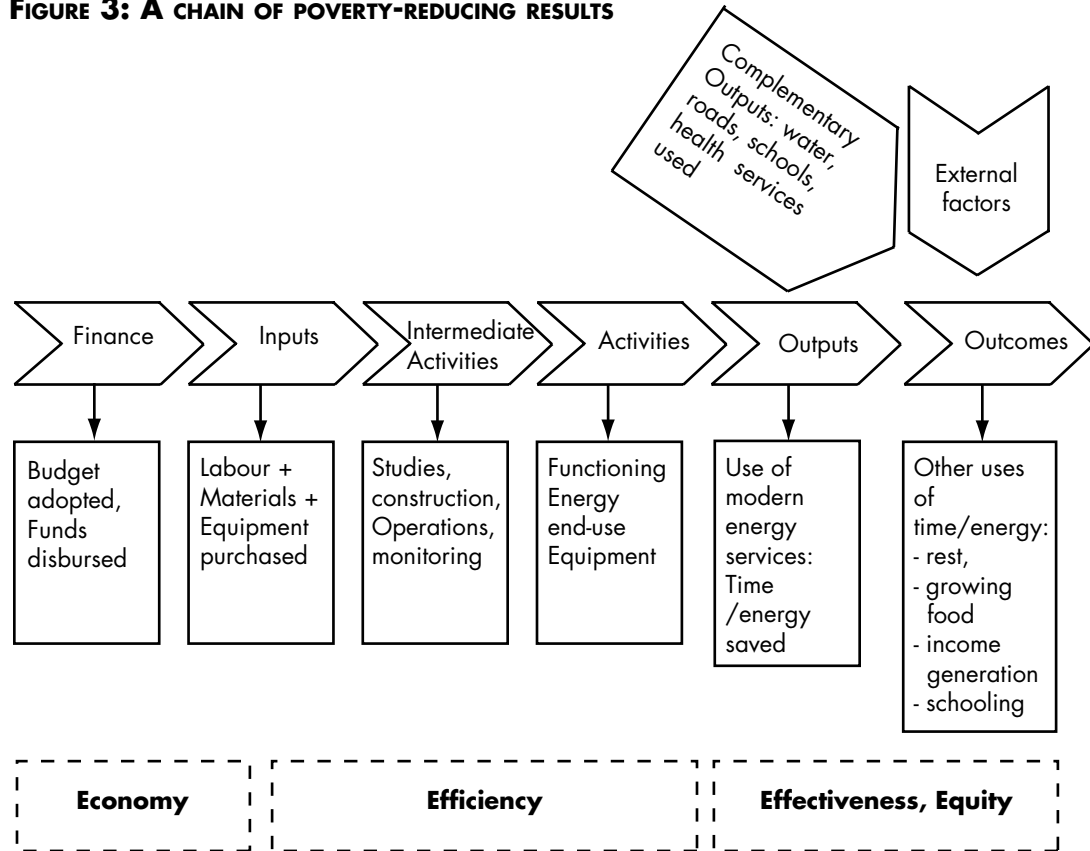
In the case used in Chapter 1, “Annual water provision to support household, agriculture and enterprise consumption to increase from 30% to 60% of need within three years” for instance, this is an output objective. But the situation analysis combined with the rights framework, can help tease out the outcomes, for which the appropriate linked outputs, programmes and targets have to be worked out.

The problems linked with water can be identified in the situation analysis using the package of gender analysis tools. Who does the water provision for household consumption? What does it cost in terms of time and effort? Who then gains with the service? What should be the appropriate technologies? Where should the point of delivery be placed? Who uses the water? What are the norms for drinking water, for example 35 litres per person per day? How can this be achieved, in what time frame? How can one ensure that everybody achieves at least the minimum daily norm? What are the targets for MDG 7 regarding water? What are the targets for agriculture on the basis of need and the link between agriculture and the attainment of MDGs and PRSP? What other institutional actors need the water? If a school is being built, are water services being planned and adequately? And so on.

In short, how should the targets be set? Chapter 1 puts considerable emphasis on the participation of local communities in planning and monitoring; quite rightly. However, a gender-responsive approach would go beyond treating local communities as homogeneous categories. It would specify explicitly the participation of different groups of women as well as men in the process, quite apart from the survey data and other studies that have to be conducted during the situation analysis. There may well be other hierarchies and stratifications in local communities than gender hierarchies, on the basis of age, income, caste, class and ethnicity. One women’s group cannot claim to represent all these other characteristics. It is not only women who are marginalised as a whole but categories of men as well. Community participation has to be differentiated in order to be inclusive, and not merely represent the interests of the local elites, who may be able to capture entitlements and resources. It is through this process that women’s as well as men’s priorities can be given equal weight to, as was stipulated in the section on CEDAW in Step 2.

In the same process, the activities and outputs related to the infrastructure service delivery can be appropriate for both different groups of women and men, lead to gender equality and certainly not increase it. “Fiscal sociology” covers the whole chain of conversion from inputs to outputs, outcomes and impact and not just the longer-term impact dimension. This is illustrated in Figure 3.

FIGURE 3: A CHAIN OF POVERTY-REDUCING RESULTS



Prioritization

Prioritization is an iterative top-down and bottom-up process. There is the top-down hard budget constraint, given by the overall resource envelope, but the respective sectoral envelopes have to be worked out through the process that leads to programming and outlined above. Using an impact bottom-up approach, starting from individual women and men living in families and communities, these envelopes are complementary and interlinked, as represented in Figure 3. From the GRBR perspective, it cannot be a matter of roads or schools or water. The prioritization would be more a situation of phasing over time, or scaling down, or looking for the cost reductions inherent in joint production and delivery, to move towards notions of equity and the notion of “distributive justice”.

As underscored in Chapter 1, men and women in local communities need to do the problem identification, identify the solutions, and that includes ranking. A horizontal approach to ranking is more appropriate where there is complementarity among the solutions. The difficult choices exist where there are trade-offs. In this case mitigating solutions have to be ranked. Criteria to be used more specifically could be:

- Have the measures been developed in a way that is appropriate and adequate for both women and men?

- Do they contribute to gender equality, *or*
- Do they contribute to further gender inequality? If so, what mitigating measures can be taken and given the same ranking?

Measurement

Proper costing is important for the economy of inputs and their resulting ‘unit cost’ efficiencies in delivering their outputs. But what cost concept should be used? Financial cost is important where money outlays and budgetary allocations are involved. Yet allocations are not necessarily an adequate guide to efficient allocation of resources. Economic cost is more appropriate, particularly with activity-based costing. Here, costs are worked out depending on the level of activity. It includes total resource costs, including the time used by full-time monthly paid staff. The concepts need to be extended to unpaid work, in the household and voluntary work. The amount of time is worked out and a value imputed to it. Such total costs concepts can include the costs of using natural resources, even when there is no market transaction, because it represents the true costs of using all resources, human and natural. They are particularly important for infrastructure projects which often include a “community” contribution in the form of unpaid work and which have physical and environmental impacts.²⁰

From a GRBR perspective, it is important to be vigilant about the measure of economy. Least cost has to be true least cost, not the shifting of costs off the balance sheet from paid to unpaid labour. This has perverse repercussions in the medium and longer term on the opportunity costs of this labour and the well-being of the women and girls particularly, but also men and boys, and thus on effectiveness. It is important using Diane Elson’s term to “avoid false economies”.

STEP 6: MONITORING AND EVALUATION OF PRSPs AND BUDGETS - GENDER EQUALITY IN THE IMPACT OF EXPENDITURE.

Of all the building blocks of the PRSP process, the one which is arguably the most important is the least developed. Monitoring and evaluation of the PRSP is an entry point for a key GRBR component, gender impact analysis; what (as previously mentioned, used to be known as fiscal sociology). One of the core issues for monitoring for CEDAW compliance is gender equality in the impact of public expenditure.

The important questions are whether the planned expenditure in relation of gender equality contained in the budget, as scrutinised and approved by parliament or local council:

- actually reached the target beneficiaries as intended;
- whether the level of satisfaction with the service was adequate; *and*
- what improvement has there been in gender equality and women and men’s well-being.

Tools for enabling this are expenditure tracking surveys, gender-responsive beneficiary assessments, analysis of disaggregated household data from poverty monitoring

surveys. The assessments may be conducted by a variety of external organizations and citizen groups, building in critical governance dimensions.

As regards performance reporting, spending units can identify objectives and specify clear measurable performance targets. Yet the challenge is to have an entity to independently track performance over time.

This independence is crucial in governance terms. The whole policy cycle needs to be open, inclusive of women as well as men. It needs to be transparent with built-in accountability mechanisms and processes. This will close the loop from budgetary allocations to the achievement of the reduction of poverty and the erosion of gender inequality. Performance budgeting and gender-responsive budgeting are processes and practices that have evolved separately. The challenge and the need is to merge the two. Chapter 8 offers a few examples.

Editor's note. The foundation for that merging is closer to fulfilment than is perhaps realised. Chapter 1 ends with the framework for measuring performance – as the “closing of the loop” concerning the review (or initial survey), plan, implementation and review cycle. Introducing the ‘gender lens’ to the entire PB process is being considered in Eritrea, is a little more difficult to introduce in Yemen (though the gender development challenge is on the agenda) and is moving forward in Mozambique.

ENDNOTES

- ¹ Sharp R. 2003. Budgeting for equity: Gender budget initiatives within a framework of performance-oriented budgeting. UNIFEM: New York.
- ² Sen, A Commodities and Capabilities, Elsevier Science Publishers, Amsterdam 1985.
- ³ The ability to be an actor for transformation.
- ⁴ Editor's note. A very recent case is the post-conflict environment of Sudan, where its interim constitution declares, among other things: the state shall...promote gender equality...and empower them in public life (Article 15.2) and the state shall promote woman rights through affirmative action (Article 32.2). Both “promotion” and “affirmative action” are strongly influenced by the distribution and impact of public expenditure. The impact dimension used to be known as ‘fiscal sociology’; the impact of public expenditure on particular client groups.
- ⁵ A term coined by Professor Diane Elson. Other terms are unpaid reproductive work, social reproduction (and of human beings) at the level of the household and community.
- ⁶ This gender disaggregation of data should be related to the full discussion on information systems, how data is gathered and analysed and the institutional development challenges to achieve it, in Chapter 6; the Yemen case.
- ⁷ The ability to use natural resources depends in turn on whether one is entitled to use them, without charge and/or according to the rules of belonging to some community.
- ⁸ This means what other people can provide you by using their time and energy to give you things or do things for you (provide you a service) without money being exchanged. It can

be because of what you are entitled to as part of a relationship, because of mutual exchanges, solidarity.

- ⁹ In areas of high AIDS prevalence, the gender dynamics of the interrelationship between time/energy budgets and, consumption budgets is particularly poignant: The onset of AIDS depletes the energy of the patient but also sets a train of consequences in terms of time and energy management for the carers of the AIDS patient, who may themselves be HIV-positive and who often tend to be elderly women. AIDS draws on and eventually depletes not only assets and consumption budgets but also time and energy of individual family members, the extended family and community networks. It draws on the care economy while eroding its foundations. In this case the immediate, medium and long term costs of not providing anti-retroviral therapies through the state budget can be set against the direct costs of provision.
- ¹⁰ For instance, policies which promote production of cash crops for export may well increase the income of male farmers, but only through the intensified unpaid family labour of women, girls and boys, given a limited time budget and men's command over women's labour. These happen through unequal power relations sustained by cultural norms as well as policy assumptions and state regulation and measures. The implications can be falling food crop production, ill health, worsening nutrition and deteriorating gender inequality.
- ¹¹ This section is based on the preliminary report by Diane Elson, Elson D. 2005. Monitoring Government Budgets for compliance with the Convention on the Elimination of All Forms of Discrimination Against Women [CEDAW]. UNIFEM: New York.
- ¹² Editor's note. This is also the basis for performance budgeting, as outlined in Chapter 1.
- ¹³ Editor's note. This argument about overcoming sectoral or 'silo' thinking in favour of a horizontally integrated technical analysis is also highlighted at some length in Chapter 6.
- ¹⁴ See Chapter 1.
- ¹⁵ Budlender D, 2004 Budgeting to fulfil International Gender and Human Rights Commitments. New York: UNIFEM
- ¹⁶ For example, during the IMF senior seminar on PB in Washington DC on 5 to 7 December 2005, the comparison was drawn between New Zealand's PB which is 'output-based' (and therefore, always attributable to the delivering organization) and UK' experience which is 'outcome (impact) based' and therefore sometimes, analytically challenged because of the more tenuous connection with the results of expenditure.
- ¹⁷ It will entail working out the fit between agency missions and routine tasks and programmes, as part of a strategic planning exercise. In this case, strategy determines structure.
- ¹⁸ According to the 1993 version of the System of National Accounts. [SNA], because even if unpaid, they are tangible and marketable outputs
- ¹⁹ Which is not part of GDP, even if recognised as productive because they are unpaid services.
- ²⁰ This is a very important concept in practice within UNCDF. Its local development fund (LDF) supported community projects often include a community contribution; in cash, in kind or both. The 'in-kind' contribution is given a monetary value, where time-to-cost calculation is made.

8

GENDER-RESPONSIVE BUDGETING: SOME GRB AND PB COUNTRY AND LOCAL-LEVEL INITIATIVES

*NALINI BURN,
CONSULTANT*

The conceptual framework of GRBR is complex and holistic (see Chapter 7). The task of engaging with it practically is challenging, and even more so given the controversies, emotions, misconceptions, and mystification that shroud the notion of gender and the forms of resistance to gender equality. Yet, achieving democracy, ending inequality, and promoting efficient and effective use of scarce resources are not negotiable. They have to be achieved, however long, daunting and risky the enterprise. The brief country level snapshots try to capture this process, the challenges and the difficulties as well as the potential synergies between GRBR and PB. The first two shorter case studies on Rwanda and South Africa relate to GRB initiatives using PB formats. Reflections on the strengths, difficulties or shortcomings observed in them (not from first hand experience but from publications and conversations) have helped to fine-tune these approaches. The fine-tuning is captured in the last two case studies, on Morocco and Senegal. They are work-in-progress, in which this chapter's author is closely involved.

RWANDA¹

The Gender Budgeting Initiative (GBI) started in 2002 over a three year period. It has as a strategic framework, the longer term perspective for Rwanda's development Vision 2020, the medium term PRSP, the MTEF, involving performance-related expenditure programmes within a 3-year resource framework, the National Gender Policy and Gender Action Plan, and the decentralization policy under the new constitution. It is part of the government's commitment to address gender imbalances.

The implementing agency is the Ministry of Gender (MIGEPROFE) in collaboration with the Ministry of Economic Planning and Finance (MINECOFIN). The GBI focuses on the recurrent budget and on expenditure. It has adopted a gradual approach, starting with a pilot exercise in five ministries and five provinces. In 2002, Rwanda was engaged in twin processes of decentralization and budgetary reform. One of the key entry points was the linking of the GBI to the development of the MTEF. Through the Department for International Development (DFID) of the UK, the technical assistance by a short-term international consultant, Debbie Budlender, and a longer-term consultant, Ngone Diop was made available.

Workshops were conducted for state actors at national and provincial levels as well as for NGOs. This process started a productive relationship between civil society associations and government to nurture sustainability for the GBI. In the workshops, government participants from the ministries were asked to find information relating to gender issues from the documentation in their ministries. They came back with information that they did not know existed and had not used, including some sex-disaggregated data.

On the basis of this insights gained by this exercise the ministry participants agreed to present a gender budget document based in a format experimented in the workshop. It focused on the largest six sub-programmes of each pilot ministry, which would be presented as an annex in the 2003 budget document. The pilot ministries gender budget statements were submitted to the MTEF.

At the provincial level, there was more commitment to the initiative, because the closeness to the population made the understanding of gender issues more palpable and immediate. In that way, they were better able to establish how budgets can match women and men's needs, criticise the pilot ministries' work and offer suggestions on how they can be improved.

In the development of their strategy paper justifying their budgets, as part of the development of the MTEF, the ministries were encouraged and assisted to integrate gender dimensions.

Monitoring matrices for implementation of GRBI have been developed jointly by the provinces and the implementing ministries. They are annexed to the Budget Law 2004.²

The format is as follows. The matrix has five columns with the following headings:

1. The name of the sub-programme,
2. The Gender dimension (which contains a concise statement of issues)
3. The Outputs (under the sub-programmes)
4. The activities
5. The gender-sensitive indicators

There is no outcome dimension in the matrix.

Strong political will, prior gender training, and the existence of other reforms which help to create synergy, have been highlighted as the main strength of the initiative. The weaknesses are weak gender analysis skills and gender mainstreaming capacity, as well as staff turnover, which affect the sustainability of the initiative.

The development and dissemination of sex-disaggregated data has been identified as an essential steps to embed the initiative. This will enable more refined gender analysis.

Box 1 illustrates the difficulties in building a chain of gender-responsive results from a situation analysis which is gender-sensitive, that cuts off results to the level of outputs, which are sectoral and attributed to a specific agency. The output specification is gender-insensitive and it is not clear how the outcome of increased income will

Box 1: An annex to the 2004 Budget Law in Rwanda³**An example of a sub-programme**

Sub-programme: Industrial and horticultural crops

Gender dimension: tea and coffee are main crops and generate high revenues, controlled by men, also owners of the plantation. Women are confined to agricultural activities, poorly paid or not paid at all. They are 25% of tea and coffee producers. MINAGRI has set up an objective to modernise and increase the production of industrial crops in order to increase exports and at the same time producers' income

Outputs: Increase yield in industrial crops by 15% by 2005

Activities: Establish mixed teams of men and women to ensure follow-up and evaluation of industrial crop programmes put in place.

Indicators: number of women and men in follow-up and evaluation teams

be shared out between women and men, given the situation analysis. In this case, the way the document is presented, makes the gender dimension section redundant from a policy point of view. It has not been acted on. However, the juxtaposition published in a budget document, could encourage parliamentarians and civil society groups to pose such questions and encourage different actions and outputs.

Gauteng Provincial Government in South Africa

The best known gender budget initiative in Africa is the pioneering Women's Budget Initiative (WBI), involving women parliamentarians and two NGOs; the Community Agency for Social Enquiry (CASE) and the Institute for Democracy in South Africa (IDASA). It was supported by the Commonwealth Secretariat Pilot Project but the National treasury dropped the WBI when the pilot came to an end⁴. In contrast, Gauteng provincial government initiated a gender budgeting process.

The WBI was not a separate women's budget. It was a case of allocating resources to give weight to women's priorities and to achieve gender balance across public action areas. The term women's budget was preferred to gender budget, to emphasise that it is mostly women who are disadvantaged by gender relations. The focus would largely have to be on empowering women and improving their situation.

Gauteng Provincial Government (GPG) in South Africa has initiated gender-responsive budgeting (GRB) while it switches progressively, to performance budgeting. In early 2003 it produced a budget that included gender implications, as a result of a collaborative effort between the Department of Finance and Economic Affairs and the Social Directorate of the Premier's Office. The GRB has as frame of reference the national and provincial level policies and legislation regarding gender equality, equity and affirmative action towards groups disadvantaged on the basis of sex, colour and location.

