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The Medium-Term Expenditure Framework

The Challenges of Budget Integration in SSA countries

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Abstract

Budget institutions, practices and performance have deteriorated over the years in Sub-Saharan Africa (SSA). External assistance, which has increasing become a major part of budget financing, has contributed to the fragmentation of the budget and the distortion of budget priorities and practices. The culprit has been the conditions and procedures attached to this assistance. In recent years, the donor community has promoted the medium-term expenditure framework (MTEF) as the approach to improve the budget practices and outcomes in SSA countries. Some countries have already adopted the MTEF but so far, the evidence on performance on implementation has been mixed. This paper takes as a point of departure that the MTEF is a conceptually sound approach for improving public expenditure management (PEM). It therefore aims to contribute to the debate on the challenges to introducing and implementing the MTEF in SSA countries, drawing extensively from the experience of Rwanda, where the implementation of the MTEF was the subject of a recent analytical review.

The paper focuses on one key aspect of the MTEF – the integration of the budgets. A meaningful MTEF would have to be in the context of an integrated budget, involving an end to practices that fragment the budget. Consequently, the MTEF would require the sustained commitment of both the government and its development partners to institutional change, capacity building, and effective partnership between the government and its donors. A key element of the institutional change would be the harmonization of donor assistance procedures with the budget procedures of the government, and the alignment of donor assistance to the MTEF and the budget process. While the implementation of the MTEF would represent a considerable challenge in many countries, the paper proposes that, even in the difficult cases, the MTEF be adopted as the conceptual framework for PEM reform, with selective and phased implementation of MTEF techniques. In parallel, there should be efforts to sensitize the government and donors and build capacity on MTEF concepts, with the pace of implementation in line with developments in commitment and technical capacity.

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The Medium-Term Expenditure Framework
The Challenges of Budget Integration in SSA countries

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PREFACE AND ACKNOWLEDGEMENTS

This paper draws from the outcome of public expenditure management review (PEMR) carried out jointly by the Government of Rwanda, the World Bank, the Department for International Development (DFID) of the United Kingdom, the European Union and other partners towards the reform and improvement of public expenditure management in Rwanda. The objective of this PEMR was to assess the progress on the implementation of the Medium Term Expenditure Framework (MTEF) approach to budget management and to help chart the course for its future development. The full report of PEMR is contained in: **Rwanda: Public Expenditure Reform for Sustaining Poverty Reduction,** ***A Public Expenditure Management Review***, World Bank, November 2003.

The principal collaborators on the PEMR from the Government included Camille Karamaga, Director of Budget, Tim Lamont, MTEF Advisor, Prosper Musafiri, Director of Macroeconomic Policy, Fred Quarshie, Economic Advisor, A. Gafoor Yakub, Budget Advisor, Justice Muhandaza, Executive Secretary, CEPEX, and Vincent Karega, Coordinator of the PRSP process. The World Bank team consisted of Chukwuma Obidegwu (mission leader and principal author), Raju Kalidindi, Guido Rurangwa, Therese Nibarere and Daouda Zoure (consultant economist). The international consultants were Simon Stone (MTEF expert), Pundy Pillay (decentralization), Allan Mills (budget monitoring), Paul Beckerman (macroeconomic framework); and the national consultants were Laetitia Nduwimana (decentralization), Fidele Nyaminani (monitoring), Martin Nkurunziza (MTEF), Francois Gakwerere (budget classification and integration). The peer reviewers for the PEMR were William Dorotinsky, Jee-peng Tan, David Shand (World Bank), and Peter Dearden (DFID). The DFID and the Belgian Trust Fund administered by the World Bank provided the funding for the PEMR.

Chapters 1 and 2 of the PEMR covered the public expenditure context, and the recent performance of the budget, respectively. Chapters 3 reviewed the progress in the implementation of the MTEF and chapters 4-6 covered the development of the macroeconomic framework, the prospects for budget integration, and the review of budget monitoring and evaluation, respectively. Chapter 7 reviewed implications of decentralization for the PEM and the MTEF, and Chapter 8 discussed the key issue of the alignment of external assistance to the budget.

While this paper draws on the work of several people to highlight the opportunities, constraints and risks of the MTEF process in general and budget integration in particular, the conclusions and any errors in this paper are the responsibility of the author.

The Medium-Term Expenditure Framework: The Challenge of Budget Integration

Table of Contents

The Medium-Term Expenditure Framework: The Challenge of Budget Integration

1. Background and Objectives of the Paper

1.1. Introduction

The Medium Term Expenditure Framework (MTEF) is currently in vogue as a system of budgeting in developing countries. The countries in SSA that have struggled with antiquated budget systems inherited from colonial administrations and have failed to make the underlying the traditional line item single-year budget framework (SYBF) have, with some prodding from the donors and development agencies, turned to the MTEF for salvation. Many countries in SSA including Tanzania, Uganda, Ghana, Malawi and Zambia have adopted MTEFs and have had some years of implementation. Some other countries including Burundi, Cameroon, Tchad are in the process of adopting MTEFs. The Poverty Reduction Strategy Process (PRSP) process has promoted the adoption of the MTEF as the appropriate budgetary instrument for implementing poverty reduction strategies (PRS). Bevan (2001), Le Houerou and Taliercio (2002) have reviewed experiences in implementing the MTEF in various countries. The experience so far is mixed. Even the countries that are relatively more advanced in implementing the various aspects of the MTEF, there is still some ways to go in key areas such as costing, budget integration and monitoring of outcomes.

Although the MTEF has been recommended for SSA countries, many skeptics and questions remain. There is even some confusion about what the MTEF approach is all about and doubts about the readiness of the governments, encompassing the commitment to institutional reforms and the technical capacity, to effectively implement the MTEF. A potential obstacle, which does not often receive emphasis, is the readiness of the donors to make and sustain the reforms in external aid procedures needed to fully apply the MTEF approach to realize improvements in budget performance.

The challenge of implementing the MTEF was aptly summarized by Schiavo-Campo and Tommasi (1999). They stressed that before embarking on a multiyear expenditure programming exercise, convincing answers would be needed on the adequacy of supporting processes including "an effective system for revenue forecasting; procedures for estimating the forward costs of programs and assessing their soundness; adequate coordinating mechanisms for budget preparation, including systematic joint review capital and current components of the budget; good budget discipline."[1] This does not appear to be a set of very demanding tasks but operational experience with these issues in SSA indicates that the MTEF faces some uphill challenges. Substantial progress would be required in capacity building, government commitment to budget discipline and reform, and the harmonization of donor

[1] Schiavo-Campo and Tommasi (1999), page 297.

procedures. It is essential that the governments embarking on the MTEF and the donors promoting it understand the ramifications of the venture.

1.2. Objectives of the Paper

This paper takes as a point of departure that the MTEF approach to budgeting is conceptually sound approach for addressing the public expenditure management challenges in SSA countries. Thus, its main objective is to contribute to the discussion on the conceptualization and implementation the MTEF. The introduction of the MTEF requires new approaches be designed and adopted in budget preparation, execution and performance evaluation, including the national and fiscal policy frameworks, sector strategies and expenditure programs; budget classification, the integration of the budget; and monitoring of inputs, outputs and outcomes, and financial accountability.

Probably the most challenging of these processes is the integration of the budget. Ideally, an integrated budget would be one comprehensive government budget that covers all public expenditures, irrespective of the source of financing. All the items in the budget should meet pre-determined standards for inclusion, and budget preparation, execution, monitoring and financial reporting, should follow the same rules and regulations determined in advance. Historically, budgets in the countries in SSA have been fragmented, thus effective integration would require many changes in existing government and donor processes.

This paper aims principally to examine the challenges of the MTEF in general and budget integration in particular, and the institutional reforms that would foster the implementation and effectiveness of the MTEF. Since there is no one standard MTEF, to avoid general and hypothetical discussions of a "straw" MTEF, this paper anchors its discussions of the MTEF and budget integration on the experience of one country – Rwanda -- that introduced the MTEF in 2000. This approach will thus highlight real challenges and provide guidance and lessons for dealing with the challenges. The paper draws substantially from a recent public expenditure management review (PEMR) that, inter alia, reviewed the progress and explored the challenges in implementing the MTEF in Rwanda (World Bank (2003c)).[2]

The paper has four principal sections (2-5). Section 2 discusses the broad characteristics and rationale of the MTEF based budget as well as the technical and institutional challenges for achieving effective public actions under the MTEF. To provide a background for discussing the rationale for the MTEF, the section starts with the desired characteristics of a good budget. Further, it presents characteristics of the MTEF, the distinguishing features between the MTEF approach and the traditional single year budget or line item budget system, and the potential value-added to a budget

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[2] As noted earlier, chapters 3 and 5 of the PEMR (World Bank (2003)) reviewed the progress in the implementation of the MTEF and the prospects for budget integration, respectively. Chapter 8 discussed the key issue of the alignment of external assistance to the budget. The author of this paper was the team leader of the PEMR and primary author of chapters 5 and 8 as well as the principal author and coordinator of the overall PEMR report.

system by the MTEF. Finally, the section discusses the prospects for the implementation of the MTEF in SSA.

Section 3 starts with a brief discussion of the challenges to budget reform in Rwanda, the progress made on budget reform prior to the adoption of the MTEF, the background to the adoption and introduction of the MTEF in Rwanda, the approach taken in the implementation and the progress made so far. Presented in a country-specific context, it is probably easier to appreciate the challenges and opportunities of the MTEF.

Section 4 discusses the progress and illustrates the key challenges in integrating the budgets in the context of the implementation of the MTEF in Rwanda. The discussion covers the key technical and institutional building blocks for budget integration - budget classification, sector strategies and expenditure programs, the reform of budget institutions related to the public investment program, capacity building and donor coordination. The alignment of donor assistance to the budget is a sine qua non for budget integration. Section 5 examines the issues around donor assistance and budget integration in the broader context of the effectiveness of external assistance and public actions generally. Section 6 provides some concluding remarks.

2. THE RATIONALE FOR THE MTEF

2.1. The Decline in Budget Performance

The fundamental problem of budgeting in SSA countries is that in the last twenty years, there has been a tendency to the "informalization" of budgeting. It increasingly became ad-hoc and budget laws and regulations lost respect. The two principal causes of the deterioration of budgetary systems are (i) the deterioration of governance due to a combination of the deterioration of public sector capacity, severe political conflict and instability and in some cases civil war; and (ii) the stagnation of domestic resource mobilization in face of growing budgetary needs and the increasing dependence on external loans and grants in budget funding.

The deterioration of governance engendered budget indiscipline, the deterioration of budget institutions and the increasing lack of coherence between government policies and the budget. The domestic resource dimension led to the inadequacy and unpredictability of budget resources, the fragmentation of the budget, and to some extent fostered the lack of realism in budget estimates. Practice deviated sharply from the requirements of laws and regulations and ad-hoc measures were used to deal with the financing and implementation difficulties. Cash budgeting, which essentially disrespects the budget approved by the legislature, has been a common approach to control fiscal deficits in the face of volatility of resources. Cash budgeting undermines the formal process of commitment, verification and payments (circuit des depenses) for public goods and services that underpins accountability (Bouley, Fournel and Leruth (2002)).

Budget laws usually require that the budget be comprehensive, that is, that it should cover all planned government expenditures. However, expenditure outside the budget has been a common feature government spending in the SSA countries. Another feature has been the existence of two or more distinct formal budgets, including a budget of recurrent expenditures, financed mainly by current revenues and external program loans and grants, and the so-called development budget that funds capital as well as related but unspecified recurrent activities and financed largely by external project loans and grants[3]. The distinguishing feature of the different budgets is mainly the source of financing rather than the nature of the activity/program financed. The development budget has essentially been an aggregation of the budgets of projects financed by different donors and multilateral development banks, with each component endowed with its unique procedures for preparation, execution and monitoring, and with no scope for reallocation between components. Furthermore, some government programs and projects, including those funded by external aid, are not included in any of these budgets.