Departments have to identify and report on programmes and sub-programmes, under three categories:

- Those which specifically target women and girls.
- Those which benefit women and/or promote gender equality, although they might be used by both women and men.
- Those which benefit women employees of the GPG.

The categorization is in fact an adaptation of the conceptual framework developed by Rhonda Sharpe for the South Australian women’s budget.

The budget report is presented in the form of narratives and a table. In the narrative, the relevant gender policies and legislation are spelled out. The results of the gender analysis of the domain of intervention and the data disaggregated by sex as well as other relevant variables – income, ethnicity, and education – are presented to justify the outcomes and outputs of the programme or sub-programme. The template for the summary table is reproduced below⁵ in Table 1.

TABLE 1: VOTE 8: LOCAL GOVERNMENT AND DEVELOPMENT PLANNING

Allocations for women and gender equality

1. Outcomes and outputs which specifically target women and girls: none
2. Outcomes and outputs which will benefit women/promote gender equality

Outcome	Quality service delivery for communities
Output	Basic levels of infrastructure and services
Gender issue	Involvement of women in development and planning issues (e.g. water and sanitation backlog, consolidated municipal infrastructure programme etc.
Programme	Quality service delivery
Sub-programme	Basic levels of infrastructure and services
Indicator/output	% of women involved in the programme as a proportion of overall participants
Budget	R70, 527,000 for 2003/2004
Action	
Time frame	

An examination of the different programmes and sub-programmes show that although the logical template for performance budgeting is there, there is uneven capacity to articulate coherently, outcome, output, gender issue, indicator/output for mainstream programmes which are not gender-specific. The challenge is how to specify the chain of results in a coherent manner.

MOROCCO⁶

Morocco is undergoing multiple transformations. The democratic transition at the end of the 1990s, after over a decade of Structural Adjustment Programmes (SAPs) has unleashed a process of political, institutional, social and economic reforms.

Centralised input-based budgeting systems

At the institutional level, the state budgetary systems and processes are highly centralised. They focus more on how much is to be spent and whether the spending is made according to the prescribed cumbersome procedures, before funds are actually disbursed. The budgetary control and audit is about whether what has actually been spent matches what has been planned and approved to be spent (in Chapter 1, this is referred to as variance analysis – the economy measure of performance). It is not about what the spending has actually been for, for whom and with what results, whether it was effective and relevant (in Chapter 1, these concern effective measures). The budget is divided into a recurrent budget and an investment budget. The bureaucracies are heavy and their practices, procedures, and incentive systems entrenched over time. Within one ministry the different tasks, statistics, policy-making, planning, budget preparation, execution, control, accounting, audit are undertaken by different directorates, divisions and units. There is compartmentalization and insufficient coordination. Even when they are linked, they may operate in a closed system, which is not responsive to the external environment; the actual economic, social conditions which women and men face. In such systems there is little scope for orienting and prioritising public expenditure according to the differentiated needs and perspectives of women and men.

There have been many anti-poverty programmes, still current, supported by many development partners such as World Bank and UNDP. They have focused mainly on infrastructure provision, roads, water, electricity as well as education and health. They have targeted specific deprived areas and groups to mitigate the impact of macroeconomic stabilization and structural adjustment measures – such as privatization and liberalization – taken during the economic crisis of the 1990s.

Yet the modest improvements in human development indicators have not been commensurate with the scale of the spending. The resulting performance has been neither economical, nor efficient nor very effective. This is because they have not been grounded in the understanding of specific contexts and localities. They have been supply-driven and not well-coordinated.

The GRBR in the context of budgetary reform

The Moroccan experience did not start as a stand-alone gender budget initiative. The gender analysis of the Moroccan budget was a component of a Public Expenditure Review (PER), supported by the World Bank. The main findings and key recommendations were that:

- The existing budget classification system limits gender analysis.
- There is weak articulation of policy, planning and budgeting, and the information system for diagnosis, monitoring and evaluation is also weak. (These are what the public administration and budgetary reforms to switch to performance budgeting aim to address).
- Gender-responsive budgeting would be feasible if engaged as a long-term process that needs to be part of the shift to results-based budgeting. They are mutually-

supporting processes, if based on participation and ongoing learning-by-doing, using a capacity development approach.

- A gender budget statement and policy evaluation in the budget would be the focus for providing accountability for gender-responsive outcomes and scrutiny by parliamentarians and NGOs.

By the end of 2002, after a formal presentation of the findings and recommendations of the report, the leading stakeholders in the Directorate of Budget and the Chief of Cabinet in the Ministry of Finance, set about exploring the follow-up of a Phase I of a GRBR initiative this time supported by UNIFEM, which started in 2003 for a year. Morocco was one of the 20 pilot countries for GRBI in the UNIFEM global programme. The main starting point was the sensitization and capacity building workshops of the pilot Ministries involved in the PER mission as well as sensitization of parliamentarians. The deliverables – as stressed by the Ministry – would be a capacity building manual for budget practitioners and a brochure in Arabic and French for the parliamentarians.

The workshop provided the setting for questioning established ways of doing budgeting and the progressive discovery of different ways of seeing and doing, by using a package of tools of gender analysis. These followed the sequence set out in the situation analysis, the hierarchy of causes and chain of results, to work out strategies of intervention. Following the conceptual and practical work, the participants designed the structure of a manual for the application of GRB in Morocco. The aim was to be able to integrate GRBR as one of the central pillars of switching to results-based budgeting, in one manual of procedures, as an induction course for budget managers and programmers. The Directorate of Budget has used the first draft (produced by the consultant) to develop its own manual in-house, for practising GRB and results-based budgeting.

The outcomes were endorsement of GRB as one of the main pillars of the budget reforms. Already, some statements by the ministry of finance show an internalization of the switch from a supply-driven approach to an outcomes approach. They draw the links between the expenditure of funds (input) on water, road and electricity programmes (output) and the link with the outcomes (impact) in terms of the time budget of women and girls.

As a result of these achievements, Morocco has been chosen as one of four countries to move to a second phase of the global GRBI. The strategy for Phase II, starting in 2005 has been to move to concrete operations as well as deepen the knowledge about GRB. The main areas of intervention include the institutionalization of yearly gender budget statement⁷, gender analysis to refine the poverty maps produced with the support of the World Bank, so as to enable more refined geographical targeting of poverty and inequality from a gender-responsive perspective, and accompany the deconcentration and decentralization strategies. To embed GRB further in the emerging overarching policy framework, a gender approach will be used to identify the priority localities – urban communes and rural communes, which are the lowest level of decentralised governance – to be targeted in the new National Human Development Initiative supported by the King of Morocco.

A comprehensive GRB exercise will be piloted in one of the sites over the next four years. It will cover the entire policy cycle from information for a situation analysis to monitoring and evaluation: A Community Based Monitoring System⁸ will be piloted in at least one of the priority sites next year. The survey instruments will include a time use module in the household survey, with in-depth qualitative surveys. They will enable the analysis of the linkages between access to infrastructure and services, and the activities which women and men are able to engage in, as inputs for planning and budgeting at both local budget and national budget levels. They will also pilot instruments to survey the assessment (by users of public services) of the quality and relevance of public services. Over the next few years, the results of the work will be reported in the yearly gender budget statements and policy evaluations.

Localizing gender-based MDGs

In the meantime, Morocco has been among the countries engaged in a pilot for engendering MDGs and presenting the results in a gender-aware MDG report, through a joint state and civil society partnership, including women's rights NGOs. This recently produced report recommended a MDG costing exercise to focus more on the funding and targeting issues, and to focus energies on operational strategies to achieve the MDGs. One of the current activities of the GRBR Phase II is to undertake such a costing exercise. Using the conceptual framework outlined in Part I, it is adopting a localised MDGs approach. The approach will not be technocratic but iterative and participatory, progressively building knowledge and learning how to generate a chain of results from outcomes, then working backwards to cost estimates. It is, in fact, applying the human development framework illustrated in Figure 1 of Chapter 7.

Relevant ministries, including the interior ministry responsible for decentralization, will work together during early December 2005, to consolidate whatever data, evaluations and performance information is available, to establish a baseline for the chosen targets. They will work together to identify the pilot sites – the poor rural and urban communes - and work on a hierarchy of causes. They will then work out causal chains, leading to the MDG targets for Morocco, initially over a short term, 3 year milestone. Morocco is just starting on an MTEF. These exercises will be expected dovetail into each other.

The lessons so far from the Moroccan experience is that there is no quick fix or one shot exercise in capacity building to ensure gender mainstreaming in budget cycles in practice. Morocco has taken a pragmatic path to the reforms. To turnaround entrenched practice takes time. It is a long term process. It needs sustained support, much patience, daring and entrepreneurial flair.

SENEGAL

The GRBI in Senegal was initiated as part of the Global UNIFEM programme, like Morocco. It is also one of the four chosen for phase II of the global programme.

The initial thrust of the initiative, as determined by the ministry responsible for the advancement of women, was the need to account for women's unpaid and informal

sector work, in order to evaluate women's contribution to the economy. The initial sensitization and capacity building workshops, in which key ministries and leading NGOs participated, used the gender analysis tools and methodologies, outlined in Chapter 7 and also applied in Morocco (above). As a result, the Unit responsible for PRSP monitoring and reporting became interested to take the leadership in the GRBI, with the support of UNIFEM.

There is also in Senegal a pilot project, supported by UNDP, to disseminate Multifunctional Platforms for Poverty Reduction (MFP) in the Region of Tambacounda. This is one of the poorest regions of Senegal and a zone of intervention of the United Nations Development Assistance Framework (UNDAF). It was initially located as a component of the FDL, the local development fund of UNCDF in Kedougou, a department of Tambacounda. The aim of UNDAF is to coordinate donor interventions to support Senegal's development priorities particularly around the achievement of the MDGs.

Multifunctional Platforms are a decentralised energy source – such as a diesel engine – to which various end-use equipment can be attached. The equipment can be for food processing, generators to drive water pumps, recharge batteries, drive saws and welding equipments. A mini-water network and electricity grid can be supported. The energy enterprise is “owned” by a women's association. It receives a one-off start up subsidy and its members are trained and supported in operations and management. They are particularly suited to remote, small, dispersed villages, where grid electrification is technically difficult and economically expensive. The MFP can generate immediate cash flows, and save women and men's time and energy. This saving can be reinvested for other purposes, as illustrated in Figure 3 (in Chapter 7). The impacts are many and cut across many sectors. The MFP approach is to start from user needs, particularly of women and girls, established through a participatory feasibility study, based on the same generic gender analysis tools applied in Morocco and the Senegal GRBI.

To foster sustainability of the MFP beyond its project life and distil the knowledge about the impacts of the MFP in achieving MDGs, the regional MFP project⁹ commissioned a CBMS exercise. The aim is to have local government, at rural communities and regional level, take over the MFP operations and upscale them. The standard CBMS module was expanded to include a time use module, to analyse the impact that availability of infrastructure makes to the time/energy and care burden of women and girls' particularly, as well as ownership and control of the energy infrastructure.

For local government, a low cost CBMS can generate timely data for gender responsive planning and budgeting. At the time of writing, the questionnaire has been finalised and the field work, completed. The data analysis is under way. What is interesting is that local government and regional support agencies have been involved in the questionnaire design and the administration of the field work. The region's president, the rural community's mayor and deputy mayor have been personally involved. Their 'buy-in' is that they need a planning instrument at local level that builds a local database, yielding robust data for planning, budgeting, monitoring and evaluation. At present they depend on participatory approaches, and ad hoc village monographs for

problem identification. This has its limits.

A pilot experiment is now underway to link the MFP initiative with the national level GRBI in Senegal, with the link provided by CBMS. A joint GRB/CBMS initiative has just been started by IDRC and UNIFEM to tailor the CBMS questionnaire further for use by local government and local civil society organizations. This exercise started in October 2005, involving an urban commune, Tivaouane in the region of Thiès, the region of Tambacounda, and the PRSP Monitoring Unit. During the capacity building sessions, the uses to which such an instrument could be put to improve commune level diagnosis and situation analysis, and fed into planning, programming and budgeting, were explored. The questionnaire is being finalised. The following steps are capacity building for analysis of the data, and review of the existing priority actions.

Local communes have their own integrated development plan. The shift to performance budgeting is so far limited to a few ministries at national level and they do not plan in relation to the PRSP¹⁰. Some councils are trying to adopt the same approach while continuing with input-based item budgeting. This is the case for Tivaouane, whose mayor is the president of the mayors' group of the PRSP monitoring cell. In this case, in the language of PB, the strategic framework is being put in place before the mechanics of annual budgets. More importantly, the culture of results and outcomes, and of learning, is taking root. This is the crux of the matter in nurturing a GRBI.

ENDNOTES

¹ Further information can be obtained from Diop-Tine N. Rwanda: Translating Government Commitments into action, in Budlender D and Hewitt 2002. Gender Budgets make more Cents: Country Case Studies and Good Practice. Commonwealth Secretariat: London.

² Ministry of Gender and Women in Development (in collaboration with the Ministry of Finance and Economic Planning) 2002, Rwanda Budget Initiative.

³ Same source.

⁴ This section is based on the paper by Commissioner Gertrude Fester of the Commission on Gender Equality, Challenges To Promote Gender Equality: Some Lessons From South Africa for the European Union Conference, 6 May 2004, Limerick, Republic of Ireland.

⁵ From 2004/2005, an addition to the table would include actual achievement to date in the previous year compared to performance targets.

⁶ Some of this section has drawn on an as yet unpublished case study written by the author for a UNDP programming kit about mainstreaming energy services.

⁷ A first gender budget statement has been produced as an annex to the Economic and Financial Report accompanying the Finance Bill for 2006, in October 2005.

⁸ Initially developed for local government in the Philippines with IDRC Canada support, the CBMS is a census or household survey with a representative sample at local level and enabling extrapolations from the data. Typically, includes modules for monitoring various dimensions

of poverty, like the World Bank's Living Standards Measurement Surveys or the Core

⁹ Regional Energy for Poverty Reduction Programme, supported by UNDP, covering Mali, Senegal, Burkina Faso, Guinea and now Ghana and Niger.

¹⁰ At the same time local councils are one of the stakeholder groups involved in PRSP monitoring, together with the private sector, the state and NGOs.

9 TRAINING FOR PERFORMANCE BUDGETING: A TRAINING-BY-DOING FORMAT

RONALD MCGILL,
UN CAPITAL DEVELOPMENT FUND

This short training-by-doing format is how UNCDF introduces potential local authority members (councillors) and officials (officers) to the concept of and basic analysis required for PB. Normally, it focuses on local government and ideally, on a particular organization; whether real or fictitious. Role-playing is a key to engaging the participants, thus:

1. “Now you are the political leader of the council.”
2. “Now you are the head of finance in the council” or, if dealing with a ministry:
3. “Now you are the minister of finance.”
4. “Now you are the permanent secretary.”

The practical focus of the training is to prepare a draft annual report, plan and budget (ARPB) for the organization being used as the training model. Most socio-economic data is not available (even with the ‘best will in the world’). However, because most trainees are seasoned practitioners, there is considerable residual knowledge that collectively, results in workable assumptions.

The core of the work concerns the first two (of three) levels of analysis (presented in Chapter 1, section 2, and repeated below for ease of reference).

‘Thus, there are three levels of planning and budgeting analysis in PB:

1. The strategic framework and objectives analysis
2. Programme and target analysis
3. Activities and input analysis’.

The training programme (see Table 1) is clear about its intended results for each day. However, the facilitator has to be responsive to the demands of the audience. Some topics lead to discussions and early ambitions for more supporting documentation to be prepared during the training! The emphasis therefore shifts as the alternative work absorbs much of the training time, in discussion and drafting iterations. The Sudan examples are a case in point. The South Sudan experience (October 2005) resulted in the re-working of various PB manual formats into a new generic PB manual. The North

Sudan experience (February 2006) saw additional improvements being proposed to the manual. The North Sudan version of the generic PB manual is the last chapter of this book concerning ‘Turning Ideas into Action’ (Chapter 11).

Meanwhile, Chapter 10 (below) presents a working example of ARPB analysis, resulting from the ‘training-by-doing’ approach, in Armenia. That programme has since taken its first draft and moved forward with it. Two other secondary urban councils are now implementing PB. Others are joining in. It is a very encouraging case study.

The minimum time for this ‘learning-by-doing’ is four days. That assumes some preliminary information is already available, or there is a willingness to make intelligent guesses. Armenia and Eritrea both took four days; South Sudan, eight and Port Sudan, six. In this context, taking risks in order to learn, is all important.

The desired result of this training will be a first working draft of a “bottom-up” and “output-based” approach to a local government budget – the ARPB. It will yield publicly *accountable, measurable and community-based*, targeted infrastructure and service provision. This provision is to have a direct impact on particular client groups (short-term) and general socio-economic conditions (medium term). This is both in terms of the Millennium Development Goals and local economic development.

Analytical steps in preparing the ARPB

The individual steps are in supplementary notes for each numbered step in Table 1.

1. Two categories of baseline data should be gathered.

First is the socio-economic profile. This includes:

- Access to infrastructure / services (such as potable water / roads) and poverty measures
- Health and poverty measures
- Education and poverty measures
- Consolidated poverty assessments, using PRSP baseline data for the locality

Secondly, is the economic activity profile within the council’s geography. This includes:

- Economic activity according to employment classifications (e.g. agriculture, industry, government)
- Economic infrastructure, including network thresholds (e.g. water, roads) and demand profiles
- Employment, by classification and gender
- Local authority budget profile, in terms of revenue (local sources, government transfers, donor funding), expenditure and capital assets.

The conclusions to the interpretation of both sets of information will be an understanding of the *general development picture* within each council’s territory.

TABLE 1: “BOTTOM-UP” AND “OUTPUT-BASED APPROACH” TO PLANNING AND BUDGETING
*Four-day training workshop*⁴

	Activities in each session (bold numbers have supplementary notes, overleaf).	Results of each session
Day 1 Strategic Framework		
a.m.	Introduction to the workshop: <ul style="list-style-type: none"> • Its purpose • the technical components • verifying the pre-conditions for success General opening discussion Agreement to technical modalities	Participants understand the basic concepts of the public expenditure management (PEM) cycle, performance budgeting (PB), and the importance of this workshop as a practical exercise in achieving a first model “bottom-up” and output-based Plan and Budget - in PB’s annual report, plan and budget (ARPB) format.
p.m.	1. Baseline information, to contribute to the ‘ <u>general development picture</u> ’ 2. Poverty indicators, to give focus to the ‘ <u>general development challenge</u> ’	Completion of first stage of thinking, to establish the rudiments of the socio-economic context within which planning and budgeting will take place.
Day 2 Programme Definition & Medium-term Expenditure Frame		
a.m.	3. Defining the ‘ <u>strategic development imperatives</u> ’, in sequenced priority 4. Converting these imperatives to quantifiable ‘ <u>development objectives</u> ’	Completion of second stage of thinking, where the goal and quantified objectives represent the “quantified start” to performance budgeting (PB).
p.m.	5. Translating these into ‘ <u>strategic development target tables</u> ’ with costs, in sequenced priority	Completion of the third stage of thinking, where the strategic targets generate the MTE requirements.
Day 3 Projects & Annual Budgeting		
a.m.	6. Defining <u>annual target tables</u> from the strategic targets, in sequenced priority, with costs	Completion of the fourth stage of thinking, where the annual targets have to be budgeted in detail, within the MTE requirements.
p.m.	7. Sample <u>budgeting per target</u> at activity level, to verify the budget estimate	Contribution to the fourth stage, with activity analysis and costs, to verify target costs.
Day 4 Consolidated Performance Budget		
a.m.	8. Annual budget table completion for the full councils and State budget	Completion of the fifth stage, with the budget presented, at the target or output level.
p.m.	9. Finalization of draft ARPB	Completion of the final stage, with the budget and supporting explanations in the ARPB.

2. The socio-economic profile will provide poverty indicators.

These will be conditioned by the MDGs and government's action on them through its PRSP. The economic activity profile will suggest direction to increase the economy to help the poverty challenge. Both help to understand the *general development challenge*. From this, a development goal must be defined. The following is an illustration.

Reduce poverty by tackling the various indicators of multiple deprivation, captured in the agreed 'general development challenge', through the filter of the MDGs and resulting PRSP.

3. The general development picture and the general development challenge will lead the local council to settle on the strategic development imperatives facing the local authorities.

For illustration, three 'imperatives' are offered: water; food security; remoteness / access. All are clearly related to both poverty and local economic development. These must be prioritised, in sequence. Even if all are crucial to a particular location, it may simply not be possible to fund everything. They must then be converted into quantifiable development objectives.

4. The point about an objective is to understand the current level of provision.

That presents the baseline. A percentage expression is best. The proposed increase in provision (as an achievable objective, all else being equal) can then be agreed to. For illustration, the development imperative of water is converted into a development objective, as follows:

Annual water provision to support household¹, agriculture² and enterprise³ consumption to increase from 30% to 80% of need within three years.

The objective must be defined in terms of the present situation (30%) and the anticipated level of provision within the strategic plan period (80%).

5. Achieving the objective on water provision requires a definition of all possible sources of increased water supply.

For illustration, five are suggested:

- River dam and pipeline
- Boreholes
- Rainwater catchments / dams
- Wells
- Inter-governorate pipelines.

The potential provision from each source to satisfy 100% of the objective must be determined. The unit numbers must be agreed. Finally the current unit and total cost of each must be calculated. The result for this (and each) objective should therefore be a strategic targets table.

6. The annual targets are simply those that can be achieved in the particular year of the three-year cycle.

It is the target to be budgeted for the year of actual implementation. The simplest presentation of annual targets can be as a refined version of the three-year target table for each development imperative.

7. Budgets per target are founded on activity analysis and resulting inputs, as follows:

- activities (normally describing the elements of the implementation process)
- inputs (the items required to achieve them – labour, equipment etc.)
- input costs
- input budget codes
- total cost per target.

The simplest way is to perform the analysis and subsequent budgeting in table form.

8. This is the aggregate budget table, showing both the targets (outputs), the classification of expenditure and the sources of revenue to fund the achievement of each target.

This is an Excel sheet and performs all the calculations necessary for the budget. This is the aggregate budget at target level. Activity analysis, input items, input codes and input costs for each activity are at the disaggregate target table level.

9. This is a review of the elements of the ARPB.

- Statement by the local government leader, including key performance highlights (Part 1 of ARPB);
- Executive summary of the entire document (Part 2 ARPB).
- Strategic performance framework - the 3 year perspective (Part 3 of ARPB);
- Performance last year (Part 4 of ARPB);
- Proposals for next year (Part 5 of ARPB).
- Resource requirements for next year - the budget bid (Part 6 of ARPB).

ENDNOTES

- ¹ Within 800 metres.
- ² Direct provision by boreholes, irrigation or piped system.
- ³ Direct piped provision.
- ⁴ This is an absolute minimum amount of time to yield the rudiments of practical success; PB understanding and a first draft ARPB. The author delivered five days of training to the Shanghai University of Finance and Economics, in April 2006. This was based on a) an invitation to deliver the training, as an introduction to b) a possible longer-term South-South collaboration. After the training (delivered to government officials, faculty members and students), it was agreed that a possible generic format for training to future Chinese government officials, should cover six days, as follows:
 1. Concept of performance budgeting.
 2. Strategic framework.
 3. Programme definition and ‘medium-term expenditure frame.’
 4. Projects and annual budgeting.
 5. Consolidated performance budget.
 6. Measuring performance.

10 TRAINING FOR PERFORMANCE BUDGETING: EXAMPLE OF A TRAINING RESULT FROM ARMENIA

RONALD MCGILL,
UN CAPITAL DEVELOPMENT FUND

Editors Note: This is an example of what can result from the performance budgeting training presented in Chapter 9. The idea is simply to establish the rudiments of PB through the Annual Report Plan and Budget (ARPB) format. The local counterpart staff can then take it forward, to full adoption and implementation. This is now the encouraging situation in Armenia, where UNDP hired UNCDF as its technical advisor to formulate the Armenian PB project for its local government. It has since expanded, with USAID investment and technical assistance, as well as help from UNDP's regional center in Bratislava.

DILIJAN CITY COUNCIL

Annual Report, Plan and Budget (ARPB) 2005-2006

(1st working draft, as a result of the March 2005 budget conversion training)

Introducing the Annual Report, Plan and Budget Format

Structure of ARPB

A normal annual report starts with a general statement from the organization's leadership. This persists, in something like the following order:

- a statement by the regional governor, including a review of the key performance highlights for last year and development thrust for next year (Part 1 of ARPB);
- an executive summary of the entire document (Part 2 ARPB).

These first two sections speak for themselves.

- The analytical core of ARPB

Then comes the analytical core of ARPB; for development planning and performance budgeting, namely:

- Strategic performance framework - the 3 year perspective (Part 3 of ARPB);
- Performance last year (Part 4 of ARPB);
- Proposals for next year (Part 5 of ARPB).
- Resource requirements for next year - the budget bid (Part 6 of ARPB).

For the purposes of this first draft working text and as a direct of the February training, all the above sections are structured. In addition, the following sections are developed in more detail.

- Strategic performance framework - the 3 year perspective (Part 3 of ARPB);
- Proposals for next year (Part 5 of ARPB).
- Resource requirements for next year - the budget bid (Part 6 of ARPB).

Desired result of ARPB

The desired result of ARPB is publicly accountable, measurable and community based, targeted infrastructure and service provision. This is to have a direct impact on particular client groups (short-term) and general socio-economic conditions (medium term). This is both in terms of the Millennium Development Goals and local economic development.

PART 1. A STATEMENT BY THE CITY MAYOR

This should include a review of the key performance highlights for last year and development thrust for next year. It should also state the revenue total (the resource envelope) agreed for the city. That total should be made up of the following:

1. Local revenue
2. Loans
3. Central government transfers
4. Donor transfers
5. Community contributions in cash (and valued, if in kind).

To follow at the end of 2005, as part of the budget submission for 2006

PART 2. AN EXECUTIVE SUMMARY OF THE ENTIRE DOCUMENT

To follow at the end of 2005, as part of the budget submission for 2006

PART 3. STRATEGIC PERFORMANCE FRAMEWORK - THE 3 YEAR PERSPECTIVE (2006-2008)

The strategic framework - local development strategy

Part 3 of ARPB is the strategic framework, expressed as the local development strategy (LDS). It should span three years. Its structure should comprise the following main sections:

- Baseline information, to contribute to the 'general development picture'
- Poverty indicators, to give focus to the 'general development challenge'
- Defining the 'strategic development imperatives'.

- Converting these imperatives to quantifiable ‘development objectives’.
- Translating these into ‘strategic development targets’ with costs.
- 1 Baseline information, to contribute to the ‘general development picture’.

Two categories of baseline data should be gathered. First is the socio-economic profile. This includes:

- Access to infrastructure / services (such as water / roads) and poverty measures
- Health and poverty measures.
- Education and poverty measures.
- Aggregate poverty assessments.

Secondly, is the economic activity profile within the council’s geography. This includes:

- Economic activity according to employment classifications.
- Economic infrastructure, including network thresholds and demand profiles.
- Employment, by classification and gender.
- Local authority budget profile, in terms of revenue, expenditure and capital assets.

The city council participants had to make assumptions about their baseline data. They presented matters as follows:

- Population- 16202 (14980)
- Infrastructures
 - Roads, Tunnel exploitation
 1. Republican roads- good
 2. Intercommunity- bad
- Water Pipes
 - Urban pipes- bad
- Gasification
 - level of gasification-80% - good
- Telecommunication- good
- Electricity – good
 - energy supply- satisfactory
- Services
 1. health
 2. education- science
 3. culture-sport

4. agriculture
5. industry
6. construction
7. tourism
8. employment
9. information
 - local TV
 - “Dilijan” newspaper monthly

Possible interventions were introduced, to include:

1. improvement of social situation of population through tourism development, increase types of services provided to tourists, food security (local production), development of communal services, development of popular/national crafts
2. increase production volumes of “Dilijan” mineral water
3. exploitation of renovated productions of “Impulse” factory/ renovation of agricultural machinery of the region, production of agricultural tools.

The conclusions to the interpretation of both sets of information will be an understanding of the *general development picture* within each council.

2. Poverty and economic indicators for the ‘general development challenge’

The socio-economic profile provides poverty indicators. These are conditioned by the MDGs and government’s action on them through its PRSP. The economic activity profile suggest direction to increase the economy to help the poverty challenge. Both help to understand the general development challenge. From this, a development goal was defined, as:

To increase economic activity in order to improve significantly, the socio-economic well being of the city’s inhabitants.

From this, development imperatives must be agreed.

3. Defining the ‘strategic development imperatives’

The general development picture and the general development challenge, tempered by the community-based initiatives to date and in prospect, lead the city council representatives to settle on the strategic development imperatives facing the region. Five ‘imperatives’ were agreed. After debate, they were prioritised in terms of (a) the potential number of beneficiaries, (b) sustainability and (c) being ‘pro-poor’. The imperatives are:

- Infrastructure

- Human capital
- Business climate
- Consumers / new markets
- Finance

They must then be converted into quantifiable development objectives.

4. Converting these imperatives to quantifiable ‘development objectives’

The point about an objective is to understand the current level of provision. That presents the baseline. A percentage expression is best. The proposed increase in provision (as an achievable objective, all else being equal) can then be agreed to. The quantified objective for each imperatives, is as follows:

1. Increase infrastructure provision from 38% to 71% of need within 3 years.
2. Increase human capital from 41% to 52% of local capacity within 3 years.
3. Improve the business climate from 50% to 75% within 3 years.
4. Improve business productivity from 30% to 60% within 3 years.
5. Increase access to external financing from 25% to 30% of need within 3 years.

There is also a need to identify an objective that covers all other public expenditure that is not channelled towards the development imperatives, thus:

6. *Development and maintenance of all other services not covered in the five development imperatives above.*

These objectives must then be converted into a set of strategic (three-year) development targets, with costs.

5. Translating these into ‘strategic development targets’ with costs

Achieving any objective requires a definition of all possible interventions or proposals to achieve the objective.

The potential provision from each intervention to satisfy 100% of the objective must be determined. The unit numbers must be agreed. Finally the current unit and total cost of each must be calculated. The result for this (and each) objective should therefore be a strategic targets table, as follows:

TABLE 1: OBJECTIVE 1 - STRATEGIC TARGETS

Increase infrastructure provision from 38% to 71% of need within three years.

'Strategic (3-year) targets' - programme	% share to achieve objective	Unit number (A)	Unit cost in US \$ (B)	Total cost (A x B)
1. Water – rehabilitation	20	5,000m	AD 3,000/m	AD 15million
2. Water – new construction	10	25,000m	AD 10,000/m	AD 280million
3. Roads – rehabilitation	15	20,000m	AD 1,000/m	AD 20million
4. Roads – new construction	15	5,000m	AD 16,000/m	AD 80million
5. Energy – rehabilitation	20	20,000m	AD 500/m	AD 10million
6. Energy – new construction	10	35000m	AD 1,200/m	AD 6million
7. ICT – new household connections	10	1,000	AD 50,000/connection	AD 50million
8. Maintain service provision - 'line'	N/A	N/A	N/A	*
9. 'Staff' support (HR, finance etc)	N/A	N/A	N/A	*
Totals	100	N/A	N/A	AD 461m (+ recurrent*)

TABLE 2: OBJECTIVE 2 - STRATEGIC TARGETS

Increase human capital from 41% to 52% of local capacity within three years.

'Strategic (3-year) targets' - programme	% share to achieve objective	Unit number	Unit cost in US \$	Total cost
1. Skills gap analysis	n/a	n/a	AD 1million	AD 1million
2. Vocational training - rehabilitation	40	4	AD 1million	AD 4million
3. Vocational training – new construction	10	1	AD 3million	AD 3million
4. Special schools - rehabilitation	40	4	AD 2million	AD 8million
5. Special education – new construction	10	1	AD 4million	AD 4million
7. Maintain service provision - 'line'	N/A	N/A	N/A	?
8. 'Staff' support (HR, finance etc)	N/A	N/A	N/A	?
Totals	100	N/a	N/a	AD 20m (+ recurrent*)

TABLE 3: OBJECTIVE 3 - STRATEGIC TARGETS

Improve the business climate from 50% to 75% within three years.

'Strategic (3-year) targets' - programme	% share to achieve objective	Unit number (A)	Unit cost in US \$ (B)	Total cost (A x B)
1. Business promotion – buildings, facilities	35	1	AD 3.5million	AD 3.5million
2. Business promotion – equipment	15	1	AD 2.0million	AD 2.0million
3. Internet connectivity + website	20			AD 1.0million
4. Privileges – concessions	15			AD 3.0million
5. Privileges – incentives	15			AD 1.0million
6. Maintain service provision - 'line'	N/A	N/A	N/A	*
7. 'Staff' support (HR, finance etc)	N/A	N/A	N/A	*
Totals	100	N/A	N/A	AD 10.5m (+ recurrent*)

TABLE 4: OBJECTIVE 4 - STRATEGIC TARGETS

Improve business productivity from 30% to 60% within three years.

'Strategic (3-year) targets' - programme	% share to achieve objective	Unit number (A)	Unit cost in US \$ (B)	Total cost (A x B)
1. Community sub-division - posts	20			AD 0.5million
2. Community sub-division - information	50			AD 1.5million
3. Trade exhibitions	30			AD 1.5million
4. Maintain service provision - 'line'	N/A	N/A	N/A	*
5. 'Staff' support (HR, finance etc)	N/A	N/A	N/A	*
Totals	100	N/A	N/A	AD 3.5m (+ recurrent*)

TABLE 5: OBJECTIVE 5 - STRATEGIC TARGETS

Increase access to external financing from 25% to 30% of need within three years.

'Strategic (3-year) targets' - programme	% share to achieve objective	Unit number (A)	Unit cost in US \$ (B)	Total cost (A x B)
1. Subventions	30			AD 30million
2. Donations	5			AD 5million
3. Dividends	5			AD 5million
4. Foundation fund	20			AD 20million
5. Residents' contributions	10			AD 10 million
6. Grants	15			AD 15million
7. Loans	13			AD 13million
8. Credits	2			AD 2million
9. Maintain service provision - 'line'	N/A	N/A	N/A	*
10. 'Staff' support (HR, finance etc)	N/A	N/A	N/A	*
Totals	100	N/A	N/A	AD 100m (+ recurrent*)

TABLE 6: OBJECTIVE 6 - STRATEGIC TARGETS

Development and maintenance of all other services not covered in the five development imperatives.

'Strategic (3-year) targets' - programme	% share to achieve objective	Unit number	Unit cost in US \$	Total cost
1. Garbage service				(to be entered)
2. Landscaping				(to be entered)
3. Planning / zoning service				(to be entered)
4. City / public events				(to be entered)
5. Public transport				(to be entered)
6. Emergency services				(to be entered)
7. 'Staff' support (HR, finance etc)	n/a	n/a	n/a	n/a

Each three-year target table arrives at a medium-term expenditure (MTE) requirement to achieve the objective. Once all tables are completed, the medium term expenditure framework for investment is formed.

The second part of the task is prioritization. The first question is to choose the criteria to help determine the priorities. The second is to score each criterion to help in the prioritization process (say 1 being modest; 2 being reasonable impact and 3 being high). The prioritization for the proposals to achieve each strategic target are as follows:

TABLE 7: OBJECTIVE 1 - STRATEGIC TARGETS / PRIORITISED

Increase infrastructure provision from 38% to 71% of need within 3 years.

'Strategic (3-year) targets' - programme	Total cost	Potential beneficiary impact	Prospects of sustainability	Potential pro-poor impact	Total
1. Water – rehabilitation	AD 15million	3	2	3	8
2. Water – new construction	AD 280million	2	3	2	7
3. Roads – rehabilitation	AD 20million	3	3	3	9
4. Roads – new construction	AD 80million	1	3	2	6
5. Energy – rehabilitation	AD 10million	3	1	2	6
6. Energy – new construction	AD 6million	2	3	2	7
7. ICT – new household connections	AD 50million	1	3	2	6
6. Maintain service provision - 'line'	*				
7. 'Staff' support (HR, finance etc)	*				
Totals	AD 461m (+ recurrent*)				

TABLE 8: OBJECTIVE 2 - STRATEGIC TARGETS / PRIORITISED

Increase human capital from 41% to 52% of local capacity within 3 years.

'Strategic (3-year) targets' - programme	Total cost	Potential beneficiary impact	Prospects of sustainability	Potential pro-poor impact	Total
1. Skills gap analysis	AD 1million	3	3	1	7
2. Vocational training - rehabilitation	AD 4million	2	1	2	5
3. Vocational training – new construction	AD 3million	1	3	2	6
4. Special schools - rehabilitation	AD 8million	2	1	2	5
5. Special education – new construction	AD 4million	1	3	1	5
6. Maintain service provision - 'line'	?				
7. 'Staff' support (HR, finance etc)	?				
Totals	AD 20m (+ recurrent*)				

TABLE 9: OBJECTIVE 3 - STRATEGIC TARGETS / PRIORITISED

Improve the business climate from 50% to 75% within three years.

'Strategic (3-year) targets' - programme	Total cost	Potential beneficiary impact	Prospects of sustainability	Potential pro-poor impact	Total
1. Business promotion – buildings, facilities	AD 3.5million	1	3	1	5
2. Business promotion – equipment	AD 2.0million	1	2	1	4
3. Internet connectivity + website	AD 1.0million	2	2	0.5	4.5
4. Privileges – concessions	AD 3.0million	0.5	0	3	3.5
5. Privileges – incentives	AD 1.0million	2	2	1.5	5.5
6. Maintain service provision - 'line'	*				
7. 'Staff' support (HR, finance etc)	*				
Totals	AD 10.5m (+ recurrent*)				

TABLE 10: OBJECTIVE 4 - STRATEGIC TARGETS / PRIORITISED

Improve business productivity from 30% to 60% within three years.