Budget laws, even those adopted in the 960s, have accountability and transparency provisions, with regulations and instructions covering the flows and uses of funds, operational audits, regular publication of reports of government financial operations and review of these by supreme audit bodies, and for oversight by supreme legislative bodies. In practice, these legal and regulatory requirements have not been followed and enforced. Monitoring and evaluation of budget inputs, outputs and outcomes, essential for a good and effective budget, were often neglected. Although the laws and regulations envisage transparent and consultative budget processes involving the core and line ministries, the cabinet and the legislative bodies, the core ministries have often dominated budget preparation and execution, without significant inputs from line ministries, limited direction from the council of ministries, and a rubber stamp role by legislative bodies. In any case, with agreement on the budget by the government and external aid agencies, in advance of the presentation to legislatures, the scope for subsequent changes by the legislatures is very limited.

In sum, budgets and budgetary practices have lacked legitimacy among the domestic stakeholders, and have been marked by the lack of comprehensiveness, accountability and transparency. Furthermore, they have been characterized by (i) a disconnect between the budget and government policies, (ii) the lack of clarity of objectives in budget preparation; (iii) the emphasis on fighting for resources rather than results; (iv) difficulties in planning in the single year framework, complicated by the unpredictability of budgetary resources; (v) accountability undermined by the lack of clear objectives and results; and (vi) the fragmentation of the budget, with lack of coherence between different parts of the budget. In this context, programs supported by public expenditures would not be efficient and effective.

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[3] In recent years, a third formal budget, financed by the debt relief from the Heavily Indebted Poor Countries (HIPC) Initiative, has become common.

2.2. What is the value-added by the MTEF?

The MTEF is one of a long-line of approaches such as line item, program, zero-based and forward budgeting, and budgeting by objectives, aimed at improving of effectiveness of budgets and public actions (World Bank (1998)). These approaches incorporated in varying degrees the attributes of comprehensiveness, accountability, transparency, efficiency and effectiveness. None of the budget innovations took firm hold in the countries in SSA and the predominant practice remained what could be roughly characterized as line item single year budget, often inherited from colonial administration, with limited systematic over the years. These single year budget framework (SYBF) budgets were predominantly based on administrative and/or economic classifications. The question naturally arises as the value-added of the MTEF to the objective of improvements of the effectiveness of the budget and why the MTEF should work where other innovations have failed. In that context, the first issue though is: what is an MTEF and how does it differ from traditional single year budget, and how relevant is it for the current problematic?

What is an MTEF?

There is no one short and concise characterization of the MTEF. One could characterize the MTEF as bundling of the desirable features of a government budget. A concise operational definition would facilitate dialogue and implementation. The World Bank Public Expenditure Framework Handbook characterizes the MTEF as a process for linking policy, planning and budgeting that provides ministers and line ministries with "greater responsibility for resource allocation decisions and resource use", consisting of a "top-down resource envelope, a bottom-up estimation of the current and medium-term costs of existing policy and, ultimately, the matching of these costs with available resources."[4] This is a very broad but imprecise definition and does not do justice to the elaboration of the MTEF in the Handbook. Jones and Lawson (2000) noted that the MTEF needs to evolve through three development stages (i) a medium-term fiscal framework (MTFF) that provides medium-term macroeconomic and fiscal targets and projections, (ii) a medium-term budget framework (MTBF), with projections of spending by agencies consistent with the MTFF, and (iii) activity-output-outcome based budgeting.

In sum, the MTEF is a conceptual framework that aims to integrate the elements of good budget practice into an operational process. The key characteristics could be summarized as follows: (i) the medium-term perspective requiring a budget based on spending estimates for a 3-5 year period (MTBF)) underpinned by a consistent medium-term fiscal framework (MTFF); (ii) a process of aligning budget allocations and spending to government policy objectives through prior elaboration of clear and transparent national policies, sector strategies and programs, and the costing of program activities as a basis for the medium-term spending estimates; and (iii) a focus on results and accountability and transparency, with emphasis on monitoring of inputs outputs and outcomes as well as financial reporting and oversight. The medium-term perspective

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[4] See World Bank (1998), page 46

facilitates the alignment of the budget to policy objectives and gives the appropriate time and resources to achieve the desired results. The results orientation, outcomes monitoring and feedback process put emphasis on planning, implementation, efficiency, effectiveness and accountability, with results driving resource mobilization and allocation.

Strategic Planning Aspects

The MTEF emphasizes the planning aspect of the budget process. The medium-term term financing scenario is derived from the costing of a strategic plan of activities needed to achieve specified objectives. The logic of planning is that there has to be clear expected results consistent with the objectives, realistic estimates of the resources needed to achieve the results, the optimal combination of the different resources subject to constraints, and mechanisms for monitoring inputs, outputs and outcomes. The results of the monitoring are essential to the feedback mechanisms for improving the models in the planning process. Monitoring would also support accountabilities and performance management at micro levels.

Strategic planning, with the participation of stakeholders, is a process that can help build consensus and commitment and rally the stakeholders behind the plan and the achievement of its objectives.[5] To maintain the credibility of, and the commitment to the planning and monitoring processes, predictable flows of budgetary resources, in accordance with the estimates for MTEF and budgets, is essential.

Differences between the MTEF and the SYBF

There are two fundamental differences. The first is the necessity for an integrated comprehensive and program-oriented budget, to facilitate the results orientation of the MTEF. The second difference is the medium-term bottom-up strategic planning that is required for the MTEF as opposed to the macro and incremental approach to planning in the SYBF. Of course, the SYBF could be underpinned by a bottom-up medium term plan but incentive systems and the rushed annual budget preparation process does not favor forward-looking strategic planning. The focus is usually on identifying activities that will justify larger budget allocations. Other differences include the medium-term allocation of resources in the MTEF as opposed to the single year budget plan. The allocation of resources over the medium-term facilitates planning for program implementation. The longer time period permits efficient adjustments to higher or lower level of resources, thus facilitating changes in priorities. Thus, for the MTEF, the realism of the MTBF is important for effective use of resources.

Some technical and institutional requirements for an MTEF budget

In addition to the traditional requirement of budget discipline, the following technical and institutional factors are essential for a successful MTEF:

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[5] In the heyday of long-term planning, the planning process involved substantial consultations and participation. However, the links of the long-term plans to operational one-year budgets were weak and budgeting was done in secrecy.

- A clear framework of national objectives and policies, and sector objectives and strategies;
- Realistic medium-term resource projections that ensures predictable flows of programmed resources to implementing agencies;
- A comprehensive budget that captures all the expenditures by the government as well as on behalf of the government, for instance by donors and NGOs.
- An integrated budget that enables the budget system to relate results and accountabilities to resource inputs;
- A budget and program classification that can be linked to the national and sectoral objectives, that is a functional classification and facilitates the integration of the budget;
- Financial management institutions to ensure transparency and accountability in the use of budget resources; and
- Monitorable indicators of inputs, final and intermediate outputs and outcomes, quantitative and qualitative targets of these indicators and a system for regular monitoring of the progress toward meeting the targets. The monitoring provides the basis to assess results and accountabilities and make adjustments in objectives, targets and budget allocations.

The introduction of the MTEF requires strong analytical underpinnings related to (i) diagnostic work on existing budget practices, policies and strategies, and budget cost structures; (ii) rational budget and program classification; (iii) budget monitoring and financial accountability systems; and (iv) sensitization and capacity building. Implementation of the MTEF in the context of weak technical and institutional capacity has to be a long-term effort, and the choice of the entry point could be important for sustainability over time. It also requires sustained political commitment for reforms in public administration, in parallel and consistent with MTEF budget reforms. Budget and fiscal discipline, including an adherence to the medium-term budget priorities and projections, and a respect for the budget process, already been noted as a condition for an effective budget, are critical for the MTEF. The linking of budget allocations to performance/results will enhance the credibility of the MTEF.

Donors are powerful stakeholders in the budgets of these aid-dependent countries. The support of the donor community, including a willingness to change their assistance procedures, is critical for the implementation of the MTEF. Collaboration on the MTEF, including support for capacity building, developing policies and institutions, and aligning assistance to them, will give real meaning to "development partnership". As legitimate stakeholders in the results from the MTEF/budget development partners should be fully consulted on the plans for the MTEF and related policy and institutional reforms.

2.3. Prospects for Implementation of the MTEF in SSA

A number of countries in SSA, with support from the development partners, have plunged into the MTEF, so far with different degrees of success. The MTEF has been important in improving budget processes and the coherence of donor financial assistance to Uganda, Ghana and Tanzania (Bevan (2001), Le Houerou and Taliercio (2002), Foster and Naschold (2000)). However, Malawi, Zambia and some others have had less success. Rwanda introduced MTEF techniques to its budget process in 2001and it is at early stage to the results although a recent assessment of progress in implementation has been encouraging (World Bank (2003c)). The Poverty Reduction Strategy Papers (PRSP) process has given new impetus to the introduction of the MTEF. Indeed, there appears to be a widespread impression that the PRSP requires an MTEF budget. While there is no such formal requirement, the medium-term perspective and the emphasis of both the MTEF and the PRSP process on specific objectives, priorities and results, and on improving good governance makes the MTEF a good fit for the implementation of the PRSP.

There is no reason to expect success for the MTEF where the SYBF has failed. Budgets fail primarily because governments do not respect basic budget principles of discipline, transparency and accountability and/or the capacities for budget preparation and execution are very weak. The design and implementation of MTEF reforms require the technical capacity and coordination across the government as well as effective donor coordination. These are areas of persistent weaknesses in the countries in the SSA. Some governments might jump on the MTEF bandwagon as a way of avoiding or delaying the making and honoring the political commitment to budget discipline, transparency and results orientation. Where this commitment does not exist or is not honored, the MTEF is likely to fail and the efforts and other resources spent on the preparatory work would be wasted.

On the other hand, the experience of Uganda, Ghana and Tanzania (Le Houerou and Taliercio (2002), Bevan (2001), and Foster and Naschold (2000)) have demonstrated that with strong government commitment and leadership for change, and support from the development partners, progress can be made in improving the budget system. Secondly, the momentum given to the MTEF by the PRSP might enhance the commitment of the government and donors to budget discipline and institutional reform. In the context of weak institutional capacity that characterizes most SSA countries, the adoption of the full MTEF process across the government has to be approached as a phased long-term project.[6]

The key to progress in sustaining the implementation of the MTEF is four fold: The first is sensitize the governments and donors on budget reform and the MTEF in particular, to gauge commitment and promote the readiness for institutional reforms.

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[6] Phasing could be vertical, selectively and sequentially implementing IMF in all ministries and agencies, or horizontal, which will initiate the MTEF in a few ministries and gradually bring on the rest.

The second is to build the capacity in the administration for budget and institutional reforms and implementation. The third is that the design of MTEF-type reforms and the phasing of these reforms should be adapted to country circumstances, taking into account government and donor commitments and partnership, and the technical implementation capacity. Finally, the technical people who have to implement the MTEF should decide the pace of reforms, not the development partners. The promotion of the MTEF as the panacea for budget and development problems, particularly by the donor community, could be counterproductive.

The rest of the paper (sections 3-5) proceeds as follows: Section 3 describes how one country, Rwanda, has attempted to implement the MTEF and the obstacles along the way. Budget integration is deemed central to an effective MTEF-based budget. Section 4 draws on section 3 to discuss in more general terms the issue of budget integration and section 5 draws on section 4 and discusses the role of the donors in budget integration in particular and the MTEF in general.

3. RWANDA AND THE MTEF

3.1. Background

Due to the genocide of 1994, Rwanda faced emergency social and economic reconstruction and a period of transition from conflict and emergency to development. Its per capita income declined from US$370 in 1990 to US$230 in 2002. Sixty percent of households live below the poverty line. During the transition, Rwanda established new governance institutions for national reconciliation, political transition and economic management. The Poverty Reduction Strategy (PRS), completed in mid-2002, assigned high priority to good governance and stressed the importance of effective public actions in the poverty reduction efforts. The characterization of good governance as an over-aching condition for poverty reduction was a recognition of its importance for fostering national reconciliation, strengthening the legitimacy of the government, reducing the risks of conflict, and facilitating improvements in the effectiveness of public actions. In this context, improvements in public expenditure and financial management were regarded as priorities. The MTEF was adopted to play a central role in this effort.