'Strategic (3-year) targets' - programme	Total cost	Potential beneficiary impact	Prospects of sustainability	Potential pro-poor impact	Total
1. Community sub-division - posts	AD 0.5million	3	2	1	6
2. Community sub-division - information	AD 1.5million	3	1.5	1	5.5
3. Trade exhibitions	AD 1.5million	3	2	2	7
4. Maintain service provision - 'line'	*				
5. 'Staff' support (HR, finance etc)	*				
Totals	AD 3.5m (+ recurrent*)				

TABLE 11: OBJECTIVE 5 - STRATEGIC TARGETS / PRIORITISED

Increase access to external financing from 25% to 30% of need within three years.

'Strategic (3-year) targets' - programme	Total cost	Potential beneficiary impact	Prospects of sustainability	Potential pro-poor impact	Total
1. Subventions	AD 30million	2	3	2	7
2. Donations	AD 5million	1.5	1.5	1.5	4.5
3. Dividends	AD 5million	1.5	1.5	1.5	4.5
4. Foundation fund	AD 20million	3	3	3	9
5. Residents' contributions	AD 10 million	1.5	1.5	1.5	4.5
6. Grants	AD 15million	1	1.5	1	3.5
7. Loans	AD 13million	2	2	1	5
8. Credits	AD 2million	2	2	1.5	5.5
9. Maintain service provision - 'line'	*				
10. 'Staff' support (HR, finance etc)	*				
Totals	AD 100m (+ recurrent*)				

TABLE 12: OBJECTIVE 6 - STRATEGIC TARGETS / PRIORITISED

Development and maintenance of all other services not covered in the five development imperatives.

'Strategic (3-year) targets' - programme	Total cost	Potential beneficiary impact	Prospects of sustainability	Potential pro-poor impact	Total
1. Garbage service	(to be entered)	3	3	3	9
2. Landscaping	(to be entered)	3	3	1	7
3. Planning / zoning service	(to be entered)	1	1	1	3
4. City / public events	(to be entered)	2	2	1	5
5. Public transport	(to be entered)	2	2	2	6
6. Emergency services	(to be entered)	2	2	2	6
7. 'Staff' support (HR, finance etc)	(to be entered)	n/a	n/a	n/a	n/a
Totals					

The sum total for the prioritization gives a set of sequenced priorities for the regional administration. If the resulting revenue raised is not that which was expected, then projects will be cut, from the lowest priority upwards, until the point of affordability is reached. The next step is to review performance last year. This will help influence what proposals are recommended for next year, in the light of the strategic framework – Part 3 above.

PART 4. PERFORMANCE LAST YEAR (2005)

To follow at the end of 2005, as result of the training in November but as an introductory statement...

Reviewing Performance

The strategic framework and annual proposals will be followed by a review of last year's performance. That performance should be structured according to the achievement of annual targets (in terms of expenditure, efficiency and effectiveness).

The achievement of annual targets (in terms of economy, efficiency and effectiveness).

The achievement of annual targets is a test of the economy of the inputs, the efficiency of the outputs and effectiveness of the impact (of all infrastructure and services provided). The expenditure test deploys basic variance analysis (budgeted to actual expenditure). The efficiency test is in terms of outputs; their progress, completion on time, to specification and so on. The effectiveness in terms of impact: whether on particular client groups (satisfaction of demand, occupancy rate, use of facility) or on general socio-economic conditions (such as poverty indicators). The impact on particular client groups is meant to be assessed with the client groups' participation. The result of the assessment is a percentage score, for the specific project and the general programme of investment for that year (Tables 13-18 offer the annual performance assessment framework for each objective; i.e. for each programme). The assessment format has since been given more precision: see Chapter 11, Table 8.

TABLE 13: PERFORMANCE MEASUREMENT – OBJECTIVE 1

Increase infrastructure provision from 38% to 71% of need within three years.

Project	ECONOMY			EFFICIENCY	EFFECTIVENESS	SCORES
	Budget (annual)	Actual	Cost var'			
1. Water – rehabilitation				Efficiency in delivering the OUTPUT: ¹	Effectiveness in terms of IMPACT: ²	Aggregate assessment % scores: ³
2. Water – new construction						
3. Roads – rehabilitation						
4. Roads – new construction						
5. Energy – rehabilitation						
6. Energy – new construction						
7. ICT – new household connections						
8. Maintain service provision - 'line'						
9. 'Staff' support (HR, finance etc)						
Totals					Average	

Followed by a concluding statement, including the implications for next year's proposals.

TABLE 14: PERFORMANCE MEASUREMENT – OBJECTIVE 2
 Increase human capital from 41% to 52% of local capacity within 3 years.

Project	ECONOMY			EFFICIENCY	EFFECTIVENESS	SCORES
	Budget (annual)	Actual	Cost var'			
1. Skills gap analysis						
2. Vocational training - rehabilitation						
3. Vocational training – new construction						
4. Special schools - rehabilitation						
5. Special education – new construction						
6. Maintain service provision - 'line'						
7. 'Staff' support (HR, finance etc)						
Totals					Average	

Followed by a concluding statement, including the implications for next year's proposals.

TABLE 15: PERFORMANCE MEASUREMENT – OBJECTIVE 3

Improve the business climate from 50% to 75% within three years.

Project	ECONOMY			EFFICIENCY	EFFECTIVENESS	SCORES
	Budget (annual)	Actual	Cost var'			
1. Business promotion – buildings, facilities				Efficiency in delivering the OUTPUT: ⁷	Effectiveness in terms of IMPACT: ⁸	Aggregate assessment % scores: ⁹
2. Business promotion – equipment						
3. Internet connectivity + website						
4. Privileges – concessions						
5. Privileges – incentives						
6. Maintain service provision - 'line'						
7. 'Staff' support (HR, finance etc)						
Totals					Average	

Followed by a concluding statement, including the implications for next year's proposals.

TABLE 16: PERFORMANCE MEASUREMENT – OBJECTIVE 4

Improve business productivity from 30% to 60% within three years.

Project	ECONOMY				EFFICIENCY	EFFECTIVENESS	SCORES
	Budget (annual)	Actual	Cost var'	% variance			
1. Community sub-division - posts							
2. Community sub-division - information							
3. Trade exhibitions							
4. Maintain service provision - 'line'							
5. 'Staff' support (HR, finance etc)							
Totals						Average	

Followed by a concluding statement, including the implications for next year's proposals.

TABLE 17: PERFORMANCE MEASUREMENT – OBJECTIVE 5

Increase access to external financing from 25% to 30% of need within three years.

Project	ECONOMY				EFFICIENCY	EFFECTIVENESS	SCORES
	Budget (annual)	Actual	Cost var'	% variance			
1. Subventions							
2. Donations							
3. Dividends							
4. Foundation fund							
5. Residents' contributions							
6. Grants							
7. Loans							
8. Credits							
9. Maintain service provision - 'line'							
10. 'Staff' support (HR, finance etc)							
Totals						Average	

Followed by a concluding statement, including the implications for next year's proposals.

TABLE 18: PERFORMANCE MEASUREMENT – OBJECTIVE 6

Development and maintenance of all other services not covered in the five development imperatives.

Project	ECONOMY				EFFICIENCY	EFFECTIVENESS	SCORES
	Budget (annual)	Actual	Cost var'	% variance			
1. Garbage service	(to be entered)						Aggregate assessment % scores: ¹⁸
2. Landscaping	(to be entered)						
3. Planning / zoning service	(to be entered)						
4. City / public events	(to be entered)						
5. Public transport	(to be entered)						
6. Emergency services	(to be entered)						
7. 'Staff' support (HR, finance etc)	(to be entered)						
Totals						Average	

Followed by a concluding statement, including the implications for next year's proposals.
 Then a general statement about the performance last year and how it will affect next year's proposals.

PART 5
Proposals for next year
Annual targets (as a proportion of the strategic targets)

The annual targets are simply those that can be achieved in the particular year of the three-year cycle. It is the target to be budgeted for the year of actual implementation. The simplest presentation of annual targets can be as a refined version of the three-year target table for each development imperative .

TABLE 19: OBJECTIVE 1 - ANNUAL TARGETS

Increase infrastructure provision from 38% to 71% of need within three years.

'Annual targets' - projects	% share to achieve objective	Unit number	Total cost of strategic target	Total cost of annual target
1. Water – rehabilitation	20	5,000m	AD 15million	
2. Water – new construction	10	25,000m	AD 280million	
3. Roads – rehabilitation	15	20,000m	AD 20million	
4. Roads – new construction	15	5,000m	AD 80million	
5. Energy – rehabilitation	20	20,000m	AD 10million	
6. Energy – new construction	10	35000m	AD 6million	
7. ICT – new household connections	10	1,000	AD 50million	
8. Maintain service provision - 'line'	N/A	N/A	*	
9. 'Staff' support (HR, finance etc)	N/A	N/A	*	
Totals	100	N/A	AD 461m (+ recurrent*)	

TABLE 20: OBJECTIVE 2 - ANNUAL TARGETS

Increase human capital from 41% to 52% of local capacity within three years.

'Annual targets' - projects	% share to achieve objective	Unit number	Total cost of strategic target	Total cost of annual target
1. Skills gap analysis	n/a	n/a	AD 1million	
2. Vocational training - rehabilitation	40	4	AD 4million	
3. Vocational training – new construction	10	1	AD 3million	
4. Special schools - rehabilitation	40	4	AD 8million	
5. Special education – new construction	10	1	AD 4million	
7. Maintain service provision - 'line'	N/A	N/A	?	
8. 'Staff' support (HR, finance etc)	N/A	N/A	?	
Totals	100	N/a	AD 20m (+ recurrent*)	

TABLE 21: OBJECTIVE 3 - ANNUAL TARGETS

Improve the business climate from 50% to 75% within three years.

'Annual targets' - projects	% share to achieve objective	Unit number	Total cost of strategic target	Total cost of annual target
1. Business promotion – buildings, facilities	35	1	AD 3.5million	
2. Business promotion – equipment	15	1	AD 2.0million	
3. Internet connectivity + website	20		AD 1.0million	
4. Privileges – concessions	15		AD 3.0million	
5. Privileges – incentives	15		AD 1.0million	
6. Maintain service provision - 'line'	N/A	N/A	*	
7. 'Staff' support (HR, finance etc)	N/A	N/A	*	
Totals	100	N/A	AD 10.5m (+ recurrent*)	

TABLE 22: OBJECTIVE 4 - ANNUAL TARGETS

Improve business productivity from 30% to 60% within three years.

'Annual targets' - projects	% share to achieve objective	Unit number	Total cost of strategic target	Total cost of annual target
1. Community sub-division - posts	20		AD 0.5million	
2. Community sub-division - information	50		AD 1.5million	
3. Trade exhibitions	30		AD 1.5million	
4. Maintain service provision - 'line'	N/A	N/A	*	
5. 'Staff' support (HR, finance etc)	N/A	N/A	*	
Totals	100	N/A	AD 3.5m (+ recurrent*)	

TABLE 23: OBJECTIVE 5 - ANNUAL TARGETS

Increase access to external financing from 25% to 30% of need within three years.

'Annual targets' - projects	% share to achieve objective	Unit number	Total cost of strategic target	Total cost of annual target
1. Subventions	30		AD 30million	
2. Donations	5		AD 5million	
3. Dividends	5		AD 5million	
4. Foundation fund	20		AD 20million	
5. Residents' contributions	10		AD 10 million	
6. Grants	15		AD 15million	
7. Loans	13		AD 13million	
8. Credits	2		AD 2million	
9. Maintain service provision - 'line'	N/A	N/A	*	
10. 'Staff' support (HR, finance etc)	N/A	N/A	*	
Totals	100	N/A	AD 100m (+ recurrent*)	

TABLE 24: OBJECTIVE 6 - ANNUAL TARGETS

Development and maintenance of all other services not covered in the five development imperatives.

'Annual targets' - projects	% share to achieve objective	Unit number	Total cost of strategic target	Total cost of annual target
1. Garbage service				
2. Landscaping				
3. Planning / zoning service				
4. City / public events				
5. Public transport				
6. Emergency services				
7. 'Staff' support (HR, finance etc)	n/a	n/a	N/A	
Totals	100	N/A	7,663,000	(Calculate!)

For each, the total cost is clear, in the context of each strategic target. Then, if the annual total is 1/3rd or 33%, it will take 3 years to complete the strategic target and will be costed accordingly. However, the total cost for each target must be individually budgeted, to confirm the cost estimate. It is imperative that the annual expenditure targets are analysed in a separate table. The reason is that it may be that local priorities decide to build all the rain catchment dams in the first year of the three-year plan period. This separate step in the analytical process is therefore crucial.

This is based on activity and input analysis. The resulting target tables, for each proposal, will therefore be included as a separate annex or volume, for references purposes. One example is included below, for the top priority objective (01), its top priority strategic target (01) and its top priority annual target (01), thus the performance code 010101. This code will be prefaced by an organizational and or locational code and followed by the input or expenditure item code, thus 'organization/010101/input code.

Budget analysis for each target

Budgets per target are founded on activity analysis and resulting inputs, as follows:

- activities (normally describing the elements of the implementation process)
- inputs (the items required to achieve them – labour, equipment etc.)
- input costs
- input budget codes
- total cost per target.

The simplest way is to perform the analysis and subsequent budgeting in table form. The budgeting or 'target' table is presented in Table ??: Target table for annual target 010101.

If each objective averages five proposals and there are 5 objectives, there will be 25 target tables – enough to justify a separate document to supplement the main budget submission.

TABLE 25: TARGET TABLE FOR ANNUAL TARGET 010101

One river dam and pipeline.			
One river dam and pipeline: 1/3rd of total construction cycle.			
'Strategic target'	Inputs required for each activity	Item code per input	TOTALS per activity
'Annual target'			
Activities to achieve the target			
1 Topographical survey	(What is needed to achieve each activity, such as specialist personnel, equipment, transport, materials and so on)	(Line-item or expenditure code for each input. Frequently, there is more than one input for each activity)	(Each activity's inputs must be totalled)
2 Initial design			
3 Testing community and environmental acceptability			
4 Detailed design and costs			
5 Tender documents			
6 Open tender process			
7 Contract awarded			
8 Site preparation			
9 Construction of foundations			
Total cost to achieve the annual target			(i.e. the total cost of all activities)

PART 6: RESOURCE REQUIREMENTS FOR NEXT YEAR - THE BUDGET BID

Summary Budget Format

Spreadsheet and supporting notes

The entire process comes down to the aggregated annual budget, in the context of the medium term expenditure estimates, at target or output level. This is where the composite calculations are made and where the balances, in relation to progress within the three-year strategy, can be assessed easily. The suggested format for this sheet is overleaf. Its supporting notes follow below.

Notes to the spreadsheet:

- 1) Each project's (target's) inputs are analysed in each Target Table (TT). It analyses activities, inputs, input codes and costs to implement the project (to achieve the target).
- 2) i.e. balance remaining to achieve the objective.
- 3) The creation of new or the rehabilitation of existing physical assets.
- 4) The provision of services from all council assets, whether new, rehabilitated or simply maintained, plus the share of support services (the 'staff' functions) from HR, finance and planning.
- 5) The capacity building measures to ensure (a) the 'line' functions' sustainable delivery, operations and maintenance of infrastructure and resulting services and (b) the 'staff' functions' sustainable ability to support the 'line' functions.
- 6) Within the annual cycle, there are two performance tests: economy (of the inputs), in terms of variance analysis and unit costs; and efficiency (of the outputs), in terms of progress, completion on time and to specification. Strategically (every 3rd year), the third performance test is effectiveness (of the impact); on particular client groups (satisfaction of demand, occupancy rate, use of facility) and on general socio-economic conditions (such as poverty indicators).
- 7) This is the baseline in terms of ensuring the provision of staff, running and maintenance costs (O&M), to deliver the existing service.
- 8) The basic tests are: do the posts exist to perform the required function(s); are they filled; are the personnel fully trained; are systems and supporting equipment in place; and is full productivity being reached?

TABLE 26: BUDGET SUMMARY – AGGREGATE

Goal	To increase economic activity in order to improve significantly, the socio-economic well being of the city’s inhabitants.	\$
Objective 01	Increase infrastructure provision from 38% to 71% of need within 3 years.	\$
Objective 02	Increase human capital from 41% to 52% of local capacity within 3 years.	\$
Objective 03	Improve the business climate from 50% to 75% within 3 years.	\$
Objective 04	Improve business productivity from 30% to 60% within 3 years.	\$
Objective 05	Increase access to external financing from 25% to 30% of need within 3 years	\$
Objective 06	Development and maintenance of all other services not covered in the five development imperatives.	\$

TABLE 27: INCREASE INFRASTRUCTURE PROVISION FROM 38% TO 71% OF NEED WITHIN THREE YEARS (OBJECTIVE 01)

PB code (in priority)	PB output means	Annual targets	% share to achieve objective	Unit number	Total costs from strategic targets (MTEF)	Annual Cost Inputs (1)			Annual totals	Strategic totals less annual totals; the balance (2)
						Capital (3)	Operations (4)	Capacity (5)		
1.01	Programme (6)				AD 461 m (+ recurrent*)	AD 154m			?	?
	Project	1. Water – rehabilitation	20	5,000m	AD 15million	AD 10m	AD 0.5m	AD 1m	?	?
	Project	2. Water – new construction	10	25,000m	AD 280million	AD 34m	AD 0.3m	AD 3m	?	?
	Project	3. Roads – rehabilitation	15	20,000m	AD 20million	AD 20m	AD 0.2m	AD 0.5m	?	?
	Project	4. Roads – new construction	15	5,000m	AD 80million	AD 80m	AD 1m	AD 2m	?	?
	Project	5. Energy – rehabilitation	20	20,000m	AD 10million	AD 4m	AD 0.2m	AD 3m	?	?
	Project	6. Energy – new construction	10	35000m	AD 6million	AD 6m	AD 0.3m	AD 3m	?	?
	Project	7. ICT – new household connections	10	1,000	AD 50million	0	0	0	?	?
	Project	8. Maintain service provision - 'line'	Initial 38%	N/A	*	0	AD 20m	AD 3m	?	?
	Project	9. 'Staff' support (HR, finance etc)	(% share of total cost of 'staff' functions to support prog 1.01)	N/A	*		AD 5m	AD 1m	?	?

TABLE 28: INCREASE HUMAN CAPITAL FROM 41% TO 52% OF LOCAL CAPACITY WITHIN THREE YEARS (OBJECTIVE 02)

PB code (in priority)	PB output means	Annual targets	% share to achieve objective	Unit number (share of strategic targets)	Total costs from strategic targets (MTEF)	Annual Cost Inputs (1)			Annual totals	Strategic totals less annual totals; the balance (2)
						Capital (3)	Operations (4)	Capacity (5)		
2.01	Programme (6)				AD 20m (+ recurrent*)	AD20m	?	?	?	?
	Project	1. Skills gap analysis	n/a	n/a	AD 1million	AD 1million	?	?	?	?
	Project	2. Vocational training - rehabilitation	40	4	AD 4million	AD 4million	?	?	?	?
	Project	3. Vocational training – new construction	10	1	AD 3million		?	?	?	?
	Project	4. Special schools - rehabilitation	40	4	AD 8million	AD 8million	?	?	?	?
	Project	5. Special education – new construction	10	1	AD 4million		?	?	?	?
	Project	7. Maintain service provision - 'line'	Initial 41%	N/A	?	?	?	?	?	?
	Project	8. 'Staff' support (HR, finance etc)	(% share of total cost of 'staff' functions to support prog 1.01)	N/A	?	?	?	?	?	?