Rwanda is highly dependent on donor financing of the budget, with about 50 percent of expenditures financed by external grants and loans. However, the fragility and unpredictability of external donor support has hampered the planning and execution of budget activities. Although the unease among the donors concerning Rwanda's military involvement in the DRC was a factor in this fragility of donor support, complex aid procedures have contributed to the unpredictability of donor disbursements. While some donors have recently started to provide flexible programmatic aid, most of external aid funds have remained largely tied to specific donor-originated projects. Like elsewhere in SSA, donor assistance procedures have fragmented Rwanda's budget system. The government's own institutional arrangements for budget preparation and

execution, which have, in part, been shaped by the donor procedures, have also exacerbated the budget fragmentation.

Rwanda introduced the MTEF in 2000. Prior to that the Government was implementing a program of rehabilitation and reform of public expenditure management, focusing on reform of processes for budget preparation and execution, domestic resource mobilization and capacity building. The commitment of the Government to these reforms was strong. The donors and Bretton Woods institutions provided technical assistance to the reform process.

3.2. Pre-MTEF Budget reforms

Rwanda's budget system and related institutional memory was severely damaged by the genocide of 1994. After the genocide, the reforms focused on restoring and reforming processes for budget preparation and execution, improving macroeconomic analysis and projections, reviving tax administration and reforming the tax system, strengthening budget monitoring and accountability, and building capacity for budget and economic management. With respect to the latter, there was an emphasis on on-the-job training (OJT), with training packages designed with the participation of potential beneficiaries.

The reform of the budget process and the strengthening of related institutional capacity was the principal focus of reform in 1997-2002. These efforts led to the establishment, by 1998, of functioning budget process from the ruins of the genocide, with budget procedures and calendar that were generally respected. Furthermore, the public investment program (PIP) was revived and budget prioritization was introduced, culminating in the introduction of a broad poverty-focused prioritization program in 2001. The intervention by cabinet at key points in the budget process; and the involvement of the development partners in the budget process were reinforced. With regard to the budget calendar, since 1998, the draft budget, after consideration by the Cabinet, has been presented to the National Assembly and adopted by December 31, the end of fiscal year of, with implementation of the new budget starting in January.

Budget Preparation

Budget preparation was decentralized providing for the active role of line ministries in the process of preparing their budgets based on ceilings approved by the Cabinet. Subsequently, line ministers would present and defend the budgets of their ministries in the budget sessions in the National Assembly. A mid-term review of the budget by the National Assembly, one of the instruments introduced to deal with the volatility of budget resources, provided for a discussion and adoption of revised budget estimates at mid-year. The Ministry of Finance also introduced a practice of discussing the draft budget with different groups of the civil society before its presentation to the National Assembly.

Budget Integration: With the merger of the ministries of finance and plan in 1997 into the Ministry of Finance and Economic Planning (MINECOFIN), the new ministry declared its intention to integrate the recurrent and development budgets into a unified

budget by 1999. This led to efforts to streamline and strengthen the processes of preparation of the PIP and the development budget so that the projects in the PIP reflected government strategies and policies. The development and recurrent budgets were subsequently presented together in one budget document to the National Assembly in contrast to past practices whereby the ministers of plan and finance presented them separately. The Central Projects and External Finance Bureau (CEPEX), was established as a semi-autonomous body to monitor and evaluate development projects under implementation, coordinate donor funding of projects and manage the PIP. However, as the merger of the two ministries was not followed by the integration of the planning and budgeting functions in MINECOFIN and line ministries, separate technical teams continued to carry out the preparation of recurrent and development budget estimates, with limited consolidation prior to submission.

Macroeconomic Framework

For most of the post genocide period, the IMF through IMF missions and technical assistance provided the macroeconomic analysis and projections needed for budget management. From 1999, in the context of the discussions on the MTEF, a committee was set up to propose a plan for strengthening macroeconomic analysis but this committee did not yield immediate results due to the poor capacity of the macroeconomic policy unit, which was to lead the effort. It lacked staff with experience. Subsequently, the ministry of finance decided to hire young economics graduates and train them on the job. To this end, the European Union, the AfDB and the World Bank have provided assistance for training.

Revenues

On the revenue side, the Government established the Rwanda Revenue Authority (RRA) in 1998 as a semi-autonomous agency for revenue collection. It also took a number of revenue measures culminating in the introduction of the Value-Added Tax (VAT) in 2001. As a result of these efforts, revenues increased from about 10.6 percent of GDP in 1996 to 12.2 percent in 2002. This improved performance was attributable to the careful and detailed preparation and sensitization for the introduction of the VAT as well as the efforts to strengthen tax administration, including the respect for the autonomy of the RRA.

Budget Monitoring and Financial Accountability

Actions were taken to improve budget monitoring and reporting in 1999, with the introduction of monthly reports on budget outturns and the computerization of budget transactions.7 Starting in 1999, the Government also began to put in place the institutional framework and build the capacity for financial accountability. This included the establishment and operationalization of the Office of the Auditor-General and the National Tender Board, and the revival of the Office of the Inspector-General for Public Finances to take the lead in the audit of budget transactions, and the Division

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[7] A review of monitoring activities is discussed in Chapter 6 of the PEMR (World Bank (2003c)).

of Government Accounts to prepare and publish regular accounts of government financial operations. The government also embarked on drafting the legal instruments to rationalize and govern the operation of the existing and new accountability institutions.

3.3. The introduction of the MTEF

Rwanda adopted the MTEF in 2000 as a comprehensive framework to reinforce further the reform of public expenditure management (PEM). The public expenditure review (PER) of 1997/98, supported by the World Bank and the Department for International Development (DFID) of the United Kingdom, had recommended the gradual introduction of a the MTEF, beginning with steps to decentralize budget preparation authority from the Ministry of Finance to the line ministries, and the initiation of the process of bringing policy and budgets closer, facilitated by sector expenditure reviews to assess sector strategies, policies and expenditures.

The introduction of the MTEF was planned, systematic and flexible, and built on past and ongoing budget reform efforts. It emphasized sensitization, consultations and training and adopted a phased approach to implementation. A "Position Paper on the MTEF" reviewed the implications of an MTEF, recommended its introduction and proposed the steps to move forward. MINECOFIN followed up the recommendations with the formation in March 1999 of a Design and Implementation Group (DIG), bringing together staff from various divisions and departments and agencies of MINECOFIN, to plan for the introduction and implementation of the MTEF. To formulate its initial plan of action the DIG adopted the following objectives for the MTEF process:[8]

- To put in place a predictable and consistent national policy and budget framework that will specify the policy goals and give assurance to line ministries, provinces and districts of the budgetary resources that will be made available to them to achieve the desired policy goals. The Poverty Reduction Strategy (PRS) that was developed simultaneously with the MTEF provided the national policy framework. Other requirements include a medium term fiscal strategy endorsed by Cabinet, predictable arrangements for external programmatic support and debt relief, regular and reliable forecasts of internal and external resources and a formalised risk management strategy, clear, and consistent ceilings for ministries to design their expenditure programs;
- To develop sector strategies consistent with the national policy framework, providing a clear and shared vision for the overall development of the sector and its relationship with the overall development framework, to underpin budget preparation and execution. A key recommendation of the PRS process has been to develop sector strategies to bring policy planning and budgeting closer together.

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[8] See Chapter 3 of the PEMR (World Bank (2003c))

- To promote a results focus in budget preparation and execution, with monitoring and reviews of budget outputs and outcomes to evaluate the consistency of budget execution with allocation and sector objectives and policies. Some of the key actions/steps identified to introduce an output focus into budget preparation and execution included: ministerial mission statements; programs and outputs consistent with mission statements; output performance indicators and measurement processes; and budget classification that aligns programs, organizational structures and budget management responsibilities;
- To improve financial management and accountability to ensure that budget execution is consistent with budgetary appropriations and related outputs. This would require the development of (i) accounting structures and computerized monitoring and accounting systems in line with the MTEF and budget to provide an improved basis for accountability; and (ii) functioning institutions for auditing, financial reporting and oversight.
- To set up a comprehensive, integrated budget that would capture all public expenditures within an integrated format.

Initial Steps

The GoR decided to introduce the MTEF in all ministries as well as local governments with a phased approach in terms of the implementation of the various elements of the MTEF. This seemed ambitious but it economized on sensitization, training and system changes, and reduced the probability of backtracking on the reforms. For the preparation of the 2000 Budget, some elements of an MTEF approach were introduced. Expenditure ceilings were derived from a medium-term fiscal framework. Some "profiles" of sector strategies were developed in some sectors to provide a basis of prioritizing the allocation of resources. There was also an effort to consider recurrent and development activities together by evaluating the submissions for each budget against the same sector and program profiles. A 3-year cycle was adopted. The DIG started sensitization and training programs for the MTEF, with and workshop in August 1999 for top officials and budget staff of ministries.

3.4. The Plan of Action

Following the consultations with line ministries and a review of the experience of Ghana and Malawi, including a study tour to Malawi, the DIG prepared a formal three-year MTEF Implementation Plan of Action (PoA) for the period 2000-2002. The PoA was then discussed with senior civil servants (Secretary Generals, Prefets and Directors of Finance and Administration) in December 1999 and subsequently presented to the Minister of Finance and the Cabinet for endorsement.

The PoA identified three technical themes for each of the three years covered by the plan as follows: Ministerial Missions, Objectives and Outputs (2000); Cost Analysis for Efficiency and Effectiveness (2001) and Integrated Budgeting (2002). The POA also envisaged continued sensitization and training on the MTEF, with training programs linked to the planned technical themes. In addition, the ongoing work on the macroeconomic framework, monitoring and accountability and the elaboration of sector

strategies, would be intensified and reoriented to facilitating the MTEF implementation. A number of development partners, principally DFID, Belgium, and the World Bank, that provided technical assistance to support the improvements in public expenditure management, refocused their support to implementation of the PoA for the MTEF.

Sensitization

Initial sensitization on the MTEF concentrated on public servants who would implement the program with seminars and training workshops for all levels of staff within the administration in 1999 and 2000. Ministers and members of the National Assembly were also consulted on the MTEF and the Cabinet approved the MTEF development program. Further briefings of the Cabinet on the MTEF took place in the normal course, of business, including its discussions of budget issues. For the National Assembly, the proposed MTEF reform was discussed at Committee (Commission) level and plans and progress were also discussed in the presentations of the budget. The markedly improved budget documentation, including the Background to the Budget, the Budget Overview and the Minister of Finance's Budget Statement, were important vehicles for sensitization. These documents discussed the principles and progress in implementation of the MTEF reform. MINECOFIN briefed the civil society during the annual budget briefings, provided briefings for resident donor representatives, and prepared and discussed MTEF progress reports at the annual Donor/Government/Civil Society partnership meetings.

Training

The PoA envisaged a series of three annual rounds of training workshops for ministries, each addressing the annual theme identified in the plan. The training sessions provided the opportunity to discuss broad MTEF/budget issues as well other related issues such as the implications of the PRSP for the budget. In 2000-2002, these workshops took place as planned (with some slippage in timing in 2000). The focus and content of the training were often adapted to address changing circumstances, such as the decentralization.

The ministerial workshops for senior staff of line ministries, including secretary-generals and directors, were planned to be held early in the budget process (April, May, June) and to be led by groups of trained facilitators from MINECOFIN. These practical and participatory training sessions were intended to assist the participants to learn and apply new MTEF tools in preparing the budget in the MTEF framework. The effectiveness of the workshops was however hampered by two factors: (i) the poor participation from secretary-generals of ministries; and (ii) the high turnover of staff participants between years. The former delayed the adoption by line ministries of the tools developed during the training. Due to the high turnover of participants, the subjects of the 2000 training sessions had to be repeated in 2001. Thus, in 2001 the integrated "Strategic Planning Model (SPM)" that set out ministry programs and introduced sub-programs, inputs, activities and outputs, which was presented in 2000, had to be repeated in 2001 because most of the participants were new.

Province/District Workshops: The decentralization of government in 2000 gave rise to the need for training for provinces and districts. The first workshop was took place in May and June 2001 for 387 directors and heads of divisions from the 12 provinces and district council members responsible for economic affairs or planning. The enthusiasm was great and quality of participation high in comparison to the ministerial workshops. The participants claimed to have benefited greatly from the training, particularly in terms of understanding the MTEF process and the use of the Strategic Planning Model. MINECOFIN also organized training for the districts during August and September 2001, focusing on the same set of subjects as in the provincial training. The results were also very encouraging. Like the provincial officers, district officers showed great enthusiasm in learning the new techniques.

Study Tours

Staff from the Budget Department of MINECOFIN have benefited from experience in other countries in the design and implementation of the MTEF. In 1999, the staff made a study tour to Malawi and South Africa and in 2001, a team from the Zambian Ministry of Finance and Economic Planning visited Kigali and a joint workshop was held to share and compare experiences on a theme of "Switching to Program Budgeting." In 2002, a small team visited the Uganda to examine public expenditure management systems and reform experiences there.

3.5. Implementation of the themes of the Plan of Action

As noted above, the POA had three major themes for implementation in 2000-2002 – definition and clarification of ministerial (sectoral) missions, objectives and outputs, cost analysis for efficiency and effectiveness, and integrated budgeting.

Ministerial Missions, Objectives and Outputs

The introduction of the MTEF coincided with the initiation of the preparation of the poverty reduction strategy (PRS). Thus the interim and full PRSs completed in October 2000 and June 2002 respectively provided the national objectives, strategies and priorities for public actions that formed the national policy framework for the MTEF. The PRSs also provided a first cut at sectoral strategies as well as a framework for preparing full sector strategies where needed. In that context, the PRS provided a significantly solid foundation for progress towards improving the planning and budgeting stages of the MTEF and PEM cycles. The development of the Strategic Planning Model (see Box 1), which set out ministries programs, and linked sub-programs, activities, inputs and outputs, in the context of clear ministerial missions and objectives, introduced throughout the line ministries and extended to provinces and districts, has facilitated the adoption of the MTEF principles by line ministries and decentralized authorities.

The main objective of the SPM was to help to reorient the thinking of budget staff and other stakeholders on objective-strategy-activity-results framework of the MTEF. The SPM was not intended as a substitute for sector strategy formulation but to

Box 1: The Strategic Planning Model (SPM)

The SPM has eight levels:

- *Mission statement* – the purpose of the organization, whom it serves, the services it provides and the values it observes;
- *Environmental scan* – an examination of the environment in which it operates, looking at its strengths, weaknesses, opportunities, and threats;
- *Objectives* – what the organization intends to achieve over a period of time to fulfill its mission in the environment in which it operates;
- *Programs* – a collection of activities aimed at achieving an objective;
- *Sub-programs* –a manageable and meaningful group of activities necessary to produce one or more outputs, within a program;
- *Outputs* – the goods and services to be produced/provided to achieve each of the objectives;
- *Activities* – what will be done to produce an output; and
- *Inputs* – the specific requirements to undertake an activity.

Source: The Rwanda PEMR (World Bank (2003c))

help to promote the understanding and the internalization and use of the results of sector strategy work and the linkages to budget classification and programs. The SPM presented definitions of the different types of classification: function, program, sub-program, organization and economic. In addition, it showed the format and content required for submission of MTEF/budget estimates. The SPM was used widely in training sessions of large numbers of central and local government officials on the MTEF.

Cost analysis

Cost Analysis was the theme for year two in the Plan of Action (PoA) but this was postponed due to the delays in operationalizing the SPM. However, discussions on cost analysis were initiated in 2002 in the MTEF training workshops. Furthermore, some costing of priority programs undertaken in preparing the PRSP has provided a foundation for further cost analysis for the MTEF. Sector public expenditure reviews (SPERs) can make important contributions to the analysis of cost structures. These reviews need to be prepared in a participatory way, with the direct involvement of ministry staff, particularly those involved in the budget preparation and execution. To this end, a number of SPERs were planned.

Integrated Budgeting

This was set as the theme for year three (2002) in the PoA. Some progress has been made in the technical aspects of budget integration. The budget classification has been revamped with the introduction of a functional classification. This has allowed the grouping of recurrent and capital budget activities into meaningful programs and subprograms and facilitated the adoption of a program approach. However, progress has

been slowed by the lack of data, particularly on existing donor-supported projects, by coordination problems between the government and the donors as well as within the government, and by the inconsistent institutional structures in government and development assistance providers.

After three years of the implementation of the MTEF, the principles of the MTEF have largely been applied to the recurrent budget. The public investment program (PIP) for capital expenditure budget has essentially remained a separate exercise and a budget dominated by donor-funded activities. Although CEPEX, which has been responsible for the PIP and the development budget, has worked closely with the MTEF team in the budget department, the institutional wall between the recurrent and development budgets has not yet broken down.

4. BUDGET INTEGRATION

Budget integration is of critical importance for budget effectiveness in SSA because of the many players in the budget process and the resulting fragmentation of the process. The result is high costs of routine coordination in the implementation of the budget. An integrated program budget provides the organizing framework for relating activities and inputs to results, a key aspect of the MTEF's result orientation. The challenge to budget integration should be recognized as more than a technical unification of the development and recurrent budgets. In reality, there are many more budgets beyond these two. In particular, the development budget is a collection of several budgets, each with its own procedures required by the external partners that finance them.

This section of the paper is devoted to the opportunities, efforts on and constraints to budget integration drawing on the experience in Rwanda. It is hoped that this discussion would help highlight the related challenges to the MTEF and provide guidance to Rwanda and other countries on the road to budget integration.

4.1. Key Challenges/Requirements of Budget Integration

The objectives of an integrated budget include: (i) a unified, comprehensive program-based budget; (ii) transparent linkages between budget item/programs and the strategic objectives of the government/sector, thus facilitating the mapping of activities relating to specific sectoral objectives and strategies into the budget framework; (iii) improvement in the transparency of the budget by making the budget classification simple and comprehensible; and (iv) to facilitate the analysis of budget outcomes by making it possible to aggregate expenditures for the same objective from different branches of Government. The technical and institutional challenges to budget integration are:

- Developing and using a common budget classification framework ensure that the recurrent and development budgets, taken together, reflect the same national/sector priorities;

- Elaborating sector strategies and policies; and based on the strategy, identifying and costing sector expenditures programs and sub-programs and aligning them with system-wide standard program/sub-program definitions; and establishing a common medium term expenditure framework integrating the public investment program into a consolidated MTEF;
- Rationalizing institutions and functions and building capacity for budget preparation and execution, and realigning tasks and responsibilities among units, and in particular, the unification of budget preparation units in the line ministries;
- Reorienting the partnership between the development agencies and the government, aligning donor support in terms of timing of support, provision of information, and type of activity supported, to the MTEF/Budget and harmonizing donor procedures to be in line with the revised procedures of the government.

The following sub-sections of the paper discuss these challenges in the context of Rwanda as well as the steps taken or recommended to address these challenges.

4.2. Budget Classification

Budget activities have to be organized and classified in a way that conveys information on the purposes of the activities. Classification must however, meet multiple requirements of budgeting, monitoring of results and performance, accounting and financial reporting, and above all, it must satisfy the information needs of decision makers at various levels. Consequently, the budget classification system needs to: (i) relate to policy objectives and be pertinent to the needs of policy-making, (ii) possess a high degree of uniformity so that it facilitates easy comparisons between the activities in different agencies and facilitate coordination and the elimination of duplication, (iii) be practicable, with regard to the capacity of the accounting system (iv) be capable of handling a large volume of transactions and (v) be comprehensible to non-experts. However, no one form of classification will satisfy all the needs so a combination of different classification systems would normally be employed.

Until 2000, the dominant form of classification of the budget in Rwanda was a complex mix of organizational (by ministry) and economic (by type of expenditure). The classification was not comprehensible to even experts. It probably developed over the years in an ad-hoc manner in response to government reorganizations and changes in donor procedures. In any case, this classification applied solely to the recurrent/ordinary budget. It was not used for the development budget, which was classified by project/sector and by donor. While the organizational classification can often convey the general purpose of the expenditure (expenditures in the ministry of education would usually be for education), it is not always the case. The ministry of education had responsibility for activities whose primary purpose was not primarily education (health education, agricultural research) and other ministries carried out educational activities (adult and youth education).

Classification by purpose/function of the expenditure is a much more useful starting point to build a classification system. The functional classification indicates

broadly the objectives of activities supported by the budget. Reporting expenditure information by functional classification facilitates the monitoring of the budget along strategic sectoral lines and thus the application of MTEF principles. However, organizational and economic classifications are also useful for monitoring organizational performance and the broader economic analysis of the use of budgetary resources respectively. Thus the approach adopted in Rwanda is a mix of the three, with the functional classification as the superstructure or the principal organizing framework.

The Revised Budget Classification

Rwanda's new functional classification was developed through several consultations among stakeholders in the public sector that identified four major categories - governance and sovereignty, production and environment, infrastructure, and human and social development, with 14 functions (sectors) and 70 sub-functions (sub-sectors). Annex 1 shows the functional classification. The classification took into consideration the standard international classification system published in the new edition of the IMF's GFS Manual that encompasses the revised Classification of Functions of Government (COFOG), developed by OECD and published by the United Nations Statistical Division.

The program classification is a natural extension of functional classification and both can be cross-referenced in the computerized State Budget Information System (SIBET) with the organizational and economic classifications. The economic classification was revised to be consistent with the international standard and in particular from the economic classification recommended by IMF's GFS Manual. The functional classification provides the basis for the integration of the development and recurrent budget activities into programs serving the same objective.

With the functional, economic and organizational, classifications, provision should be made for identifying budget items as capital and recurrent expenditures that is important for analysis the nature and quality of public expenditures. Rather than adding another level of classification, it may be sufficient to tag items as recurrent or capital. Similarly the source of financing of items may be of interest and a tagging system could also be used for that purpose.

4.3. Sector Strategies and Expenditure Programs

The Rwanda Poverty Reduction Strategy Paper (PRSP) made the elaboration and application of sector strategies the linchpin for effective public actions through the MTEF.9 The sector strategies provide the building blocks for the elaboration of the medium term sector expenditure action plans that underpin the programs of the MTEF. Sector strategies should also provide the objective/activity framework to facilitate the integration of capital and recurrent activities into programs to meet specified sector objectives (budget integration). Sector strategies should also provide the basis for devising monitorable indicators of performance and monitoring plans. Annex 2

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[9] See Republic of Rwanda (2003)

indicates the key questions that should be considered in elaborating a sector strategy and its role in facilitating the development of an integrated approach to budgeting.

Making Sector Strategies Relevant for Public Expenditure Management and MTEF

The principle of elaborating sector strategies to guide public actions has been well accepted and indeed has been generally promoted by development practitioners. Guidelines for elaborating public investment programs and public expenditures generally stress the need for sector strategies and donors often require a sector strategy as a prerequisite for supporting sectoral investments. While the role of sector strategies in public actions is not in doubt, governments and donors pay only lip service to this role and do not submit to its discipline. The PRSPs in Rwanda and elsewhere have reinforced the message of the important role of sector strategies for identifying and implementing priority public actions. Despite the obvious benefits (see Annex 3), there are obstacles of institutional inertia to effective application of sector strategies. For sector strategies to drive public actions as envisaged by the PRSs, the commitment to the principle of very senior policy makers and the development partners is essential. This implies that once a strategy is prepared and endorsed, it should become the principal reference for action in the sector.

In order to play this role, a sector strategy needs to be credible, be prepared through a participatory process and have high-level endorsement. The strategy should be realistic and respect the financial and absorptive capacity constraints of the government. This requires the active participation in its formulation of relevant technical staff, for instance the staff of MINECOFIN, as well as policy-makers from outside the sector. The MTEF, by providing medium-term sectoral expenditure allocations, would provide the base-case spending envelope for sector strategy formulation. The sector strategy should also contain a very specific action plan, with monitorable indicators, spending projections based on the functional and program classification of the budget, and with alternative spending scenarios. This would be very helpful for the refinement and implementation of the MTEF/budget. A strategy once prepared, should have an official stamp of approval, with high-level endorsement, perhaps through adoption by the cabinet, issuance through a Prime Ministerial Decree, published for broad dissemination and revised on a predetermined cycle.