TABLE 29: IMPROVE THE BUSINESS CLIMATE FROM 65% TO 75% WITHIN THREE YEARS (OBJECTIVE 03)

PB code	PB output means	Annual targets	% share to achieve objective	Unit number (share of strategic targets)	Total costs from strategic targets (MTEF)	Annual Cost Inputs (1)			Annual totals	Strategic totals less annual totals; the balance (2)
						Capital (3)	Operations (4)	Capacity (5)		
(in priority)										
3.01	Programme (6)				AD 10.5m (+ recurrent*)	AD 10.5m	?	?	?	?
	Project	1. Business promotion – buildings, facilities	35	1	AD 3.5million	AD 3.5million	?	?	?	?
	Project	2. Business promotion – equipment	15	1	AD 2.0million	AD 2.0million	?	?	?	?
	Project	3. Internet connectivity + website	20		AD 1.0million	AD 1.0million	?	?	?	?
	Project	4. Privileges – concessions	15		AD 3.0million	AD 3.0million	?	?	?	?
	Project	5. Privileges – incentives	15		AD 1.0million	AD 1.0million	?	?	?	?
	Project	6. Maintain service provision - 'line'	Initial 65%	N/A	*	?	?	?	?	?
	Project	7. 'Staff' support (HR, finance etc)	(% share of total cost of 'staff' functions to support prog 1.01)	N/A	*	?	?	?	?	?

TABLE 30: IMPROVE BUSINESS PRODUCTIVITY FROM 30% TO 60% WITHIN THREE YEARS (OBJECTIVE 04)

PB code	PB output means	Annual targets	% share to achieve objective	Unit number (share of strategic targets)	Total costs from strategic targets (MTEF)	Annual Cost Inputs (1)			Annual totals	Strategic totals less annual totals; the balance (2)
						Capital (3)	Operations (4)	Capacity (5)		
(in priority)										
4.01	Programme (c)				AD 3.5m (+ recurrent*)	AD 3.5m	?	?	?	?
	Project	1. Community sub-division - posts	20		AD 0.5million	AD 0.5million	?	?	?	?
	Project	2. Community sub-division - information	50		AD 1.5million	AD 1.5million	?	?	?	?
	Project	3. Trade exhibitions	30		AD 1.5million	AD 1.5million	?	?	?	?
	Project	4. Maintain service provision - 'line'	Initial 30%	N/A	*	?	?	?	?	?
	Project	5. 'Staff' support (HR, finance etc)	(% share of total cost of 'staff' functions to support prog 1.01)	N/A	*	?	?	?	?	?

TABLE 31: INCREASE ACCESS TO EXTERNAL FINANCING FROM 25% TO 30% OF NEED WITHIN 3 YEARS (OBJECTIVE 05)

PB code	PB output means	Annual targets	% share to achieve objective	Unit number (share of strategic targets)	Total costs from strategic targets (MTEF)	Annual Cost Inputs (1)			Annual totals	Strategic totals less annual totals; the balance (2)
						Capital (3)	Operations (4)	Capacity (5)		
(in priority)										
5.01	Programme (6)				AD 100m (+ recurrent*)	AD 100m	?	?	?	?
	Project	1. Subventions	30		AD 30million	AD 30million	?	?	?	?
	Project	2. Donations	5		AD 5million	AD 5million	?	?	?	?
	Project	3. Dividends	5		AD 5million	AD 5million	?	?	?	?
	Project	4. Foundation fund	20		AD 20million	AD 20million	?	?	?	?
	Project	5. Residents' contributions	10		AD 10 million	AD 10 million	?	?	?	?
	Project	6. Grants	15		AD 15million	AD 15million	?	?	?	?
	Project	7. Loans	13		AD 13million	AD 13million	?	?	?	?
	Project	8. Credits	2		AD 2million	AD 2million	?	?	?	?
	Project	9. Maintain this service provision (this 'line' function) (7)	Initial 25%	n/a	*	?	?	?	?	?
	Project	10. Maintain 'staff' functions (HR, finance, etc) in support of this service	(% share of total cost of 'staff' functions to support prog 1.01)	n/a	*	?	?	?	?	?

TABLE 32: DEVELOPMENT AND MAINTENANCE OF ALL OTHER SERVICES NOT COVERED IN THE FIVE DEVELOPMENT IMPERATIVES (OBJECTIVE 06)

PB code (in priority)	PB output means	Annual targets	% share to achieve objective	Unit number (share of strategic targets)	Total costs from strategic targets (MTEF)	Annual Cost Inputs (1)			Annual totals	Strategic totals less annual totals; the balance (2)
						Capital (3)	Operations (4)	Capacity (5)		
6.01	Programme (6)				?	?	?	?	?	?
	Project	1. Garbage service			?	?	?	?	?	?
	Project	2. Landscaping			?	?	?	?	?	?
	Project	3. Planning / zoning service			?	?	?	?	?	?
	Project	4. City / public events			?	?	?	?	?	?
	Project	5. Public transport			?	?	?	?	?	?
	Project	6. Emergency services			?	?	?	?	?	?
	Project	Maintain 'staff' functions (HR, finance, etc) in support of this service	(% share of total cost of 'staff' functions to support prog 1.01)	n/a	?	?	?	?	?	?

Editors Note: This is very important because not all current services will be "swept up" in the 'development imperatives'. Zero-based budgeting purists would then argue that all residual services should be scrapped.

In the practical world, this is clearly illogical. It does, however, raise the interesting question of how to apply consistency to performance targets in routine service delivery.

ENDNOTES

- ¹ Progress, completion on time, to specification.
- ² Whether on particular client groups (satisfaction of demand, occupancy rate, use of facility) or on general socio-economic conditions (such as poverty indicators).
- ³ Cost variance - up to 30%; efficiency – up to 30%; effectiveness – up to 40%; Total possible = 100%



PERFORMANCE BUDGETING MANUAL

PRINCIPLES AND FORMATS FOR THE PREPARATION OF A “BOTTOM-UP”
AND “OUTPUT-BASED” BUDGET APPROACH TO PLANNING AND
BUDGETING

RONALD MCGILL,
UN CAPITAL DEVELOPMENT FUND

Editors Note: This is the latest version of UNCDF’s approach to performance budgeting at local government level. It has benefited from a “learning-by-doing” approach, yielding a number of iterations, embellished with theoretical knowledge. The original format for this manual was developed in Tanzania in 1995-2000¹; a country that is now committed to PB and where its finance ministry is the driving force to its implementation (see chapters 3 and 4). The Tanzanian experience was forged from Malawi’s pioneering work on institutionally integrated urban development strategies and organizationally specific performance-based annual reports (1989-94).² UNCDF is currently pursuing PB in, among other places, Mozambique and Yemen. The “bottom-up” and “output-based” approach to planning and budgeting is designed to generate targeted infrastructure and services in a publicly accountable and measurable format. The means to achieve this is through a council’s Annual Report, Plan and Budget (ARPB). This manual is therefore aimed at local government practitioners.

The latest version of this manual was developed with a team of Government of Southern Sudan (GOSS) representatives in Rumbek, in October 2005. It resulted from the enthusiasm of its core members to the UNCDF-sponsored PB workshop in Dar es Salaam, one month earlier (from which this book is a direct result). It was adapted by a Red Sea state (Port Sudan) team, in February 2006.

PERFORMANCE BUDGET MANUAL

A WORKING MODEL FOR LOCAL GOVERNMENT IN LEAST DEVELOPED COUNTRIES

TABLE OF CONTENTS

Principles

- Context
- Mapping
- Checklist

Fig. 1 PB - Planning, Budgeting and Review Cycle: (“bottom-up” and “output-based”)

Part 1: “Bottom-up”

- 1.1 Budget ceiling for “bottom-up and “output-based” budgeting
- 1.2 Stage 1: Village participation and ‘raw’ project definition
- 1.3 Stage 2: Locality confirmation and initial screening
- 1.4 Stage 3: State ‘no objection’ to procure technical inputs
- 1.5 Stage 4: State ensures project documents finalised, as a basis for budgeting
- 1.6 Stage 5: State finalises Annual Report, Plan and Budget (ARPB)

Fig. 2 PB - “Bottom-up” and “Output-based” Approach to Planning and Budgeting
- from Villages to Localities and States

Part 2: “Output-based”

- 2.1 Making it work
- 2.2 Structure of ARPB
- 2.3 Desired result of ARPB
- 2.4 Strategic framework
- 2.5 Baseline information, to contribute to the ‘general development picture’
- 2.6 Poverty and economic indicators for the ‘general development challenge’
- 2.7 Defining the ‘strategic development imperatives’
- 2.8 Converting these imperatives to quantifiable ‘development objectives’
- 2.9 Translating these into ‘strategic development targets’ with costs
- 2.10 Annual targets and input analysis
- 2.11 Reviewing performance
- 2.11 Internal structure of PB
- 2.12 Public expenditure management cycle

Fig. 3 Internal Structure of PB

Part 3: Consolidated Submission and Mobilization

- 3.1 Ministry of Finance, Economy and Manpower, RSS
- 3.2 Work plan and expenditure review
- 3.3 Delivery sequence
- 3.4 Procurement
- 3.5 Supervision
- 3.6 Operations and maintenance
- 3.7 Closing the circle of infrastructure provision

Fig. 4. PB – Summary Analysis at Programme Level – the Budget Bid for Each Objective

Appendix 1: Local Development Fund Modalities

PRINCIPLES

“Bottom-up” and “output-based” budgeting are key elements of performance budgeting (PB) at the local government level. This performance budgeting is designed to yield publicly accountable, measurable and community-based, targeted infrastructure and service provision. This provision, facilitated by local investment funds, is to have a direct impact on particular client groups (short-term) and general socio-economic conditions (medium term). This is both in terms of the Millennium Development Goals and local socio-economic development.

PB is also a means to good governance. Here, good governance focuses on the relationship, ultimately, between local government and its various communities. The idealised view is that this relationship is a partnership of equals. That is to say, both groups (local government and the local communities being governed) should have equal access to information upon which they can participate and make proposals concerning local development, its implementation and results.

PB’s ultimate test is, perhaps, two-fold. First is the successful and publicly supported delivery of infrastructure and services. Here, local community participation is embedded in the annual cycle of reviewing last year, starting implementation this year and planning for next year’s proposals – captured in a public organization’s annual report, plan and budget (ARPB). Secondly is the underlying intention to achieve a much more open and transparent system of planning for, implementing and reviewing expenditure to achieve results. If conducted properly, this is the basis for highlighting poor performance. It can also be a start to eroding corrupt practices.

Context

The demand for infrastructure and services confronts every local government (LG) in the developing world. The weakness of that local government compounds the enormity of the challenge. The fundamental importance of access to infrastructure and services, as a means of supporting both economic development and to impact on various parts of the poverty spectrum, is now accepted in common parlance. From the LG perspective, the challenge is three-fold:

- To harness all sources of financing to allow LG to ensure the successful provision of infrastructure and services;
- To utilise all means of infrastructure and service delivery³;
- To embrace a process that measures the economy, efficiency and effectiveness of that delivery.

The first prerequisite for success in PB is to understand the functions of government and how they fit each other.

In government reform, the agenda for change boils down to (a) an understanding of the current and desired functions of government and (b) the translation of these functions into the:

- Policy, legal and regulatory context;
- Organizational structures, the deployment of personnel and their training needs; and the
- Planning and budgeting cycle, administrative processes and supporting information systems.

The shorthand for this is the institutional development (ID) agenda. The ID process to achieve locally understood and determined reform involves care in the facilitation of the change itself.⁴

The central point is that the ID agenda of context, structures and processes, to perform the functions, should be mutually inclusive. This optimises the potential for the efficient and effective delivery of infrastructure and services. If one part of the agenda is ‘out of step’, or does not “fit”, it distorts the potential for full performance from the particular institution being reformed.⁵

Mapping

The current debates on the Millennium Development Goals (MDGs), their supporting national poverty reduction strategy papers (PRSPs) and public expenditure management (PEM) decisions, within a medium-term expenditure framework (MTEF), are dominated by the national or macro-picture. There is little evidence of substantive progress towards the translation of these macro-concerns at the local level. This localizing challenge is compounded by the sector-wide approach to planning (SWAP) for and financing of service delivery; a vertical logic. This works against the principle of integrated development planning, where all players (all funders) are contributing to a common or integrated development strategy in a given location; a city; a district; thus, a horizontal, even spatial, logic.

LGs are being given increased responsibility for ensuring the delivery of basic infrastructure and services in developing countries. That increased responsibility is often hampered by the institutional environment; e.g. service delivery responsibilities are decentralized without commensurate resources to perform these decentralized functions. In short, policy debates on PEM, infrastructure and service delivery (ISD) tend to focus on central government systems. While this is an essential prerequisite, the impact on LGs and the importance of developing policy solutions with planning and budgeting tools at the local level, is currently, not being given enough attention.⁶

There are four sets of decentralization variables in the policy and practical environment of PB. These concern:

1. The institutional mapping of the nationally determined functions, the resulting context, structures and processes that deliver MDGs, PRSPs and PEM decisions within MTEF, their support and obstacles to successful local government development planning and budgeting - to achieve improved performance in ISD;

2. The financial mapping of the income sources of the client LGs in terms of (i) local revenues, (ii) transfers from all parts of central government (iii) sources of non-government finance (mainly from donors) and (iv) where applicable, an estimate of hidden transfers (where sectors finance directly, a school, a clinic and so on) - to establish the real areas of discretion in local budgeting (understanding that reporting on performance - the use of funds – applies to all expenditure within the LA, irrespective of revenue source);
3. Analysing (and if non-existent, testing) formats, structures and processes of local development planning, as a means to articulate the development challenge in any local government area - to understand (a) the prospects for the territorial integration of ‘non-local government’ (e.g. sectoral and private sector) actors and (b) the extent of meaningful public involvement in the process; and
4. Piloting the conversion of conventional ‘line-item’ budgeting into an ‘output-based’ or performance budgeting format – to target and measure LG performance in relation to ISD and the local dimensions of MDGs.

Checklist ⁷

It has been suggested that there are seven workable principles governing the implementation of PB, presented in the form of a checklist.

- 1 PB fails at the first hurdle if the shift from input to output-based budgeting is not accepted and practiced.
- 2 PB is conceptually redundant without a strategic context to condition the resource allocating process.
- 3 The strategic context for PB is being satisfied increasingly through public annual reporting in terms of outcomes (wider societal impact) and outputs (organizationally specific, directly attributable achievements).
- 4 PB assumes that the real test is of resource allocation against future intentions (plan), tempered by recent performance (review).
- 5 PB requires all priorities to be in ranked sequence so that difficult choices are impossible to avoid.
- 6 PB’s key unit of planning and budgeting analysis is the programme. However, PB has to reconcile the programme structure with the organizational structure it represents.⁸
- 7 PB measures the economy, efficiency and effectiveness of the infrastructure and services delivered by or on behalf of the organization.

Accepting these PB principles leads to four basic conclusions. Apart from the usual need for political support, top-management commitment and the necessary capacity building measures, the following can be demanded as basic technical preconditions for PB:

- 1 There should be a three to five-year strategic framework (depending on local practice) leading to annual targets - ideally, in a publicly available annual report, plan and budget (ARPB) format;
- 2 Activity and input analysis for each target is the foundation for budgeting;
- 3 A structured coding system reinforces both the sequenced ranking of, and the tracing of expenditure to, targets; and
- 4 Performance is reviewed annually (output) and strategically (impact) - say, every three years - resulting in a new strategic framework.

The new interim national constitution and other recent policy documents place considerable emphasis on decentralization and good governance. The interim national constitution declares guiding principles about the organization of government – the unity of the Sudan is based on the free will of its people, supremacy of the rule of law, decentralised democratic governance, accountability, equality, respect and justice (Article 4). For any programme concerned with decentralization through local government, a way must be found to give practical meaning to governance and accountability.

The policy debate through JAM reinforces matters. At the heart of the matter is the following statement: A sound institutional framework and adequate organizational and human capacity are necessary for sustained development, and are of critical importance in a post-conflict situation. In the simplest terms, capacity is required to help deliver the “peace dividend” – that is, basic social services, economic growth, an improved sense of equity and security, etc. (first statement in the Overview). Citing three parts of the Capacity Building and Institutional Development Cluster: (A) Local Government & Service Delivery - The focus will be on building capacities that will help less-advantaged localities and regions reach parity with the better-off areas. RSS has the highest level of malnutrition in the North. (B) Decentralization Framework - A decentralization system needs to be developed for the northern states that includes defining the roles and responsibilities of local self-governments, building their capacity and putting into place an appropriate fiscal decentralization strategy to address vertical and horizontal imbalances. This includes strengthening the role of the citizen in identifying and addressing community concerns and strengthening the accountability of local officials. (C) Public Financial Management the focus is on building effective and sustainable systems for ensuring that all revenues and expenditures are budgeted and accounted for, in order to help ensure Sudan resources are properly committed to development and poverty eradication in particular.

PB gives practical meaning to decentralization and good governance. It introduces accountability and measurability into the budget cycle. It integrates capital and recurrent expenditure, through the analytical and production medium of the programme. It encourages the allocation of resources to targets to achieve results. It does so by ensuring the economy of inputs, in order to achieve efficiency in outputs, to have an effective impact on the development challenges facing the village, locality and state levels of government.

The technical formats for PB are contained in the next three main sections. Part 1 is the “bottom-up” dimension. Part 2 is the “output-based” dimension. Part 3 is their integration, as a consolidated budget submission. Parts 1 to 3 are captured in Figure 1.

In summary, public expenditure management (PEM) cycle here, is constructed in a performance budgeting (PB) format. This format identifies the link between planning (goal; objectives; strategic targets), budgeting (annual targets; activities; inputs) and reviews (economy, efficiency and effectiveness). All are captured in each organization’s annual report, plan and budget (ARPB). Parts 1 and 2 below, provide further details.

PART 1: BOTTOM-UP

1.1 Budget ceiling for “bottom-up and “output-based” budgeting

‘Bottom-up’ planning concerns the stages of planning and decision-making at villages, locality and state levels of government. This planning relates explicitly to the government’s budgeting cycle (Table 1). It starts in the context of declared indicative LDF ceilings for “bottom-up” and output-based planning / budgeting for year. It continues, with added confidence, in February, when RSS MoFEM issues the Budget Circular inviting every locality to prepare a budget. The request includes a summary of the policy framework, an outline of the macro-economic indicators and resulting predicted resource envelope, and the strategic guidance to be pursued. As the village-based (or “bottom-up”) planning moves from “raw project definition” to technical assessments and then design, so the certainty of its budget requests become clearer, for insertion in the locality’s budget.

1.2 Stage 1: village participation and ‘raw’ project definition

The desire is to establish basic data to support the formulation and subsequent review of the organization’s strategic framework, to support PB. For every unit of analysis, starting at the village level, the intention is to see this first round of information gathered. The idea is to review and update this basic analysis each year.