Developing Expenditure Programs for Integrated MTEF Budgets

Integrated sector expenditure programs are the building blocks of the MTEF budgets. Each program/subprogram would consist of activities, current and capital, that contribute to achieving the same broad program objective as identified in the sector strategy. In Rwanda, as a starting point, line ministries were requested to define their programs and sub-programs using their analysis with the strategic planning model (see section 3.5), with each ministry limited to five main programs.

Sector public expenditure reviews (SPERs) are useful analytical tools for elaborating sector expenditure programs. SPERs review sector performance, practices and capabilities, assess the consistency between budget practices and the sector objectives and strategies and analyze and synthesize the linkages between the capital

and the recurrent expenditure needs of the sector. Thus, the analyses would provide the basis for formulating programs that integrate both budgets and identify monitorable indicators of performance.

Conducting Sector Expenditure Reviews: SPERs, as a bottom-up analytical approach to developing integrated sector programs, should be carried out in a participatory approach and thus help to internalize the MTEF and the budget integration process in the sector ministry. As the process moves along, it would be useful to develop a standard set of issues for SPERs (appropriateness of the sector programs and monitorable indicators, linkages to the national policies and objectives, program costings, and capacity and financial management issues). Efforts should be made to build the capacity in line ministries and local consultants so they could carry out these reviews routinely and inexpensively.

4.4. Integrating Budgets: Institutional Obstacles in Government

Institutional arrangements in government revolve around the development and recurrent budgets. Each has its own supporting institutions for budget preparation and implementation, monitoring and reporting. Donor procedures and requirements dominate the development budget. Government institutional changes in this regard have been in response to donor requirements – either to comply with or to try to neutralize the resulting distortions. In Rwanda as elsewhere, the Public Investment Program (PIP) has been the key process supporting the development budget and donor agencies have promoted and supported this process over the years. In the context of moving to an integrated budget, the rationalization of the institutional framework for the PIP is of paramount importance.

The Public Investment Program (PIP)

The PIP is normally a medium-term program of public capital expenditures, and conceptually has the objective of allocating public resources in line with development objectives and priorities. In this regard, it is the principal instrument for evaluating, selecting and programming public investments for the budget and for coordination of donor-funded investments, helping to avoid undue overlaps among donor-funded projects, and to align the donor-funded investments to Government priorities. In that sense, the PIP would facilitate the integration of the donor-funded projects into the Government's budget system. However, limited integration occurs due to poor capacity for the technical aspects of the exercise, the divergence of government and donor objectives and the absence of commitment to the process by the government and the donors.

In the context of post-conflict Rwanda, the PIP process served as a key instrument for building capacity and focusing thinking and dialogue on the rational allocation of donor resources in a post-conflict transition. The first post-genocide public expenditure review (PER), initiated in 1995, concentrated on putting together the PIP as an essential element for rebuilding the planning and budgeting system. This exercise identified active and dormant projects, verified financial commitments, put together

rudimentary data handling and programming systems, and started dialogue on sector strategies. It succeeded in producing the PIP for 1996-98, although this was essentially an assembly of donor projects initiated before the genocide as well as new project ideas put forward by the line ministries and under discussion with the donors. In 1995-98, progress was made on: (i) the development of objectives and strategies for key sectors; (ii) the establishment of planning divisions in line ministries; (iii) a detailed presentation of investment projects by sector, ministry, and donor; (iv) workshops and training programs for staff on project preparation and PIP programming; and (iv) the introduction of guidelines for project screening.

As the government put its own institutional framework, it became was very dissatisfied with the PIP, the dominant role of donors in the process, and the performance of donor funded projects. It was determined to find ways to exercise greater control over the process of design and selection of new projects and the implementation of existing ones. In 1995-1999, there was still some debate in Rwanda about the role of external assistance and in this context the appropriateness of the portfolio of externally-funded projects, particularly those inherited from the pre-genocide era, which were, for the most part, regarded as inconsistent with the emerging vision of the new Rwanda. Different options, some inconsistent with good budget practice, were considered and some implemented. There was internal pressure to create a national planning system and to that effect to establish a national planning commission but this was not put into effect due to lack of support for it in the donor community.

Nevertheless, the government set out to reform the planning process and established other new institutions, notably the Central Public Investment and External Finance Bureau (CEPEX) and the Development Committee, and subsequently the National Investment Council and a National Investment Strategy, to work to orient investment projects, mostly funded by donors, to national priorities and to improve project performance and impact. However, these arrangements, by reinforcing the wedge between the development and recurrent budgets, tended to move the PIP away from the concept of a unified and coherent budget that had been the objective of MINECOFIN since 1999.

The CEPEX and the Development Committee: The Government established CEPEX in July 1999 as a semi-autonomous body in MINECOFIN, to lead the process of evaluation and selection of projects and programs for inclusion in PIP, monitor and evaluate project implementation, take the lead in donor coordination and external financing, and the monitoring of donor flows to the budget. Its semi-autonomy allowed it to offer salaries above the civil service rates and to attract and retain qualified staff. In parallel, the GoR created the Development Committee (DC), headed by the Minister of Finance, with the responsibility for approving projects to be included in the PIP. However, the vesting of the responsibility for the PIP and the development budget in semi-autonomous CEPEX, with its relatively highly remunerated staff, was inconsistent with the expressed desire to integrate the recurrent and development budgets.

CEPEX has suffered from an over-ambitious workload, and from leadership and staffing instability. During its first four years of existence, it was reorganized at least three times and has had four different heads, with the latest reorganization in 2002. Its performance was generally poor, although it has arguably done a good job in monitoring project implementation and raising related issues. However, it was not able to deliver on time a database of donor expenditures on various projects and sub-projects, information essential for putting together programs of recurrent and capital activities.

A National Investment Council: In the reform of CEPEX in 2002, the National Investment Council, consisting of ministers, was set up to replace the Development Committee, to approve projects for inclusion in the PIP. This was probably to strengthen the government's hand in its effort to exercise effective control over public investments. However, this approach was not consistent with the participatory MTEF unified budget process in which budget selection issues should be sorted out in ministerial and inter-ministerial budget discussions. Once this high-level Council has made a decision on a project, it is unlikely that this decision can be over-ridden in budget discussions between MINECOFIN and the line ministry.

National Investment Strategy: The Government launched work in 2001 on developing the so-called national investment strategy, presumably to take over the leadership of originating projects from the donors. However, this arguably top-bottom process did not fit well to the bottom-up approach of the MTEF and the sectoral strategy process strongly advocated in the PRS. The articulation of broad national investment strategy is one that probably would benefit from a critical mass of agreed sectoral strategies, thus supporting the bottom-up approach, building on the national objectives and strategies of Vision 2020 and the PRSP. That critical mass did not exist. This effort diverted scarce resources from the critical areas of sector strategy development, project identification and evaluation, and budget planning and preparation. These recent institutional changes in the budget institutions in Rwanda have, to some extent, exacerbated the fragmentation and distortion of the budget process.

4.5. Rationalizing institutions for the integrated budget of the MTEF

For the MTEF, the functions that support the budget – the PIP, the planning and budgeting functions in the core and line ministries, budget monitoring activities, investment and sector strategy formulation, and public administration infrastructure that executes the budget, would need to rationalized. These reforms would in turn require continued emphasis on capacity building and donor coordination and support.

Integrating the PIP Activities and Functions into the MTEF

Questions often arise about the relevance of the PIP in an MTEF budget process. Conceptually, the traditional PIP has essentially been a medium-term framework for public capital activities and spending. The PIP is thus an MTEF for capital expenditures. Like the regular MTEF, it is expected to respect the medium-term resource envelope and be grounded on national development objectives, policies and sectoral strategies. In practice, this has not been the case because since the PIP was

donor-driven, and essentially been prepared without an exogenous budget constraint. The practice has been to plan for as much donor support that can be made available. The PIP has failed to deliver not because its concept is unsound but due to the institutional distortions around it.

In Rwanda and other poor countries, donor financed capital projects will remain important features of public spending. Given the nature of these projects, for instance the large amounts involved, and the existence of alternative approaches, due diligence requires a centrally managed public investment evaluation and control process will continue to be relevant in the MTEF environment. Furthermore, this central process is needed to compensate for the weak capacity in line ministries; and to provide the framework to coordinate the donor inputs to the budget. However, the existence of the PIP as a separate process for investment budget management would be inconsistent with an integrated budget under the MTEF.

A Public Investment Development Process (PIDP): The financial requirements of investment projects are often large and lumpy, requiring the arrangement of multi-year commitment of funding in advance to accommodate the project in the budget. These projects require substantial evaluation to establish viability before they can be included into the budget. In the MTEF context, the institutional arrangements for the PIP should be should be transformed into a public investment development process (PIDP) rather than a program. The PIDP should be concerned with technical evaluation of proposals for public investments, financing and monitoring while the responsibility for the elaboration of the integrated budget, including the capital expenditure items, will rest with the budget department of the ministry of finance. The PIDP will therefore focus on developing a pipeline of feasible public investments for consideration in the budget process.

Planning and budgeting in line ministries

In Rwanda as in many countries in SSA, the line ministries have been the weak link in the budget process due to poor capacity and inconsistent organization. While the planning units have the token responsibility for the PIP and the development budget, the department of administration and finance (DAF) manages the recurrent budget. For the MTEF, the formulation of the integrated budget and monitoring of performance should be centralized in one unit, preferably the planning department, while the DAF could on monitoring budget execution and accountability issues.

Budget Monitoring

In Rwanda, the arrangements for monitoring reflect the separation of the recurrent and development budgets, with CEPEX, the Strategic Planning and Poverty Monitoring Department (SPPMD) and the budget department having responsibilities for budget monitoring. CEPEX has the responsibility for monitoring development budget inputs and outputs, the budget department does the same for the recurrent budget and SPPMD monitors outcomes. With the MTEF and integrated budget, monitoring and evaluation should be centralized in one unit. The unit should then be given the resources to develop the systems required to monitor budget (recurrent and capital) inputs, outputs

and outcomes. Its counterparts would be the planning units and the DAFs in line ministries.

Investment and Sector Strategies

The articulation of a national investment strategy, when appropriate, should be done under the PRSP process, with the SPPMD in the lead. Emphasis should remain with updating/developing sectoral strategies in key areas that will subsequently provide the basis for a national investment strategy. SPPMD should take the lead in working with line ministries on sector strategies.

Public administration reforms

In addition to the reorganization of the units and functions directly linked the preparation of the MTEF and the budget, it would also be essential to streamline other ministerial departments/divisions along MTEF programs and subprograms. This would imply a need for greater flexibility in public administration, to enable resources to be deployed in line with the changes in MTEF priorities. The medium-term perspective gives the time for these adjustments to be made in a planned manner. To enhance the coordination of the reforms of MTEF/budget and public administration, the active participation of the ministry responsible for public administration in the MTEF development and coordination units (the DIG in Rwanda) is essential. Likewise the ministry of finance needs to participate, at a technical level, in the reforms of public administration.

Capacity Building

The change to the MTEF and the phased implementation that is recommended imply the need for continuous and integrated training programs covering various MTEF techniques. This training should be tailored for staff development for new entrants to the civil service to acquire the capacity to operate in the MTEF/budget environment. As new MTEF techniques and concepts are introduced, training will be required for all staff implementing the new techniques as well as for consolidating the knowledge in existing techniques and in traditional areas of project design, evaluation and monitoring. The MTEF training programs already in place retained and made a routine part of the MTEF/budget development and adapted to evolving needs for capacity enhancement in budget management. The training programs should integrated into the budget cycle carried out by trained facilitators that also work on the budget.

Learning from and sharing experiences with other countries will continue to be an important approach to capacity building for MTEF development. An MTEF/budget manual, representing the synthesis of best practice and the basis for standardizing MTEF activities in government agencies, is crucial element in ensuring the sustainability of the MTEF/budget reforms. Such a manual can be a reference point for performance appraisal and an important tool for formal and on-the-job training.

Donor Coordination

This is in the subject of the next section. In Rwanda, there has been the strengthening of the donor/government partnership emerging out of the PRSP process. A key aspect of donor coordination is the effort to harmonize procedures. The Government's involvement and leadership is critical to success, hence it needs to put priority of the technical aspects of this effort.

5. ALIGNMENT OF DONOR ASSISTANCE WITH THE BUDGET

Many SSA countries depend on official development assistance (ODA) to fund their public expenditures. In Rwanda, bilateral donors and multilateral development banks (MDBs) finance over half of the total public spending. This dependence poses three related problems for budget integration and the MTEF. The flows of ODA are typically volatile and unpredictable. Secondly, ODA has for the most part been tied to specific activities (projects) and in some cases procurement is tied to specific countries. Thirdly, the government could attempt to reform its institutions for the MTEF but rational reform is constrained by the ODA procedures.

These present a number of difficulties for the MTEF. Assurances cannot be given to implementing ministries that resources programmed in the budgets and MTEF will materialize, contradicting the basic principles of the MTEF. In response to this volatility of resources, the governments, as in Rwanda, adopt a cash budget approach for managing the budget, which undermines planning and efficient implementation of public expenditure programs.[10] With ODA financing, budget programs will very limited flexibility to shift resources among the activities within the programs and will make special efforts to maintain strict segregation of resources, to the detriment of the efficiency and effectiveness of the program approach. As discussed in the last section, the rationalization of existing institutions is essential for budget integration. Progress depends in part on the willingness of the donors to reform their procedures in alignment with the MTEF.

5.1. The Alignment Challenge

The aims of alignment would be to reduce budget resource volatility and increase predictability, reduce the transactions costs including delays involved in getting ODA resources to the planned activities/people, provide flexibility in the use of ODA resources, enable the government to rationalize its processes, and to enhance capacity building. At the conceptual level, the direct financial disbursement of external assistance to the government treasury, with such funds not tied to specific expenditures

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[10] See Dinh, Adugna & Myers (2002) for a discussion of the impact of cash budgeting in Zambia. The authors conclude that not only did the cash budgeting fail to sustain inflation at low levels, it had a "deeply pernicious effect on the quality of service delivery to the poor."

and thus available for funding all budget programs and related activities in accordance with government procedures, would meet most of the requirements of alignment.

In practice however, donors are unlikely to provide this form of general unconditional "budget support", or "quick disbursing" funding or more generally programmatic aid, since ODA funding are respectively bound by the accountability regulations of the home countries and the statutes of MDBs. These regulations seek a linkage between resource flows and results to ensure that these resources are used well, particularly in the context of generalized lack of accountability in the recipient countries. In this context, ODA would likely continue to be provided through a mix of conditional programmatic aid and funding for specified activities ("projects"), presumably with a shift towards the former, as public expenditure management practices improve and some of the fiduciary and performance risks are reduced. However, with ODA funding of projects, significant progress towards integration is possible if donor procedures are harmonized with those of the government. Essentially, all financial assistance to the government will be "budget support" as all such assistance would finance only programs in the budget.

5.2. Instruments of Donor Support

The donors provide support to external aid recipient countries through a confusing mix of instruments. Rwanda, when it introduced the MTEF, indicated to the donors that sector-wide approaches (SWAPs) and programmatic budget support (PBS), which it regarded as consistent with the newly introduced MTEF, were its preferred modalities for external assistance. Essentially, the Government was rejecting the project approach. It should be noted that while PBS and SWAPs are different types of external aid mechanisms, they are not exclusive. The former is a financing instrument for external assistance while the latter is a process for implementing programs funded by several external partners. Thus, a partner can use PBS to fund a SWAP. Regarding the relationship to the MTEF, PBS is conceptually the ideal way to provide external support to the MTEF budget process as it provides the Government with the flexibility in using the resources in financing the budget. The SWAP, by financing sector-wide expenditure programs, is also broadly consistent with the MTEF.

Programmatic ("Budget") Support

The practice for providing programmatic budget support (PBS) in Rwanda and elsewhere has been that each donor/agency prepares its own program in support the government's reform program, following its own procedures and timetables. Thus, the burdens of multiple dialogue, conditionalities, and fiduciary requirements on the fragile government capacity can be substantial, and increases as more donors offer programmatic support. Thus, on paper the PBS should facilitate alignment of donor support to the MTEF, the extensive transactions involved in designing programs and processing disbursements lead to delays and unpredictability of resources flows that hamper the effectiveness of the MTEF.

The harmonization of the process of dialogue, conditionality and fiduciary requirements, and the coordination of disbursements in line with the budget, are essential steps towards alignment. The movement towards flexible conditionality is also a step in the right direction. In Rwanda, discussions have been underway in Rwanda among the partners that provide programmatic aid to develop a framework for multi-donor programmatic aid that would help to alleviate these problems. With different procedures and levels of commitment/involvement in Rwanda among the donors, these discussions have been intensive and time-consuming and implementation in any agreed framework will also be difficult. The result could be marginal reduction of the delays in disbursement and alleviation of transactions costs.

The SWAP, the MTEF and Budget Integration

SWAPs were invented in the early 1990s as a response to the adverse effects of the modalities for the implementation of stand-alone donor-funded projects. Jones and Lawson (2000) cited "too many project management systems, too much/little technical assistance, and too little coordination among donors" as some of the underlying problems with the "donor-inspired" project approach. As World Bank (2001) noted, SWAPs are complex as they "involve broad scope, new procedures, donor coordination, channeling of external assistance through government budgets, and the implementation of major reforms." SWAPs therefore involve high transactions costs and long periods for preparation.

Some of the early results from SWAPs have not been up to expectations (World Bank (2001)). The outcomes of the Zambian Agricultural Sector Investment Program, one of the earliest SWAPs and supported by the World Bank and about twelve donors and development agencies, were rated unsatisfactory by the World Bank's Operations Evaluation Department (OED (2003)).[11] The preparation of this project took more than three years from project identification in 1992 to effectiveness in December 1995 (World Bank (2002a)). On the other hand, the outcomes of Ghana Health Sector Support Program, which also took over three years to prepare, was rated satisfactory, with the performance of the World Bank and the Government of Ghana were judged satisfactory (World Bank (2003a)). In this successful project, it was noted that donor coordination was particularly challenging.

Is the SWAP consistent with the MTEF? To answer this question, it is useful to clarify the main features of a SWAP. It is essentially a process that allows donors operating in a sector to support a comprehensive sector-wide development program rather than individual sector projects. The key elements of the SWAP process are: (i) government-led partnership with key external partners; (ii) the participation of the partners in the sector in the SWAP; (iii) comprehensive sector policies developed through the consultation of key stakeholders; and (iv) a reliance on government institutions and common procedures for implementation.[12] The SWAP supported

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[11] The report also rated the performance of the Government of Zambia and the World Bank on the project as unsatisfactory.

[12] This section on SWAP draws extensively from The World Bank Group (2001).

program should be sector-wide in scope, covering policies, programs and projects in the sector, and should be based on an overall sector policy, with measures to achieve medium-term objectives and a specific action plan for the near term. The program's expenditure plan should be consistent with the macroeconomic and overall fiscal frameworks. Finally, the implementation should be with common structures and procedures (harmonization of donor procedures – including reporting, joint annual reviews of performance, procurement, and disbursements). These common structures and procedures should rely on and strengthen government institutions and staff.

The SWAP program, as defined above, has the characteristics of the MTEF and thus can be regarded as an MTEF at the sector level. The integrated sectoral expenditure plan of the SWAP facilitates the financing of both the recurrent and capital activities in the plan with resources from the partners and the Government. Thus the SWAP enhances the integration of the budget at sectoral level. Nevertheless, in a context where both the MTEF and the SWAP are being implemented, coordination would be essential to avoid misunderstandings and competition that could undermine either process. For instance, with external assistance to the SWAP sector, there would be a strong temptation to bypass the MTEF sector ceilings. The SWAP would need to adopt the framework of the MTEF – the sector and budget classifications and spending ceilings, program structures and monitoring and reporting systems. SWAPs require substantial up front investments at sector level, in donor coordination and development of systems and procedures. It is important that these efforts engender the enhancement of overall government capacity and procedures. As long as the SWAP is not processed in a manner that marginalizes the government and the sector ministry, the lessons from one SWAP sector could be useful for consolidating MTEF concepts and practices in other sectors.

Nevertheless, the question needs to be posed as to the appropriateness of SWAPs in the context of an MTEF budget. At the minimum a SWAP, has the potential of bringing confusion to the MTEF program. Although the two approaches are conceptually consistent, the preparation and implementation have the potential to differ considerably, with the SWAPs being largely donor driven and with access to substantial resources, in contrast to the broad MTEF and other sectoral expenditure programs. There has been the tendency for SWAPs to take as long as necessary for preparation while the MTEF has to crank out a program every year. It would be better to integrate work on the SWAP into the MTEF development, with the donors putting emphasis on assisting sector ministries to progressively develop and improve their sector expenditure programs, and aiding the government to improve its procurement, budget monitoring, and financial management systems and capacity. Interested donors could finance these programs with quick disbursing budget support. This approach would take the focus away from donor coordination to capacity building and to improving budget planning and financial management in government.

5.3. Projects

Projects have been reviled for the fragmentation of the budget of aid-dependent countries and for the general ineffectiveness of external aid (for instance, Jones and

Lawson (2000)). The major problem with the present practice with projects is that there are needlessly far too many of them and that alone strains the already poor capacity of the government and the donors. In Rwanda, there are over 1000 different projects and mini-projects supported by the donors. The result of the multiplicity of interventions is delayed and poor project implementation and limited capacity building.13 The tendency of donors to exercise control of the projects - from identification to completion, is a phenomenon that puts excessive pressure on the fragile capacity of the government while shutting out opportunities for learning and capacity building. The result is that after 40 years of donor support to the projects, countries in SSA have still not developed the capacity - in and out of government- to manage projects. Furthermore, the top-heavy donor control of the project decision process contradicts the bottom-up and participatory approach of the MTEF.

The other major problem of the project approach is the procedures and conditions bundled with each project, with procedures for procurement and disbursements, monitoring and reporting that are both project and donor specific and different from the rest of the budget. Project interventions with their donor-driven procedures have engendered limited transfer of knowledge and project management skills. Coordinated capacity building would be and essential part of putting in place new and harmonized procedures for the donors and governments. Harmonized procedures would also facilitate the integration of donor projects into programs that contain projects with similar objectives (as in SWAP program). This will reduce the impact of having large numbers of donor interventions to be implemented and monitored separately.

With harmonized procedures, donor funding of specific projects would not be incompatible with the MTEF. Donors will continue to have interests and comparative advantages to work in specific sectors and projects, and would often prefer to support activities in these sectors through specific project interventions. The assistance framework has to accommodate these donors. Besides, for some interventions, particularly capital investments, traditional self-standing projects funded by one or more donors, would be the most appropriate. Thus, the project approach would continue to coexist with sector investment programs and programmatic aid. In the context of the MTEF and harmonized procedures, including those for the selection and implementation of investment projects and disbursement of funds, donors could provide funding for specific new and ongoing projects in the MTEF/budget. The key role of the donor financing of a specific project would be the assurance it provides that MTEF/budget can accommodate the project.

5.4. Harmonization of Donor and Government Procedures

There is a presumption that shifts to programmatic aid and sector investment programs such as SWAPs would improve the efficiency of external aid. However, these

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[13] In recent years many donors have been using NGOs, mostly from their country to prepare and implement the projects. This practice is often not transparent and cost-effective, and makes limited contribution to national capacity building.

instruments are characterized by high transactions costs and delays in disbursements. The focus needs to shift from changing the instruments to harmonizing procedures for all the instruments and from getting results through investments in donor coordination, which is essential for SWAPs, to getting results through investments in government capacity.