Field visits will aim to achieve three things:

- To gather and / or verify centrally derived data about particular locations, ultimately expressed as a base-map and supporting text;
- To start public consultation on the initial opportunities, problem identification and raw project proposals, ideally in the context of the community base-map or “assets” map; and
- To prioritise the problems and the subsequent project proposals (the opportunities to be exploited; the problems to be solved) according to agreed development criteria.

Community assets are, ideally, best described on a topographical map. Such maps do not exist at present. Therefore, the idea is to convey, in the very simplest of terms, the primary land uses of each boma, for the purpose of simple analysis. In other words,

TABLE 1 - PB - PLANNING, BUDGETING AND REVIEW CYCLE: ("BOTTOM-UP" AND "OUTPUT-BASED")

	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec
Villages, Localities and State Implementation	Start implementing the programme for this year, flowing from last December's budget approval.											
<u>Part 1</u> Plan "bottom-up" - Villages - Localities	<u>Stage 1:</u> Village participation: last year's review, this year's implementation and next year's planning; i.e. for 'raw' project definition	<u>Stage 2:</u> Locality confirmation and initial 'practical' and budget screening	<u>Stage 3:</u> State 'no objection' through agreement to procure technical inputs for initial design and screening	<u>Stage 4:</u> State ensures project documents finalised, as a basis for budgeting	<u>Stage 5:</u> State finalises Annual Report, Plan and Budget (ARPB); submits to political forum	<u>Part 3</u> <u>Stage 6:</u> MoFEM consolidates LG ARPBs into consolidated budget document for RSS	Information from the Annual Report disseminated as a basis for reporting performance at all levels, including use of media, boma events and other community relevant methods to impart the information	Negotiation with MoFEM on actual budget allocation for next year	Finalise capital, O&M building budget; i.e. the integrated PB at objective (programme') level	Submit work programme for next year	Mobilise for new work	<u>Start Stage 1</u> (Jan) slightly sooner, if necessary!
<u>Part 2</u> Plan "output-based" - Localities - State	Information verification; Last year's performance review; - General development challenge - Strategic development imperatives - Development objectives (i.e. programme definition)											
Government budgeting cycle.	By end of Feb, State Modem issues Budget Circular inviting every locality to prepare a budget. The request includes a summary of the policy framework, an outline of the macro-economic indicators and resulting predicted resource envelope, and the strategic guidance to be pursued											
	- Strategic targets - Annual targets - Activities - Inputs - Costs per input ARPBs											
	By end of August, all consolidated state budget sub-missions to national MoF											
	MoF confirms estimates for next year's government income Cabinet approves the budget framework											
	Printing of budget Volumes Budget speech and approve budget.											
	App 1 Declare indicative LDF ceiling for "bottom-up" and "output-based" planning / budgeting for next year											

within any boma, the percentage of land under any basic land-use is recorded. For example, every boma can give a reasonable estimate of the areas devoted to basic land-uses. In turn, such areas can be turned into percentages. This will help to build a land-use profile at boma, locality and ultimately state levels. For example, in an assessed location, forestry might make up 20%, grazing might take up another 35% and cultivated land, 15%. Twenty percent might be unusable wasteland or mountains. The remaining 10% might be the actual human settlement(s). In addition, all community facilities would be located. Access roads or tracks would be shown. Water courses and / or wells would also be located on the map. This would be a starting point for village consultation, leading to ‘problem definition’.

The second and main task in stage 1 is for the village identify and prioritise its ‘raw’ micro-projects. An example may best illustrate the idea; see Table 2.

TABLE 2: PROBLEM DEFINITION AND “RAW” PROJECT PROPOSAL

Perceived problem	Elements of the problem	Proposal	Recurrent investment & source
No education	- Nearest education 10 km away - 380 school-age children need the service, hence viability of a new school	1. New school building	Teachers and supplies, through the education ministry
No health care	- Nearest clinic 10 km away - Malaria - No basic preventive health care	2. Health post	Staff and medical supplies, co-funded by health ministry and community
Inadequate water	- Nearest main source 7 km away - Shallow wells - No catchment systems	3. Deeper wells and catchment terracing to retain the water table	Maintenance of wells and catchment locations, through community initiatives
No vehicle access in bad weather	- Seasonal problem - Flooding	4. Culverts and fords	Regular maintenance through community programmes
No market	- Nearest market 10 km away	5. Area and basic structures	Maintenance through owner levies and community supervision
Lack of food	- Available fertile locations - Available underground water sources	(Relate to inadequate water proposal)	N/a

Prioritization of village-identified projects will take place at two critical stages in the planning process: (i) during the initial phase of community-based identification of ‘raw’ project concepts (this section) and (ii) when the locality prioritises ‘raw’ village projects within the framework of their expenditure ceiling (Part 2). Prioritization means making hard decisions about what will (or will not) be done, and in what order. It is therefore important to make the process as transparent and rational as possible. Sequenced prioritization is best. Scored criteria-based assessments offer a sound basis for such analysis. Examples of this are presented in Part 2. Guidance is offered in Appendix 2.

After projects have been identified (Table 1.1) and prioritised, they are consolidated at the locality level. This consolidation ensures that the totality of the projects being submitted by the villages does not exceed the tentative budget ceilings declared for the year.

1.3 Stage 2: locality confirmation and initial screening

At locality level, many hard choices will need to be made about which ‘raw’ village-based ideas will be included in annual plans and budgets. A community-based planning and implementation committee therefore needs to be established to ensure a high degree of transparency and a reasonable amount of “popular” representation.

One of the important tasks of the locality planning and implementation committees will be to sift through village-based priorities and then undertake a global prioritization within each locality’s budget ceiling. In order to be able to do this, locality planning committees will need to have an approximate idea of what such village projects might cost – although detailed costing would be done subsequently, by the state planning committee (or those whom it delegates to do this).

1.4 Stage 3: State ‘no objection’ through agreement to procure technical inputs for initial design and screening

With the initial practical and budget screening completed by the localities, the prioritised proposals are submitted to the state. At the state level, most planning activities will be concerned with appraisal, technical design and accurate costing, rather than with making decisions about the priority choices made by counties. As soon as the initial screening is confirmed, stage 3 will see the state arranging for technical project documents to be prepared. Agreeing to such documents to be prepared signals its ‘no objection’ to the proposal. This technical preparation may be ‘in-house’, if the project is a simple one and where such expertise exists. It might be through a sectoral ministry (say, agriculture), where an irrigation scheme is proposed. Finally, such documents may have to be prepared by hiring private consultants. Whatever the source of expertise, the preparation is being done, for the state, on behalf of the local community that agreed to the original project proposal. Once this is complete, stages 4 to 6 conform to more general government practice.

1.5 Stage 4: State ensures project documents finalised, as a basis for budgeting

The initial technical design is to allow for a second ‘screening’ or assessment, to show that the project is feasible. Stage 4 then sees the finalization of the technical documents. This will include detailed financial estimates. The estimates must cover the capital and recurrent costs. The recurrent costs might come through an agreement with the sector ministry to provide the health service from the new clinic, that has been constructed by the community itself. It might be declared through a community agreement. Either way, the O&M requirement must be included to allow the capital project to be approved.

1.6 Stage 5: State finalises Annual Report, Plan and Budget (ARPB)

The development of the various community-based projects becomes the foundation for annual state budget bids; its annual report, plan and budget (ARPB). This is submitted to and approved to its political forum. The state then consolidates all the locality bids with its own infrastructure and service delivery proposals into its own ARPB. The localities' budgets are presented for information. The state budget is presented for approval; stage 5.

By way of summary, the Figure 2 below illustrates the ARPB preparation process, driven from the “bottom-up”. Part 2 takes this process to the next level, describing in more detail, Part 2 of Figure 1.

PART 2: OUTPUT BASED

2.1 Making it work

All local government (LG) is locked into the annual planning, budgeting, implementation and review cycle. In turn, it relates to and expresses the annual implications of its strategic context: government's strategy for poverty reduction (PRSPs) and the medium-term expenditure framework (MTEF). This is then converted, through the annual plan and budget, into infrastructure and service delivery (ISD). The method for achieving government annual decisions and actions, in a PB format, is an organization's annual report, plan and budget (ARPB).

When the ARPB cycle is working fully, in fact, it always spans three years; last year's performance, this year's implementation and next year's plan. These come together annually, at community level, at the start of the annual cycle. The desired result from ARPB is therefore publicly accountable, community supported, reviewing, planning and budgeting, to achieve targeted infrastructure and service provision.

2.2 Structure of ARPB

A normal annual report starts with a general statement from the organization's leadership. This persists, in something like the following order:

- a statement by the organizational leader, including a review of the key performance highlights for last year and development thrust for next year (Part 1 of ARPB);
- an executive summary of the entire document (Part 2 ARPB).

The analytical core of ARPB; for performance budgeting, is:

- Strategic performance framework - the 3 year perspective (Part 3 of ARPB);
- Performance last year (Part 4 of ARPB);
- Proposals for next year (Part 5 of ARPB).
- Resource requirements for next year - the budget bid (Part 6 of ARPB).

2.3 Desired result of ARPB

The desired result of ARPB is publicly accountable and community supported, targeted infrastructure and service provision. This is to have a direct impact on particular client groups (short-term) and general socio-economic conditions (medium term). This is both in terms of the Millennium Development Goals (MDGs) and local development. An ARPB is prepared at the locality level and aggregated at the state level.

2.4 Strategic framework

Part 3 of ARPB is the strategic framework, expressed (in locality terms) as the local development strategy (LDS). It should span three years. Its structure should comprise the following main sections:

- Baseline information, to contribute to the ‘general development picture’
- Poverty indicators, to give focus to the ‘general development challenge’
- Defining the ‘strategic development imperatives’
- Converting these imperatives to quantifiable ‘development objectives’
- Translating these into ‘strategic development targets’ with costs

2.5 Baseline information, to contribute to the ‘general development picture’

Two categories of baseline data should be gathered. First is the socio-economic profile. This includes:

- Access to infrastructure / services (such as water / roads) and poverty measures
- Health and poverty measures
- Education and poverty measures
- Aggregate poverty assessments.

Secondly, is the economic activity profile within the locality’s geography. This includes:

- Economic activity according to employment classifications
- Economic infrastructure, including network thresholds and demand profiles
- Employment, by classification and gender
- Local authority budget profile, in terms of revenue, expenditure and capital assets.

The conclusions to the interpretation of both sets of information will be an understanding of the *general development picture* within each council.

2.6 Poverty and economic indicators for the ‘general development challenge’

The socio-economic profile will provide poverty indicators. These will be conditioned by the MDGs and government’s action on them. The economic activity profile will suggest direction to increase the economy to help the poverty challenge. Both help to

understand the general development challenge. From this, a development goal must be defined. The following is a composite example from the RSS TOT group (November 2005): To reduce poverty through increased local governance and local investment opportunities. From this, development imperatives must be agreed.

2.7 Defining the ‘strategic development imperatives’

The general development picture and the general development challenge’s goal will lead the local council and its executive organs to settle on the strategic development imperatives facing the local authorities. RSS TOT group identified five, as follows:

- Inadequate access to services
- Employment
- Governance
- Water
- Conflict and displacement

These must be prioritised, in sequence. Even if all are crucial to a particular location, it may simply not be possible to fund everything. The prioritization is best done by agreed criteria. The RSS TOT group identified three and prioritised, as follows:

TABLE 3: PRIORITIZING DEVELOPMENT IMPERATIVES

Imperatives (prioritised)	Livelihood	Security	Access to services	Total
1. Inadequate access to services	1	1	3	5
2. Employment	3	2	2	7
3. Governance	3	3	3	9
4. Water	2	1	1	4
5. Conflict / displacement	1	3	1	5
Totals	10	10	10	N/a

These imperatives must then be converted into quantifiable development objectives

2.8 Converting these imperatives to quantifiable ‘development objectives’

The point about an objective is to understand the current level of provision. That presents the baseline. A percentage expression is best. The proposed increase in provision (as an achievable objective, all else being equal) can then be agreed to. For illustration, the development imperative of water was converted into a development objective by RSS TOT, as follows: Increase water supply from 30% to 60% of community needs, for households, enterprises and agriculture within 3 years. The objective must be defined in terms of the present situation (30%) and the anticipated level of provision within the strategic plan period (60%). This objective must then be converted into a set of strate-

gic (three-year) development targets, with costs.

2.9 Translating these into ‘strategic development targets’ with costs

Achieving the objective on water provision requires a definition of all possible sources of increased water supply. For illustration, RSS TOT proposed four:

- Dams / rainwater harvesting
- Wells
- Desalination
- Network improvements

The potential provision from each source to satisfy 100% of the objective must be determined. The unit numbers must be agreed. Finally the current unit and total cost of each must be calculated. The result for this (and each) objective should therefore be a strategic targets table. The RSS TOT example is presented below, as ‘A’:

TABLE 4: STRATEGIC TARGETS

A. ‘Strategic (3-year) targets’ - programme (basic) MTEF	% share to achieve objective	Unit number/ area / people (A)	Unit cost in US \$ (B)	Total cost MTEF for objective (A x B)
1. Dams – rainwater harvesting	35	6	600,000	3,600,000
2. Wells	10	30	15,000	450,000
3. Desalination	5	3	400,000	1,200,000
4. Network improvements	50	1	150,000,000	150,000,000
Sub total= new investment	100	N/A	N/A	155,300,000
5. Maintain service provision - ‘line’ (10%)	N/A	N/A	N/A	15,530,000
6. ‘Staff’ support (HR, finance etc) (1%)	N/A	N/A	N/A	1,553,000
Grand total = MTEF for the objective	N/A	N/A	N/A	172,387,500

The programme’s interventions – its annual projects – must be prioritised. The example in “B” below illustrates. Sequenced prioritization is best, using a simple score – here, 0 to 3. The result converts those interventions into a criteria-based set of priorities (see below). Thus the three-year target table arrives at a medium-term expenditure requirement to achieve the objective. The strategic target table, illustrated here for Water, must be repeated for every development objective in support of its development imperative. Once all five tables are completed; one for each strategic development imperative, the medium term expenditure framework for RSS is formed. With the criteria based prioritization (illustration below), the MTEF is not only vertically integrated but also, prioritised.

TABLE 5: PRIORITIZING STRATEGIC TARGETS

B. 'Strategic (3-year) targets' - programme (prioritised)	Total cost MTEF for objective	Livelihood	Security	Access to services	Total
1. Dams – rainwater harvesting	3,600,000	2	2	3	7
2. Wells	500,000	3	3	3	9
3. Desalination	1,200,000	1	1	1	3
4. Network improvements	150,000,000	1	1	3	5
Sub total= new investment	155,300,000	N/a	N/a	N/a	N/a
5. Maintain service provision - 'line' (10%)	15,530,000	N/a	N/a	N/a	N/a
6. 'Staff' support (HR, finance etc) (1%)	1,553,000	N/a	N/a	N/a	N/a
Grand total = MTEF for the objective	172,383,000	7	7	10	N/a

2.10 Annual targets and input analysis

The annual targets are simply those that can be achieved in the particular year of the three-year cycle. It is the target to be budgeted for the year of actual implementation. The simplest presentation of annual targets can be as a refined version of the three-year target table for each development imperative. The illustration continues in Table ??:

In turn budgets per target are founded on activity analysis and resulting inputs, as follows:

- activities (normally describing the elements of the implementation process)
- inputs (the items required to achieve them – labour, equipment etc.)
- input costs
- input budget codes
- total cost per target.

A format for that analysis is offered below. This input analysis is the foundation for the technical, including the coding aspects of budgeting. So, while the ARPB sets out the strategy, strategic and annual targets plus their budget, a separate technical Volume would have to be submitted of individual target tables.

TABLE 6: ANNUAL TARGETS

C. 'Annual targets' - projects	Annual total	Annual cost input CAPITAL - initial share = 89%	Annual cost input (O&M) - initial share = 10%	Annual cost input CAPACITY - initial share = 1%	Annual balance where T = 0	MTEF balance for 3 year cycle	% of MTEF committed Including previous years, if in 2nd or 3rd year
1. Micro-dams / rainwater harvesting (2nd: 2/6)	1,199,880	1,067,893	119,988	11,999	-	2,400,120	33
2. Wells (1st: 30/30)	450,000	400,500	45,000	4,500	-	-	100
3. Desalination (4th: 1/3)	399,960	355,964	39,996	4,000	-	800,040	33
4. Network improvements (3rd: balance remaining from 1, 2 & 4)	49,995,000	44,495,550	4,999,500	499,950	-	100,005,000	33
Sub total= new investment	51,744,825	46,052,894	5,174,483	517,448	-	103,505,175	33
5. Maintain service provision - 'line' (10%)	5,174,483	4,605,289	517,448	51,745	-	10,350,518	33
6 'Staff' support (HR, finance etc) (1%)	517,448	460,529	51,745	5,174	-	1,035,052	33
Annual total	57,436,756	51,118,713	5,743,676	574,368	-	114,890,744	33

TABLE 7: TARGET TABLE FOR INPUT ANALYSIS

D. Activities to achieve the target 'dams...'	Inputs required for each activity	Item code per input	Estimated cost per input	TOTALS per activity
1 Topographical survey	(What is needed to achieve each activity, such as specialist personnel, equipment, transport, materials and so on)	(Line-item or expenditure code for each input. Frequently, there is more than one input for each activity)	(Each input costs something!)	(Each activity's inputs must be totalled)
2 Initial design				
3 Testing community and environmental acceptability				
4 Detailed design and costs				
5 Tender documents				
6 Open tender process				
7 Contract awarded				
8 Site preparation				
9 Construction of foundations				
Total cost to achieve the annual target				(i.e. the total cost of all activities)

2.11 Reviewing performance

The strategic framework and annual proposals will be followed, at their year end, by a review of last year's performance. Here, the economy of inputs is judged by how accurate the budget relates to actual costs; if both emerge as the same then 100% (the budgeting has been spot-on target). The efficiency of outputs is assessed in terms of 'achieving the specifications' and 'delivering on time'; if only half the specifications have been satisfied then 50%; if it has taken twice as long to complete the project as originally intended, then 50% again. The effectiveness of impact is measured by occupation or use of the facility and "has the original problem been solved". If the asset is fully used then 100%; if the original problem has been solved then 100%. These '3Es' (of economy, efficiency and effectiveness) are then totalled and averaged to give the total performance assessment. Table E presents a different working example. This review is at the annual cycle level. Every third year, a strategic review should take place. This will be the basis for assessing performance at the objectives level; the rate of progress in moving from X% to Y%. That strategic review, as well as the third 'annual' review, will become the foundation for the next three-year strategic framework.

2.12 Internal structure of PB

Collectively, the Tables marked A to D make up the core of the internal structure of the performance budget. Table E is the cornerstone of the review process. Table 8 illustrates.

PART 3: CONSOLIDATED SUBMISSION AND MOBILIZATION

The twin tracks of "bottom-up and "output-based budgeting come together as stage 6 of

TABLE 8: THE EFFICIENCY AND EFFECTIVENESS OF 'ACHIEVING RESULTS'

Projects 2003 (\$400,000)		Budget	Actual	Variance	% var ¹	(1) Economy of inputs (where T = 100%)	A% specification	B % time	(2) (A+B)/2 = efficiency of output	C% occupancy of rate / use of facility	D% assessment of 'problem solved'	(3) (C+D)/2 = effectiveness of impact	Total performance (1+2+3/3)
1	Class rooms & office, Kerkebet	73,981	69,570	4,411	6	94	96	55	76	100	100	100	90
2	Class rooms & office; Geleb	61,436	37,834	23,602	38	62	80	45	63	100	100	100	75
3	Class rooms & office; Hagaz	72,631	72,511	120	0	100	100	90	95	100	100	100	98
4	Class rooms & office; Habero	107,793	116,192	(8,399)	-8	108	100	40	70	100	100	100	93
5	Class rooms & office; Hamelmalo	74,460	66,949	7,511	10	90	100	45	73	100	100	100	87
Totals		390,301	363,056	27,245	7	93	95	55	75	100	100	100	89

E.

TABLE 9: INTERNAL STRUCTURE OF PB

<p>Development environment: a locality; and for each, the various dimensions of poverty</p>	<p>Impact: on general socio-economic conditions such as indicators of poverty – medium term, within a strategic planning cycle of, say, 3 years</p>	<p>Output: to time and specification; plus impact on particular client groups – short term, within an annual planning cycle – is the faculty fully used; has the original problem been solved from the community's perspective.</p>	<p>Input</p>
<p>Plan</p>	<p>Level 1 Analysis</p> <p>Goal (the general intention to be achieved in the 'development environment').</p> <p>Objectives (translating the goal into specific, quantifiables – e.g. increase water supply from 30% to 60% of need within 3 years.</p> <p>Prioritising (in sequence, to establish the initial strategic framework)</p>	<p>Level 2 Analysis</p> <p>Strategic targets (converting each objective into specific deliverables to be achieved over the plan period – e.g. river dam and pipeline).</p> <p>A.</p> <p>Prioritising (in sequence; as a proportion of the 3-year targets (e.g. 1/3rd of river dam and pipeline, in year 1) or giving emphasis on the complete implementation of one target in the first year, and ensuring the spatial consequences of the prioritization.</p> <p>B.</p> <p>Annual targets (converting strategic targets into the annual programme).</p> <p>C.</p>	
<p>Budget</p>		<p>Level 2 Analysis</p> <p>Activity analysis (converting each annual target into the things to be done to construct the river dam and pipeline; topographical survey, technical design, etc).</p> <p>Activity budgeting (converting the activities to input items; staff time, overheads, materials, transport etc)</p> <p>D.</p>	<p>Inputs, input codes, costs (for each activity, then totalled for the annual target).</p>
<p>Review</p>	<p>Strategic (effectiveness tests such as degree of change in general social conditions; e.g. those pertaining to each MDG).</p>	<p>Annual / operational (efficiency tests such as 'time/output' or 'unit costs' for deliverables and immediate impact on client groups, as they help determine).</p> <p>E.</p>	

Figure 1. Here, not only are the community priorities and resulting projects agreed but that is done within the strategic and expenditure ceilings declared by government. In turn, the “bottom-up” emphasis contributes to both information verification (including performance review) and community participation in implementation and subsequent planning.

3.1 RSS Ministry of Finance, Economy and Manpower (MoFEM)

MoFEM will scrutinize state consolidated budgets. In part, this is to allow for ‘measurement of the economy’ through the PEM system. This is a technical exercise to ensure that the budgets submitted conform with:

- the strategic concerns of the budget guidelines
- the estimate ceilings for the organization
- the strategic priorities for the organization, within national guidelines.

The Minister of Finance will submit the consolidated localities budget(s) to the Assembly for discussion and approval. RSS government will satisfy itself that the consolidated budgets conform to government policies. Government will then approve the budget, with or without further amendments.

3.2 Work plan and expenditure review

RSS approval of the budget is only the start of organizational spending. That spending has to be reviewed in relation to the total expenditure and the targets set for the year. The basis for that review is the work programme. As soon as the organization is informed by MoFEM of its approved budget, it must submit a work plan – the planned expenditure – for the year. That plan should be in the form of intended monthly expenditure. A suggested format for that work programme is presented in Table 10.

The basic review of service delivery is done quarterly, within a month of the quarter ending. The format for the quarterly expenditure-to-targets review also follows. Both are analysed at the level of annual project delivery.

Annual work planning conveys the monthly liquidity required to remain “in business” (i.e. able to pay staff; able to pay external creditors and so on). The quarterly variance analysis “keeps tabs” on actual expenditure to achieve the targets. The end of year expenditure target balance is obviously $T = 0$; there is no under- or over-expenditure. Thus, the estimates are on target, the supporting specifications are accurate and the delivery is on time! Work planning and expenditure reviews are two-sides of the implementation challenge. That challenge centres on project delivery.

3.3 Delivery sequence

The delivery of public infrastructure and services follows on from the initial stages of the planning process, once projects have been selected, appraised, designed and cost-ed. As such, delivery can be broadly divided up into four phases:

- procurement and contracting, whereby local government selects contractors and

consultants for the implementation of projects;

- supervision of implementation;
- disbursement;
- operations and maintenance of completed projects.

3.4 Procurement

In line with the principle of subsidiarity, procurement should be done at the lowest possible level. Ideally, this will be at locality level. Tender formats and procedures are in place.

3.5 Supervision

Supervision of selected contractors will be a dual responsibility. Technical supervision of any works will be done by either (i) private sector consultants, specially contracted for the purpose or (ii) a locality's main departments (particularly the Infrastructure Department). Ideally, the locality, whatever the day-to-day technical supervision arrangements, will be expected to sign off on any payment certificates as a guarantee to RSS MoFEM that contractor claims have been verified. If the capacity is not in place, this signing will be at the state level, until such time as locality-capacity to perform these tasks are in place.

General supervision of works will be carried out by a local committee (set up for each and every project), made up of community representatives, locality administration staff and (if necessary) state technical staff. The local committees will be responsible for overseeing overall contractor performance and organising and mobilising any 'in-kind' community contributions. They will have the prerogative to signal any serious problems with project implementation to the locality or to private sector consultants with the responsibility for technical oversight. They will also be responsible for 'day-to-day' dealings with contractors on site. Before signing any payment certificates for contractors, the locality administrator will obtain a "green light" from the local committee involved.

Ideally, localities will also be responsible for disbursements to contractors. If this is not possible at this time, the responsibility will revert to the state.

3.6 Operations and maintenance

During the appraisal process, operations and maintenance issues for each local project will have been analysed. Following project delivery, operations and maintenance (O&M) technical supervision will be established for each and every new project. Such supervision will be undertaken under the guidance and authority of the locality or state, according to the level of infrastructure provided: e.g. a secondary school, so the state; a primary school, then the locality. The O&M function will involve:

1. overseeing the use of the infrastructure/asset in question;
2. ensuring that previously stated operational commitments are respected (e.g. MoEd commitments to provide teaching staff for schools);

TABLE 10: Work Plan

Annual Targets	Approved estimates	WORK PLAN - PLANNED EXPENDITURE FOR THE YEAR												Balance			
		Year 1 - 2006	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov		Dec	T = 0	
Projects	Year 1 - 2006																
1. Micro-dams / rainwater harvesting (2nd: 2/6)	1,199,880																
2. Wells (1st: 30/30)	450,000																
3. Desalination (4th: 1/3)	399,960																
4. Network improvements (3rd: balance remaining from 1, 2 & 4)	49,995,000																
Sub total= new investment	51,744,825																

TABLE 11: VARIANCE ANALYSIS

Annual Targets	Approved estimates	EXPENDITURE TO TARGET REVIEWS - VARIANCE ANALYSIS												Balance			
		Year 1 - 2006	Plan	Act'	Var'	Plan	Act'	Var'	Plan	Act'	Var'	Plan	Act'		Var'	T = 0	
1. Micro-dams / rainwater harvesting (2nd: 2/6)	1,199,880																
2. Wells (1st: 30/30)	450,000																
3. Desalination (4th: 1/3)	399,960																
4. Network improvements (3rd: balance remaining from 1, 2 & 4)	49,995,000																
Sub total= new investment	51,744,825																
5. Maintain service provision - 'line' (10%)	5,174,483																
6. 'Staff' support (HR, finance etc) (1%)	517,448																
Annual total	57,436,756																

3. managing any user fees (e.g. for water supply systems, for irrigation schemes);
4. managing any recurrent expenditure related to the asset (e.g. purchase of inputs for irrigation schemes, cost recovery drug provision);
5. providing and enforcing rules about access to the asset (e.g. management of common property resources such as rangeland enclosures); and
6. ensuring that the asset is properly maintained.

3.7 Closing the circle of infrastructure provision

Performance budgeting seeks to yield publicly accountable, measurable and community-based, targeted infrastructure and service provision. This provision is to have a direct impact on particular client groups (short-term) and general socio-economic conditions (medium term). This is both in terms of the Millennium Development Goals (MDGs) and local socio-economic development. With all the preceding analysis, the presentational core of PB is at the objective level. This becomes the programme and defines the MTEF for both. It is the analytical link or “bridge” between policy and budgeting. An objective’s programme structure is presented in Table 12.

TABLE 12. - PB – SUMMARY ANALYSIS AT PROGRAMME LEVEL – THE BUDGET BID FOR EACH OBJECTIVE

Objective	Increase water supply from 30% to 60% of community needs, for households, enterprises and agriculture within 3 years.										
PB code (1)	PB output means	Annual targets	% share to achieve objective	Unit number/length	Total costs from strategic targets (MTEF) US\$	Annual Cost Inputs (2)	Operations (4)	Capacity (5)	Annual totals US\$	Strategic totals less annual totals; the MTEF balance for 3 year cycle (6)	
	Programme' (7)	Efficient delivery of the projects (9)				Capital (3)					
	Project (8)	Dams – rainwater harvesting	35	6	3,600,000	1,067,893	119,988	11,999	1,199,880	2,400,120	
	Project	Wells	10	30	500,000	133,487	14,999	1,500	149,985	300,015	
	Project	Desalination	5	3	1,200,000	355,964	39,996	4,000	399,960	800,040	
	Project	Network improvements	50	1	150,000,000	44,495,550	4,999,500	499,950	49,995,000	100,005,000	
		Sub total= new investment	100	N/A	155,300,000	46,052,894	5,174,483	517,448	51,744,825	103,505,175	
	Project	Maintain service provision - 'line' (10%)	N/A	N/A	15,530,000	4,605,289	517,448	51,745	5,174,483	10,350,518	
	Project	'Staff' support (HR, finance etc) (1%)	N/A	N/A	1,553,000	460,529	51,745	5,174	517,448	1,035,052	
	Programme'	Grand totals	N/A	N/A	172,383,000	51,118,713	5,743,676	574,368	57,436,756	114,890,744	

Notes on Table 12

1. PB code. The PB code is still being refined in many countries. Some relate it to the GFS. Tanzania has managed to combine the GFS requirements with the need to identify the sequenced priority for each objective (01), strategic target (0101) and annual target (010101). The suffix becomes the accounting input code; the prefix, the organizational and territorial code. As experience unfolds, the full GFS framework will become embedded in this PB.
2. Annual Cost Inputs. Each project's (target's) inputs are analysed in each Target Table (TT). It analyses activities, inputs, input codes and costs to implement the project (to achieve the target). The TTs should be a technical Volume attached to each organization's Annual Report, Plan and Budget (ARPB), where the full technical text is required. The TT Volume, which therefore records all inputs costs and codes, is the foundation for computerised data entry.
3. Capital. The creation of new or the rehabilitation of existing physical assets.
4. Operations. The provision of services from all assets, whether new, rehabilitated or simply maintained.
5. Capacity. The capacity building measures to ensure (a) the 'line' functions' sustainable delivery, operations and maintenance of infrastructure and resulting services and (b) the 'staff' functions' sustainable ability to support the 'line' functions. The basic tests are: do the posts exist to perform the required function(s); are they filled; are the personnel fully trained; are systems and supporting equipment in place; and is full productivity being reached?
6. Strategic totals less annual totals: the balance (i.e. balance remaining to achieve the objective).
7. Programme. The full programme is the aggregation of all expenditure, over 3 years, to achieve the objective. Annually (this table), the concern is with projects analysis and their budgeting. Strategically (every 3rd year), the performance test is at the "objective" level; the measure of programme success; hence the importance of quantified objective setting at the socio-economic level.
8. Project. The project is the annual component of the programme. It is therefore the means of delivery in any one year.
9. Efficient delivery of the projects. Within the annual cycle, there are three performance tests: (1) economy (of the inputs), in terms of variance analysis and unit costs; (2) efficiency (of the outputs), in terms of progress, completion on time and to specification, and (3) effectiveness (of the impact); on particular client groups (satisfaction of demand, occupancy rate, use of facility).
10. Maintain this service provision (this 'line' function). This is the baseline in terms of ensuring the provision of staff, running and maintenance costs (O&M), to deliver the existing service. In South Sudan, this is a standard ratio cost of 10% of total capital investment. It should also include a percentage of the annual maintenance cost, based on accrual accounting principles for asset management.
11. 'Staff' support (HR, finance etc). In South Sudan, the standard ratio cost is 1% of the total capital investment.

APPENDIX 1: LOCAL DEVELOPMENT FUND MODALITIES – A STATE (OR REGION OR PROVINCE) AND LOCALITIES’ (I.E. LG, AT DISTRICT OR CITY LEVEL) PERSPECTIVE

PRINCIPLES*

1. A local development fund (LDF) is designed to achieve (a) local socio-economic development and (b) systems and capacity development at both community and local government levels. Innovative lessons from (a) and (b) are designed to yield policy impact and replication in other parts of the country as well as in the upper echelons of government.
2. The availability of the fund is the “carrot” to induce change in the local institutions that desire the funds (e.g. local government). The “stick” is the withholding of future allocations if basic capacity building conditions are not met within the agreed period. Such conditions can include at local government (LG) level, (a) has a basic accounting service been introduced and (b) has a community-supported integrated development plan been approved? At community level, it often includes (a) has a minimum representation of women, in any boma forum that decides on priorities and development proposals, been achieved and (b) has genuine public participation been secured in the planning, implementation and review phase of the annual PEM cycle?
3. The LDF should never be seen as separate from local government. This generates parallel structures (personnel), processes (planning, decision making and accounting) and regulations (to accord with donor requirements). From day one, an LDF should be designed to use LG structures, LG processes and LG regulations. Where some or none of these exist, external support must be secured to build these basic components of LG as an institution. Where donor regulations require reporting in a way that cannot be satisfied by LG reporting systems, the donor will have to satisfy these requirements by additional reporting formats.
4. In short, a local council LDF is a microcosm of donor budget support to a central government. However, an LDF is designed to deliver investment to achieve local development, through community-supported proposals, and induce systems and capacity development at community and local government levels.

*This appendix is taken from the Eritrean LDF (Planning and Budgeting) manual: the Zoba Anseba decentralization programme now in its fourth year. A comprehensive practitioner’s guide to LDFs, from UNCDF experience in Least Developed Countries, was published by UNCDF in January 2006 as *Delivering the Goods: Building Local Government Capacity to Achieve the Millennium Development Goals* (Shotton, R. and Winter, M.).

ELIGIBLE INSTITUTIONS

5. Local government

The current LDF mechanism is aimed at localities. The projects resulting from the availability of LDF shall start at the village level, in the context of national development priorities and expenditure ceilings. Any RSS budgeting manual should outline the “bottom-up” and “output-based” approach to such planning, as part of an integrated public expenditure management (PEM) system (main text, above).

6. Minimum requirements

Eligible localities will need to demonstrate a minimum capacity to plan and implement development programmes in order to access LDF allocations (the annual development expenditure ceiling for any location). Unless these minimum requirements are met at the beginning of every planning/budgeting cycle, allocations should not be made to localities. If all localities meet LDF minimum requirements, then they will all benefit from annual allocations from the LDF. In the first year of implementation (ideally, 2006) the following minimum requirements will need to be met by localities in order to qualify for LDF allocations:

- the presence of trainable accounting staff in the localities; and
- an established locality committee concerned with development, made up of representatives of the council assembly, supported by officials of the state administration and possibly, from state ‘line’ ministries.

In the second and subsequent years, other minimum requirements will also need to be met. These should include:

- a set of accounts for the previous year, audited and approved by the state government (external auditing is a necessity);
- a development plan for the locality, based on community-identified priorities, in accordance with national policy and within expenditure ceilings.

These minimum requirements are not conditionalities but simply a means by which the capacity of localities to absorb and manage LDF allocations can be assessed. However, while sympathy will be in place, so will RSS’s determination to deploy any LDFs as efficiently and effectively as possible! One way to achieve this is through the building of systems and supporting capacity.

LDF ALLOCATIONS

7. Funding levels

Funding levels will be declared in December each year for next year’s planning cycle. These will be an indicative figure, “to get things moving”. A predicted figure will come with the issue of the RSS budget circular. The circular will declare expenditure ceilings and development priorities for all levels of government. The circular will be issued in February to allow for (continuing) considered local debate on what development imperatives, resulting programmes and projects shall be pursued.

8. Basic annual allocations

These expenditure ceilings must be known at the start of the annual planning cycle, in order that locality planners have a development budget framework within which to prioritise local development projects. Without a known budget ceiling, it will be impossible for local planners to do anything other than formulate “wish-lists”, without any assurance that projects will be funded. This is to be avoided.

9. Calculating annual allocations

Annual allocations to each locality need to be calculated through two main variables:

- the population size of the locality. Taking this into account allows for a minimum degree of equity in LDF allocations, since it is clear that the more populated counties will have higher service requirements than the less populated ones – 40% of the determination;
- the relative poverty of the locality. Again, this variable tries to address equity issues, in that the poorer counties will have greater needs than the less poor ones – 60% of the determination.

Although both variables raise questions, that of population size are fewer, despite the fact that no census data exists. The main challenge is simply to agree on one set of criteria for fund distribution.

10. Assessing relative poverty

TABLE 1: STATE POVERTY ASSESSMENT

Criteria	Locality 1	Locality 2	Locality 3	Locality 4
Food security (poverty criterion 1) % level of dependence				
Primary education (poverty criterion 2) % literacy rate				
Women (poverty criterion 3) % in micro-enterprises				
Access to water (poverty criterion 4) % within standard of accessibility				
Incomes (poverty criterion 5) % increase in household incomes				
Basic health services (poverty criterion 6) % reduction in incidence of selected diseases				

Assessing the relative poverty of localities is an altogether bigger challenge. There is little poverty-related data in RSS. Surrogate measures of poverty – such as the relative infrastructure provision in counties – could be made, but are usually unsatisfactory; it is extremely difficult to compare different types of infrastructure (e.g. schools vs. health centres, wells vs. dams). As a result of these problems, it is likely that the best way to assess relative poverty (seen holistically) would be for the State to undertake a qualitative

ranking of the localities. Poverty criteria might include those in Table 1. This working model of six quantifiable multiple deprivation indicators – poverty now being accepted as a multi-dimensional concept – can support the testing of longer-term development performance, in the context of the new PEM system. Annual allocations would then be calculated using a fixed per capita amount, multiplied by a relative poverty coefficient (to account for the poverty dimension). One option (as above) is 40% by population and 60% by the poverty weighting.