> **Donor support for development translates into more than 60,000 projects around the world. Some countries have as many as 800 donor-funded activities starting each year, host more than 1,000 donor missions, and prepare over 2,400 progress reports. This burdens administrative capacity and diverts attention from strengthening systems that cover all development expenditures, not just those financed by donor agencies. This also detracts from work toward agreed objectives such as those embodied in the Millennium Development Goals and other targets.**

The above quote from the introductory paragraph of the aid harmonization website (http://www.AidHarmonization.org/) illustrates the burdens of the existing development assistance procedures on budget management. Harmonization of these approaches would pave the way for budget integration, the reduction of transactions costs and thus improve the effectiveness of development assistance and other public expenditures. In recent years, harmonization has received strong and concerted support from the OECD-DAC, the World Bank and other multilateral banks, and the Strategic Partnership for Africa (SPA).[14] The MDBs are simplifying their own procedures in ways that would reduce transactions costs, enable the wider use of the procedures of client countries and facilitate the harmonization with those of other partners.[15]

The harmonization effort is very encouraging for the poor countries, however the implementation faces challenges at the country level (see Annex 4). Each country would have to work out acceptable procedures with its partners. The World Bank and the other MDBs, and the OECD-DAC group are supporting the process with analytical work[16] but, as the experience with SWAPs has shown, harmonization will be a challenge, particularly for poor countries with weak institutional capacities. There is a risk that

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[14] See the World Bank (2002b) and the Development Assistance Committee (DAC), Task Force on Donor Practices (2003)

[15] The MDBs set up a working group (WG) in February 2001 to address the harmonization of their polices and practices in financial management and analysis. In February 2003, the MDBs signed a Memorandum of Understanding that includes a commitment to work towards common approaches in financial reporting and auditing. Also in February 2003, the Executive Board of the World Bank approved changes to the Bank's Audit policies that simplified the process and reduced the number of reports and audit opinions countries are required to provide.

[16] A number of websites have been created for wide-dissemination on analytical work and best practices on harmonization of procedures and alignment of donor support to budgets and the PRSP. The websites include: **http://www.aidharmonization.org/**; **http://www.oecd.org/dac**; www1.worldbank.org/harmonization/romehlf; http://www.countryanalyticwork.net/

some of these countries may be left behind. Harmonization may be a reward for donor's perception of good performance and the use of harmonized procedures may become volatile like donor financial support, with donors imposing new conditions and procedures depending on their perceptions of performance. This despite the fact that harmonization itself, by improving transparency and accountability in the overall budget system, will lead to better performance.

Uganda and Tanzania have been among the countries at the forefront in establishing durable donor partnerships and harmonizing procedures. Donors provide programmatic aid to these countries under common frameworks. The commitment of the governments to poverty reduction; the adoption of a broad policy framework that focuses on poverty reduction, the introduction of the MTEF, the focus on analytical work on public financial management and the involvement of the donors and participation of other stakeholders in these processes; have facilitated the coordinated approach to donor support (World Bank 2003b). Nevertheless, the process of putting in place this coordinated approach has not come quickly but has involved persistent efforts and leadership by the government and key development partners. In Rwanda, the movement to harmonize procedures gained momentum in the context of the implementation of the PRSP (World Bank (2003b)). The donors and the Government initiated discussions on harmonizing the procedures and conditions for programmatic support (PBS) and the preparation of a SWAP for the education sector. These discussions provide the impetus for a broader harmonization of procedures. Rwanda is also well placed to learn from the experience of Uganda and Tanzania, its neighbors. However, these countries have from the advantage of the strong field presence of bilateral donors and MDBs as well as strong support from key donors.

5.5. Partnership Frameworks and Alignment of Donor Assistance

Progress in harmonizing procedures and aligning the external assistance to the government's budget depends to a large extent on the state of dialogue between the government and the donor community. Until the year 2000, government/donor relations in Rwanda were fragile. The Government recognized that the alignment of donor support to the MTEF required a formal process of dialogue and actions to build confidence and trust between the government and the donor community. It put forward the PRSP process as the instrument for the dialogue and confidence building. The successful efforts of the government on the wide participation of the population in the preparation of the PRSP, and the involvement of the donors in that process, contributed to improving government/donor relations and enhancing dialogue. To build on this progress, Government, in consultation with the donors, established the formal framework for the partners to play a transparent role in the implementation of the PRSP and the formulation of the MTEF/budget. In addition, the annual Development Partners Meeting (DPM), held in Kigali, provided the forum to discuss progress in the implementation of the PRSP and MTEF.

In the November 2001 DPM, the Government of Rwanda presented a paper, Guidelines for Productive Aid Co-ordination in Rwanda as, a basis for discussion of the framework for improved partnership with the donors. The framework document

proposed the elaboration of sector strategies for the implementation the PRSP and the MTEF as instruments to promote partnerships and in that context, it further the proposed the nomination of a facilitating/lead sector agency (ministry) and donor for each sector to, inter alia, lead the work on sector-strategy formulation. In a subsequent DPM in November 2002, the GoR and the development partners agreed to a partnership framework that clarified the roles of the facilitating ministries and development partners (see Annex 5). The main organizing framework was a sector cluster arrangement with ten sector clusters, each with a facilitating government agency and a facilitating donor partner (see Annex 6).

Challenges to Implementing the Framework

A partnership on a framework is the easy part. Making it work is often more difficult. Transforming partnership, such as the one agreed in Rwanda, into an active, involved and productive instrument requires:

- Strong government leadership of the process (see Annex 4), with strong commitment to prompt and regular reporting of information on budget and financial information, making the information publicly available;
- Emphasis by the Government on the elaboration of sector strategies, action plans and expenditure programs, with the involvement of the partners, and the facilitating partners providing leadership on the donor side;
- Engagement in the dialogue by both the donor representatives in field office as well as from headquarters, requiring the strengthening of field offices with public expenditure management skills, to support technical work and capacity building in government and ensure the continuity of dialogue with the government and other partners.[17];
- At least a joint annual technical mission of donor staff and experts from HQs to establish contacts with technical staff in government and other donor agencies, understand the reality on the ground, review progress and develop further ideas for strengthening the partnership. In Rwanda for instance, this mission could precede the DPM, with a technical report of the mission presented to the DPM. This mission could also be held jointly with the new SPA Initiative to promote alignment and harmonization of donor procedures;
- Working closely on macroeconomic issues, budget management, governance and the harmonization of procedures with the Bretton Woods institutions and other MDBs;
- Support by the donors for accelerating the work on monitoring of budget outputs and outcomes, improving financial management, strengthening the collection of basic socio-economic statistics, and developing long-term capacity in these areas;

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[17] Donor coordination in Rwanda has been hampered by the lack of capacity on the donor side in Kigali as well as in headquarters.

- Enhanced economic and sector analytical work with the collaboration of the government and the development partners at the technical level. This goes beyond public and sector expenditure reviews to include reviews of development and policies, to provide the basis for formulating/sharpening national and sectoral policies, as well as country implementation performance reviews to assess the broad impacts of public (and donor) interventions.
- Learn from the experience elsewhere - those countries are already advanced on their partnership practices such as Uganda, Tanzania, Mozambique, Ghana and Vietnam. The development partners, due to their work in many countries, are well placed to facilitate this cross-fertilization.

For Rwanda, a number of factors will help to consolidate and enhance the process of effective partnership. The GoR has assumed a strong leadership role in donor coordination although the effective exercise of this leadership is constrained by its weak technical capacity. The annual DPM, held in Kigali, with the participation of the civil society provides an open forum to review progress on the partnership and the implementation of the PRSP and the MTEF, and discuss the next steps. The sector-cluster approach can be a powerful instrument for the development partners to support the development of sector strategies and expenditures programs, as well as capacity building for budget/MTEF preparation, implementation, monitoring, and financial management. The donor cluster leader/facilitator would need the support of the other development partners to effectively carry out the responsibilities

6. CONCLUSIONS AND RECOMMENDATIONS

The MTEF approach to budget management is being promoted as the instrument to improve budget performance and effectiveness in SSA countries. The MTEF, as described in this paper, has the elements to bring about sustained improvement if it is adopted and appropriately phased, and is accompanied with supporting institutional changes and capacity building. The reality is that governments that fail to make the single year budget framework (SYBF) work are unlikely to find success with the MTEF with a business as usual approach. The fundamental pre-requisite elements of success of any public sector budget system are budget discipline, the realism of budget estimates in terms of the expected resources and implementation capacity, and the predictability of resource flows. These ingredients are essential for the MTEF and the SYBF and thus in countries where these fundamental attributes are lacking, The MTEF will not improve budget effectiveness. To reach the promised high level of effectiveness, the MTEF requires budget processes for that link budget allocations to national and sectoral policy objectives, for transparency and accountability of public expenditure management transactions, assured funding of budget activities, and monitoring of inputs, outputs and outcomes.

Sustained commitment by the government to budget discipline, institutional reforms and capacity building, clear and coherent national and sectoral policies, is essential for success with the MTEF. The paper stressed that budget integration is necessary improved sectoral and intra-sectoral budget allocations, and for coherent

linkages of budget allocations and objectives and inputs and outcomes essential for results-based planning and budgeting. The paper also noted that some of the existing and widespread institutional distortions in budget systems are partly engendered by the responses of governments to donor requirements and procedures. For a successful MTEF budget, the donors and IFIs would need to harmonize development assistance procedures and provide funding to the budget in a timely manner. In sum, the MTEF requires technical and institutional reforms over a long period, including the progressive reform of the modalities by which external assistance is provided. For an effective MTEF, the budget would need to be technically and institutionally integrated, the latter implying that there would be only one set of transparent processes and procedures for the operations of the budget.

6.1. Lessons from the Rwanda experience

The adoption of the MTEF in Rwanda was to consolidate and institutionalize the reforms in the budget process and clarify the vision for subsequent reforms. The careful preparations for the introduction, involving the sensitization of the key stakeholders and training for staff in the ministry of finance and line ministries, as well as the culture of budget discipline in Rwanda, bode well for the success of the MTEF approach. However, implementation of the MTEF has faced many challenges, particularly the lack of technical capacity, as well the concerns about the sustainability of the commitment of the government and the donors for this long-term reform institutional reform. While both the Government and the donors have professed enthusiastic support for the process, the strength of this support will be tested as the process proceeds by the readiness of the Government and donors to take the risks and adopt the institutional changes necessary for the MTEF to work effectively for the poor.

While the preparation for and the introduction of Rwanda's MTEF was planned well, was underpinned by substantial enthusiasm by the Ministry of Finance and strong support from the government and the development partners, some obstacles emerged early in the implementation stage. The limited technical capacity was taken into account in the planning but it reared its head in the implementation stage in unanticipated ways. The high turnover of staff in both the Ministry of Finance and line ministries undermined the planned sequence of the MTEF training program, a key element of the capacity enhancement for implementation. Moreover, the lack of regular participation of key officers in line ministries – secretary-generals and directors – in the MTEF training programs, most likely due to the pressure of other responsibilities, hindered the implementation of the MTEF in the line ministries. In this regard, it became evident that the proactive support of line ministers and secretary-generals was necessary for the MTEF training and implementation to be treated as priorities and for ensuring consistent progress in implementation across ministries.

The good intentions and expressions of support form the development partners were not matched by swift action. The initial strong enthusiasm for the introduction and the implementation of the MTEF was undermined in the second year by the delays in releasing funds for budget programs. This was for the most part due to delays in the disbursement of donor funds. Furthermore, the lack of data on donor disbursements to

projects has delayed the preparation of medium-term spending estimates for programs with recurrent and investment activities.

The commitment and proactive support of the government at all levels would also facilitate the broad institutional reforms needed for an effective MTEF. For instance, the integration of the budget and the program would require a rationalization of budget-related units in both the core and line ministries, and the alignment of implementation units and MTEF programs. Furthermore, incentives/sanctions would be needed for the MTEF to be internalized in all ministries, that is, for all ministers and other ministry leaders to buy into the MTEF and take actions towards the adoption of MTEF approaches in their ministries. Consequently, MTEF process needs to be institutionalized in the government, be reflected in the budget laws and the formal organization of budget activities, which provide a legal/administrative standing as well as enhance the credibility to the MTEF process.

6.2. The role of development partners

Effective budget reform in SSA countries requires the donors to reform the way they do business with the governments. The key challenges are the harmonization of the procedures of assistance with the budget procedures of the government, and the provision of flexible assistance aligned to the MTEF/budget cycle. Some of the well-known institutional distortions in budget management in SSA countries–multiple budgets, off-budget spending, indifferent releases of funds, cash budgeting, etc – are in part due to the procedures of the development partners.