USE OF LDF ALLOCATIONS

11. Exclusions

LDF allocations to localities will be made on the understanding that certain types of expenditure will normally be excluded, namely:

- religious buildings;
- recurrent expenditures (e.g. teachers' salaries; vehicle running and maintenance costs);
- investments which fall outside of locality mandated responsibilities (such as research and credit provision);
- investments which benefit one or a few individuals rather than a wider section of the local community.

12. Investment menus

Other than the items deliberately excluded, localities will be free to use their LDF allocations in accordance with the outcome of their local planning process. A wide range of infrastructure and public services will be eligible for funding, including for example:

- economic infrastructure (e.g. feeder roads, markets, irrigation schemes);
- social infrastructure (e.g. schools, health stations, water supply systems) ;
- natural resource management schemes (e.g. soil and water conservation, integrated watershed management, enclosure); and
- human capital development (e.g. training for local people, civic awareness on the role of local government, training for government personnel on PEM!).

To repeat, the only proviso is that any proposal will support the RSS strategic guidance, declared in its annual budget circular.

LEVEL OF LOCAL CONTRIBUTIONS

In general, localities will fund projects with their LDF allocations for which there will also be a community contribution. This helps to encourage a degree of local ownership and commitment. Such matching community contributions should represent a percentage of the total investment. The current accepted level of contribution is 5%. In practice, it is much higher.

13. Types of local contributions

Community contributions can either be in kind (generally, labour) or in cash. While cash contributions would be the ideal, past experience has shown that this is often problematic. In-kind contributions are easier to mobilise and better suited to the capacity of the rural poor. However, if in-kind contributions of labour are to be the norm, it will be appropriate to “limit” them to discrete parts of the project/infrastructure in question. This is to avoid the problem of contractors being slowed down by intermittent or inadequate labour mobilization on the part of local communities or to avoid the issue of labour requirements coming at a crucial moment in the agricultural calendar. Thus, if a school is to be built, the local contribution might be to build the surrounding wall or to deliver sand/gravel prior to the start of construction activities, rather than to have villagers working directly under the supervision of the contractor. In any event, a formal agreement should be entered into, confirming the amount of community contributions. The agreement should be between the community representatives, through the locality, and, if necessary, the State.

FUNDING CHANNELS AND PROCESSING CONDITIONS

14. Treasury department

Any LDF mechanism will be monitored by the RSS ministry responsible for public expenditure management (PEM). It will be governed by its PEM system and its supporting budget manual. This (draft) manual presents the “bottom up” and “output-based” approach to planning and budgeting, known generically as performance budgeting. Any LDF system or resulting allocations to a locality (i.e. the local government system generally) will be through the locality’s budget. No LDF, supervised from a policy and regulatory perspective by RSS, shall be operated outside the RSS PEM system. In practice, this means the following:

1. An LDF allocation shall not breach the revenue ceiling declared for any council, in the annual MoF budget guidelines; the start of the RSS PEM cycle.
2. An LDF may not be allocated to a locality without the existence of a locally supported and locality approved development plan, to which the proposed LDF expenditure can be directly related (e.g. 10,000 serviced housing plots; 10 kilometres of local access roads; a new or extended water reticulation system, and so on), if the project proposed raises issues of significance concerning the spatial pattern of the resulting, or likely consequent, development.
3. An LDF shall not be disbursed to a locality unless its expenditure is contained in the locality’s approved “bottom-up” and “output-based” budget – i.e. its performance budget; the document for which is its annual report, plan and budget (ARPB), which includes the locality’s (organizationally specific) three-year strategic framework (Part 3 of ARPB), down to its MTEF for each objective; the integrated capital and recurrent expenditure-based programme.
4. Subject to 1 to 3 above, LDF expenditure can include survey, design, specification and ‘bills of quantity’ work, to support accurate and efficient public procurement

procedures, according to RSS requirements, to which any LDF funded project shall comply.

5. LDF transfers to any locality shall be held in the capital development account of that council; no such funds shall find their way into a current account.
6. All LDFs, as well as other capital and all recurrent expenditure by a locality, shall be subject to an annual external audit.

Subject to all six conditions (and the advisory level of minimum capacity conditions; 6 above), there is no reason why LDF transfers cannot be made directly to a locality.

ENDNOTES

- ¹ Journal references on this work are cited within the technical text, under endnotes 4 and 7, below.
- ² McGill, R. *Institutional Development: a Third World City Management Perspective*. Macmillan Press, Basingstoke (Nov, 1996) and St Martin's Press, New York, NY (Jan, 1997), 328 pp.
- ³ Under normal circumstances, LG is free to decide if it is best placed to provide various parts of the planned infrastructure or services itself, or if others are better placed (in terms of finance, equipment and expertise) to provide the service on behalf of LG. This can include a simple service agreement (road repairs), a private-public partnership (PPP), where private capital creates and operates the asset (water supply; electricity), or outright privatization. For example, in Malawi (1989-93), World Bank missions were baffled by each urban council's determination to own, operate and maintain rest houses (basic hotels).
- ⁴ McGill, R (1999). Civil service reform in Tanzania: organization and efficiency through process consulting. *International Journal of Public Sector Management*, Vol.12, No. 5, pp. 410-419.
- ⁵ In Malawi, government policy was for the major urban councils to assume responsibility for both urban planning and the provision, management and maintenance of the traditional housing areas (THAs). It took two additional years to get the supporting legislation changed, therefore fulfilling the contextual requirements for these new urban management services. The result was the agreement to a new organizational structure, including the recruitment of new personnel and their training. The development of processes to support (particularly) the management and maintenance of the THAs was also achieved, with technical support from the Municipal Development Programme (MDP). In short, once the ID agenda had been "fixed", there were no more (institutional) impediments or excuses for poor performance.
- ⁶ Roberts, J. (2003). *Managing Public Expenditure for Development Results and Poverty Reduction*. Working Paper 203. ODI; Overseas Development Institute : London
- ⁷ McGill, R. (2001). Performance Budgeting. *International Journal of Public Sector Management*, Vol.14, No. 5, pp. 376-390.
- ⁸ This remains an immense challenge in PB because of the inconsistent approach to programme definition.

Index

A

accountability 4, 11, 13, 14, 31, 33, 34, 38, 41, 46, 49, 76, 77, 80, 82, 83, 84, 85, 86, 96, 98, 99, 100, 104, 116, 146, 154, 203
accountable 5, 9, 11, 14, 16, 24, 31, 34, 89, 98, 128, 134, 160, 166, 197, 200, 208, 209, 221
Activities 24, 28, 65, 78, 151, 159, 161, 187, 205, 214
Activities and input analysis 24, 159
activity and input analysis 186
Annual budget table 161
Annual Performance Report 76, 122, 124
Annual Report and Service Improvement Plan 61
Annual Targets 27, 78, 213, 219, 220
annual target tables 161
Armenia 1, 4, 7, 12, 15, 17, 36, 160, 165
ARPB 4, 18, 22, 23, 24, 28, 29, 31, 33, 55, 103, 106, 116, 121, 159, 160, 161, 163, 164, 165, 166, 197, 198, 200, 203, 204, 205, 208, 209, 212, 223, 229
ARSIP 61, 69, 70, 72, 76
attributable achievements 21, 202
audit 37, 44, 71, 153, 230

B

Baseline data collection 110
budgetary unit 93, 95, 98
budgeting 1, 2, 3, 4, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 19, 20, 21, 22, 23, 24, 28, 29, 30, 31, 32, 36, 38, 41, 46, 48, 50, 51, 52, 53, 54, 55, 61, 62, 63, 64, 66, 67, 76, 77, 78, 79, 82, 83, 85, 86, 87, 88, 90, 92, 93, 95, 96, 97, 98, 99, 101, 102, 103, 105, 108, 110, 114, 116, 121, 122, 123, 125, 127, 128, 129, 130, 131, 133, 136, 137, 139, 140, 141, 146, 147, 151, 152, 153, 154, 155, 156, 157, 159, 161, 163, 164, 165, 186, 195, 197, 198, 200, 201, 202, 203, 204, 205, 207, 208, 212, 214, 216, 221, 223, 226, 229
budgeting per target 161
budget bid 24, 163, 166, 188, 208

C

changes in socio-economic conditions 32
Civil Service Reform Programme 61, 76
community 8, 9, 11, 12, 13, 15, 16, 24, 26, 28, 29, 31, 33, 42, 49, 52, 69, 70, 73, 74, 90, 93, 94, 103, 106, 107, 108, 112, 116, 126, 134, 142, 145,

146, 147, 160, 166, 168, 187, 200, 203, 204, 205, 206, 207, 208, 209, 210, 214, 217, 218, 221, 222, 225, 226, 228, 229
context 1, 7, 8, 9, 10, 11, 12, 16, 20, 21, 23, 24, 34, 36, 47, 48, 51, 52, 54, 63, 83, 86, 88, 96, 97, 100, 135, 136, 141, 153, 160, 161, 185, 188, 201, 202, 204, 208, 226, 228
corruption 33, 34
costs 24, 25, 26, 28, 29, 30, 32, 33, 47, 50, 51, 55, 76, 82, 102, 112, 119, 122, 123, 134, 135, 139, 142, 145, 147, 161, 163, 167, 169, 186, 187, 188, 190, 191, 192, 193, 194, 195, 198, 207, 209, 211, 212, 214, 216, 222, 223, 228
Council 36, 81, 108, 112, 165

D

decentralization 1, 3, 8, 9, 10, 11, 12, 13, 14, 15, 19, 21, 67, 82, 87, 89, 90, 91, 96, 97, 104, 105, 138, 149, 154, 155, 201, 203, 225
decentralized governance 104
Decentralized Planning 90
development environment 9, 30, 121, 216
district 8, 9, 10, 12, 20, 68, 74, 81, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 101, 102, 105, 107, 108, 110, 112, 113, 114, 116, 117, 119, 120, 121, 122, 123, 125, 126, 201
District Facilitation Teams 106

E

economic activity profile 25, 160, 162, 167, 168, 209
economic classification 37, 39, 42, 44, 45, 79, 80, 86, 139
economic development 3, 4, 10, 11, 19, 25, 26, 69, 72, 85, 105, 106, 114, 160, 162, 166, 200, 221, 225
economy 4, 19, 22, 25, 29, 31, 32, 33, 36, 38, 39, 49, 79, 86, 87, 106, 112, 114, 122, 123, 125, 129, 131, 134, 138, 139, 140, 142, 145, 147, 153, 156, 162, 168, 176, 188, 200, 202, 203, 204, 209, 214, 217, 223
economy, efficiency and effectiveness 4, 19, 22, 29, 31, 36, 112, 122, 140, 176, 200, 202, 204, 214
efficiency 2, 4, 13, 16, 19, 22, 29, 30, 31, 32, 33, 36, 38, 51, 71, 75, 76, 77, 80, 82, 85, 86, 106, 112, 114, 122, 123, 125, 138, 140, 176, 188, 196, 200, 202, 203, 204, 214, 216, 223, 230
equity 36, 44, 45, 106, 112, 121, 127, 140, 141,

144, 146, 151, 203, 227
 Eritrea 1, 4, 36, 146, 160
 expenditure ceilings 22, 217, 226, 227
 expenditure classifications 16
 experimentation 4, 10, 87, 88
 external logic 22, 23

F

Finalization of draft ARPB 161
 financial mapping 21, 202
 fiscal classifications 38, 39
 fiscal transfers 4, 99
 Funding incentives 51

G

Gauteng Provincial Government 151
 GBI 149, 150
 Gender 27, 127, 128, 129, 131, 132, 133, 135, 137, 146, 147, 149, 150, 151, 152, 153, 157
 General Development Challenge 117, 119
 general development challenge 25, 117, 119, 161, 162, 166, 168, 198, 209, 210
 general development picture 25, 160, 161, 162, 166, 167, 168, 198, 209, 210
 GFS 2001 38, 39, 43, 44, 45, 54
 GFS framework 38, 39, 40, 45, 92, 223
 governance 3, 17, 19, 25, 29, 76, 83, 87, 104, 138, 146, 154, 200, 203, 210
 government financial statistics 4, 78
 Governorate 104, 105, 106
 GRBR 128, 130, 131, 135, 136, 137, 138, 140, 141, 142, 143, 144, 145, 149, 153, 154, 155

H

human and institutional capacity 3, 97

I

IMF 1, 4, 7, 16, 17, 37, 38, 39, 54, 78, 87, 92, 126, 136, 147
 Inflows 43, 44
 information systems 7, 20, 86, 98, 146, 201
 infrastructure and services 7, 12, 15, 16, 19, 20, 22, 29, 32, 34, 54, 69, 75, 133, 142, 143, 152, 155, 176, 197, 200, 201, 202, 217
 infrastructure and service delivery 15, 19, 20, 23, 32, 33, 67, 200, 201, 208
 inputs 24, 28, 29, 32, 37, 39, 45, 46, 54, 55, 62, 64, 65, 77, 84, 85, 117, 123, 128, 140, 141, 142, 143, 145, 155, 163, 176, 186, 187, 188, 198, 203,

204, 205, 207, 212, 214, 221, 223
 Institutional Development 7, 203, 230
 institutional mapping 21, 201
 integrated planning 91, 102, 105, 113, 116, 119, 122, 125
 integration 4, 10, 12, 16, 21, 47, 55, 77, 79, 92, 95, 110, 202, 204

L

LDCs 1, 3, 4, 5, 19, 47
 LDF 3, 4, 147, 204, 205, 225, 226, 227, 228, 229, 230
 leadership 5, 24, 34, 49, 156, 165, 208
 local government 1, 3, 4, 5, 9, 12, 15, 19, 21, 23, 29, 34, 40, 49, 50, 67, 70, 80, 86, 88, 89, 93, 99, 103, 105, 106, 108, 156, 157, 159, 160, 163, 165, 197, 200, 201, 202, 203, 208, 217, 225, 228, 229
 local government practitioners 197
 Local revenue mobilization 4

M

macro-economic analysis 40
 manuals 12
 Mapping 20, 54, 198, 201
 MDGs 3, 4, 7, 9, 11, 16, 20, 21, 24, 25, 112, 114, 116, 131, 135, 136, 137, 138, 143, 155, 156, 162, 168, 201, 202, 209, 221
 measurability 4, 55, 100, 203
 measurable 5, 33, 34, 49, 76, 77, 83, 103, 106, 121, 123, 136, 146, 160, 166, 197, 200, 221
 Measurement 31, 145, 158
 medium term expenditure framework 27, 82, 130, 172, 211
 minimum capacity conditions 230
 Ministry of Finance 2, 65, 75, 76, 78, 79, 82, 105, 126, 154, 157, 199, 217
 Monitoring and Evaluation 63
 Morocco 149, 152, 154, 155, 156
 Mozambique 1, 4, 7, 9, 17, 28, 36, 87, 88, 89, 91, 92, 94, 95, 96, 97, 98, 99, 100, 101, 127, 146, 197
 MTEF 13, 14, 16, 20, 21, 23, 26, 27, 46, 49, 50, 55, 63, 64, 65, 66, 75, 82, 83, 84, 85, 86, 149, 150, 155, 190, 191, 192, 193, 194, 195, 201, 208, 211, 212, 213, 221, 222, 229

N

North Sudan 159, 160

O

operational classifications 39
 organizational analysis 55
 Organizational structures and staff deployment 8, 11, 14
 Organization and Efficiency 61, 76
 Outflows 43, 44
 outputs 21, 29, 32, 33, 41, 44, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 62, 63, 64, 105, 106, 128, 130, 132, 135, 138, 139, 140, 141, 142, 143, 145, 147, 150, 151, 152, 163, 176, 188, 202, 203, 214, 223

P

participatory plan 8, 96
 partnerships 34
 PEM 11, 12, 16, 17, 19, 20, 21, 29, 32, 34, 50, 54, 104, 105, 122, 126, 131, 137, 139, 161, 201, 204, 217, 225, 226, 228, 229
 Performance Management System 76
 pilot PB 16
 planning cycle 8, 9, 11, 16, 30, 94, 216, 226, 227
 Port Sudan 4, 160, 197
 poverty 3, 5, 8, 9, 11, 14, 16, 19, 20, 23, 25, 26, 30, 32, 63, 83, 84, 91, 106, 128, 130, 133, 134, 136, 137, 138, 139, 142, 144, 145, 146, 153, 154, 158, 160, 162, 167, 168, 176, 188, 196, 200, 201, 203, 208, 209, 210, 216, 227, 228
 poverty assessment 25, 160, 167, 209
 prioritization 24, 27, 30, 31, 82, 90, 104, 107, 116, 119, 139, 144, 172, 175, 206, 207, 210, 211, 216
 Programme and target analysis 24, 159
 PRSP 7, 11, 13, 14, 16, 80, 83, 86, 137, 138, 143, 145, 149, 156, 157, 158, 160, 162, 168
 PSRP 62, 75, 76
 public expenditure management 3, 11, 16, 17, 19, 20, 29, 34, 50, 54, 86, 92, 99, 131, 137, 161, 201, 204, 226, 229

Q

Quantifiable Development Objectives 119

R

ranked sequence 21, 31, 202
 RBB 127
 Recurrent and Development Budgets 47
 Red Sea state 197
 revenue mobilization 4
 review of performance 31, 53
 Rumbek 4, 197
 Rwanda 149, 157

S

sector-wide approach to planning 20, 201
 Senegal 149, 155, 156, 157, 158
 societal impact 21, 202
 socio-economic profile 25, 160, 162, 167, 168, 209
 sources of financing 19, 200
 South Africa 141, 149, 151, 157
 South Sudan 25, 159, 160, 223
 strategic development imperatives 25, 161, 162, 167, 168, 198, 209, 210
 strategic development target tables 161
 Strategic framework 164, 198, 209
 strategic framework and objectives analysis 24, 159
 Strategic performance framework 24, 163, 165, 166, 208
 structured coding system 22, 96, 203
 Sudan 4, 25, 36, 146, 159, 160, 197, 203, 223
 Summary Budget Format 55, 188
 sustainability 3, 4, 47, 66, 67, 82, 92, 117, 150, 156, 168, 174, 175
 SWAP 20, 101, 201

T

Tanzania 1, 2, 4, 16, 36, 61, 62, 65, 67, 68, 70, 75, 82, 85, 86, 127, 197, 223, 230
 transparency 13, 14, 76, 80, 94, 95, 96, 99, 100, 207

U

UNCDF 1, 3, 4, 5, 7, 8, 9, 11, 19, 25, 34, 36, 48, 55, 91, 92, 94, 95, 96, 99, 101, 102, 104, 105, 147, 156, 159, 165, 197, 225, i, ii
 UNDP 1, 8, 9, 17, 36, 99, 104, 105, 153, 156, 157, 158, 165

V

variance analysis 32, 33, 153, 176, 188, 217, 223

W

World Bank 36, 68, 91, 126, 136, 153, 154, 158,
230

Y

Yemen 1, 4, 7, 10, 11, 12, 28, 36, 102, 103, 104,
105, 108, 110, 112, 122, 125, 127, 146, 197