The harmonization of procedures and alignment of funding would require a process of dialogue between the government and individual donors, as well as with the donor community as a whole. The Government has to take a leadership role in this dialogue and establish a credible framework for a functioning and durable government-donor partnership. This partnership should aim to put in place government budget procedures and funding cycle under which the government and the development partners can work. This would invariably involve the support from development partners for institutional development in the areas of program and project preparation and implementation, budget preparation, execution and monitoring and financial management, and for a coherent program of capacity building. In the context of a the transition to an MTEF/integrated budget, a properly laid out MTEF Plan of Action, as well as the harmonized procedures, would facilitate the identification of capacity and institutional enhancement needs and the sequence of actions.

Instruments of support

The instruments have featured in external assistance can be grouped into three categories – projects, programmatic or quick disbursing assistance, and sector investment programs including SWAPs. Programmatic assistance and SWAPs have been attempts to provide flexible budget funding and harmonize of procedures of assistance. The question would be what are the appropriate instruments in the MTEF environment, particularly with globally (as opposed to sectorially in SWAPs) harmonized procedures? Or, in practice, how can these instruments be reconfigured to

work effectively in the MTEF environment as well as promote institution and capacity building?

Projects have been reviled for the fragmentation of the budget of aid-dependent countries and for general ineffectiveness of external aid. However, the problem is not donor funding of specific projects but the donor specific procedures and conditions traditionally bundled with the project, the resulting delays in preparation and implementation, and the multiplicity of project interventions, create problems in budgetizing project assistance. These aspects of projects strain government capacity and undermine capacity building and institutional development. As projects will continue to feature prominently in development assistance, projects need to be integrated effectively into the MTEF system. This will require: (i) harmonizing procedures; (ii) reforming the public investment program and integrating this process into the MTEF/budget process; (iii) strengthening the government's capacity for project identification and evaluation, implementation and monitoring; (iv) the financing, by development partners, of only those projects in the MTEF; and (iv) a willingness by development partners to cofinance projects in the MTEF and allow the integration of small donor interventions into ongoing or new MTEF programs.

Programmatic or quick disbursing assistance appears to be the most appropriate instrument of support in the MTEF environment. However, the extensive transactions in designing and monitoring programs and processing disbursements lead to unpredictable resource flows that hamper the implementation of the MTEF. Coordination of external programmatic assistance could reduce the transaction costs on the government from multiple donor missions and negotiations as well as the risks of conflicting policy advice. However, donor coordination could also be a costly process to the donors and the government. These costs, which could include long-drawn out processes of reaching consensus among the donors that would delay the delivery of assistance, could offset the benefits of donors working together. The presence in the field of donor staff with public expenditure management and policy reform expertise, and strong leadership by one or two donors, could facilitate donor coordination of programmatic assistance.

Sector investment programs attempt to address sector-wide problems while financing sectoral development priorities. When funded by a single donor, they follow the project procedures of that donor and thus confront all the problems associated with projects. When funded by several donors, they become SWAPs and operate with common procedures though not necessarily the government's or the one used in the last or ongoing SWAP. The SWAP approach involves substantial costs for donor coordination but, in terms of working with common and agreed procedures, it is an advance towards the harmonization of procedures. Nevertheless, in the context of the MTEF, the SWAP should be subsumed by the MTEF, with the emphasis placed on: (i) assisting sector ministries to progressively develop and improve their MTEF sector expenditure programs; (ii) globally harmonizing procedures; and (iii) assisting the government to enhance procurement, budget monitoring and financial management systems and capacity in the context of the harmonized procedures.

In sum, all these instruments involve substantial transactions costs to the government and the donors as a result of differences in procedures. The focus needs to shift from changing the instruments to harmonizing the procedures that currently render the instruments ineffective, and from getting results through investments in donor coordination to getting results through investments in government capacity. Irrespective of the kind of financing provided, or the nature of the activity it finances, the key essentials of external support should be:

- The funds are financing programs in the Government's budget;
- The implementation mechanism should be the government's own arrangements;
- The flow of funds is predictable and funds are available as budgeted to support the implementation of the activities;
- Relevant government agencies are able to monitor the flow of funds to the externally financed projects in accordance with the budget classification and accounting systems.
- The implementation of the activity is not tied to procurement of goods and services, including consultants services, from a specific country/region;
- External funding of local activities should contribute to capacity building including the private sector that should be eligible to compete for the provision of project management services;

6.3. The way forward in less than ideal situations

With widespread weaknesses of technical capacity and questionable commitment of governments to public expenditure management reform, the prospects for the implementation of MTEF reforms in SSA countries do not appear very promising. However, the budget reforms and related improvements in Uganda and Ghana and some other countries indicate that, with strong commitment and leadership by the government and support from the development partners, progress can be made. The few "good performers" would likely continue to benefit from donor support in terms of more flexible financial assistance, less onerous conditionalities, relaxation/harmonization of procedures, and support for capacity building. Most of the countries, deemed to be poor or middling performers, and possibly characterized by poor capacity, will continue to deal with the burden of donor procedures and lack of donor coordination and trust and therefore could remain trapped in poor performance.

Where there is no convincing evidence of commitment of the government to institutional reforms and/or the readiness of the donors to support the MTEF, what should be the strategy for budget reform? We propose that any budget reforms and associated capacity building should be based on MTEF principles. This would involve the introduction of a medium-term perspective in budgeting, with the use of a broad medium-term budget framework as the basis for the preparation of annual budgets, and putting in place the capacity and systems adoption of in place for monitoring inputs and outputs. Expectations of progress and the pace of implementation should be realistic, with the latter tailored to the situation on the ground. Capacity building for budget

management should in general be based on MTEF principles, in preparation for the opportunity to move forward.

Over time, the emphasis should be on deepening the few techniques under implementation and strengthening the capacity to implement them, with training provided on the potential new techniques. Progress in sustaining the implementation of the MTEF would require the continuous sensitization of governments and donors on budget reform and the MTEF in particular. The pace of reforms should be dictated by the results from previous efforts and should take account the evolution of government and donor commitments and partnership, and the technical implementation capacity of the government.

The challenge to the success of MTEF and other public expenditure management reforms is to design programs that the governments have the capacity to implement, thus the need to tailor the programs to specific situations. This means that theoretical and technical elegance will have to give way to practical considerations. The promotion of the MTEF as the panacea for budget and development problems is counterproductive.

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Annex 1: Budget Classification by Functions of the Government of Rwanda

	GOVERNANCE & SOVEREIGNTY		**PRODUCTION AND ENVIRONMENT**
01	***General Public Services***		
01.1	Executive and Legislative Organs	**04**	***Environmental Protection***
01.2	Economic, Financial and Fiscal Affairs	04.1	Pollution Abatement and Control
01.3	External Affairs	04.2	Biodiversity and Landscape Protection
01.4	Labour and Employment Affairs	04.3	Environmental Protection n.e.c.
01.5	General Planning and Statistical Services		
01.6	General Intra-Government Transfers	**05**	***Agriculture***
01.7	Public Debt Transactions	05.1	Agricultural Development
01.8	General Public Services n.e.c.	05.2	Livestock and Fisheries
		05.3	Forestry
02	***Defense***	05.4	Agriculture, Livestock and Forestry, n.e.c.
02.1	Military Defense		
02.2	Civil Defense	**06**	***Industry and Commerce***
02.3	Foreign Military Cooperation	06.1	Mining and Quarrying
02.4	Defense n.e.c.	06.2	Manufacturing
		06.3	Construction Services
03	***Public Order and Safety***	06.4	Trade and Commerce
03.1	Police, Security and Local Protection	06.5	Tourism
03.2	Fire Protection Services	06.6	Craft Industry
03.3	Law Courts and GACACA	06.7	Industry and Commerce n.e.c.
03.4	Prisons		
03.5	Public Order and Safety n.e.c.		
	INFRASTRUCTURE		**HUMAN DEVELOPMENT**
07	***Fuel and Energy***	**11**	***Youth, Culture and Sports***
07.1	Coal and Other Solid Mineral Fuels	11.1	Sports and Recreational Services
07.2	Natural Gas and Petroleum	11.2	Arts and Cultural Services
07.3	Electricity	11.3	Youth and Other Community Services
07.4	Renewable and Other Energy	11.4	Youth, Culture and Sports, n.e.c.
07.5	Fuel and Energy, n.e.c.		
		12	***Health***
08	***Transport and Communication***	12.1	Primary and Secondary Health Care (Basic Health Care)
08.1	Road Transport	12.2	Specialized Health Care (including Tertiary Health Care)
08.2	Feeder Roads and Tracks	12.3	Health Care Accessibility
08.3	Air Transport	12.4	Health, n.e.c.
08.4	Water Transport		
08.5	Railway Transport		
08.6	Communication	**13**	***Education***

08.7	Broadcasting and Publishing	13.1	Pre-Primary and Primary Education
08.8	Transport and Communication, n.e.c.	13.2	Secondary Education
		13.3	Technical and Vocational Education
09	***Land, Housing and Community Amenities***	13.4	Tertiary Education
09.1	Housing Development	13.5	Education not definable by level
09.2	Land and Community Development	13.6	Scientific and Technological Research
09.3	Street Lighting	13.7	Education, n.e.c.
09.4	Land, Housing and Community Amenities, n.e.c.		
		14	***Social Protection***
10	***Water and Sanitation***	14.1	Social Security and Welfare
10.1	Water supply	14.2	Gender Protection
10.2	Waste Disposal and Management	14.3	Assistance to Vulnerable Groups
10.3	Water and Sanitation, n.e.c.	14.4	Social Protection, n.e.c.

Source: Republic of Rwanda, Ministry of Finance and Economic Planning, **MTEF Training Materials**

Annex 2: What is a Sector Strategy?

- **A sector strategy process** facilitates planning and budgeting as it helps to narrow the choices of the planners and policymakers to a set of actions that is feasible and necessary to achieve the policy objectives.. What are the important elements of a strategy?
- **Objectives and strategies** are often mixed up because what is a strategy at one level is an objective at another level. For example, at the national level, increasing tea production could be the strategy to increase rural employment and incomes. However, expanding tea production would be an objective of the Ministry of Agriculture (MINAGRIC). The strategy for MINAGRIC could then be the set of actions to increase tea production, for instance to privatize the tea factories and estates, ensure that tea farmers have access to fertilizer, etc. The latter could be through the provision of fertilizer by the state, the owners of the tea factories, or farmers buying fertilizers in the open market, or a combination of all the three options. Each option has policy and budgetary implications that need to be explored to establish feasibility.
- **A sector strategy** then starts with the elaboration of clear and when possible quantified sector objectives (enrollment ratios, tons of tea production, yields per acre, etc) derived from national development visions, objectives and strategies that the sector actions have to promote. This is followed with the identification of the sectoral constraints to the achievement of the objectives (scarcity of arable land, high cost of inorganic fertilizers, shortage of trained teachers, doctors, etc), and the assets in the sector (adequate rainfall, dedicated farmers, active communities, private sector interest, fertile land, strong market demand, unutilized capacity). The careful examination of the assets and constraints will help technical experts to derive feasible options for achieving the sector objectives, and a determination what needs to be done (intensification of agricultural production); how (use of inorganic inputs, planting of high value crops); by whom (small scale farmers, private investors); when (in the next five years), the costs and outcomes, and the possible sources of financing. The answers to these questions will help to determine areas for Government interventions and the combination of actions (action plan) to achieve the sector objectives. Since the some of the key questions and actions have to be answered/undertaken by other stakeholders (small-scale farmers, private investors and traders, consumers, bankers), broad participation of these stakeholders in the government's sector strategy formulation is essential for the viability of the strategy.
- The sector strategy process facilitates the formulation of **action plans** and the costing of these plans. The formulation of an action plan needs to be an integral part of the sector strategy process. This should involve the identification of priorities and related investments and other expenditures, policies and institutional actions including organizational reforms that need to be taken to achieve identified objectives. Furthermore, the exercise should identify the expected results from the actions and the indicators and mechanisms for monitoring and measuring impact and outcomes.
- The sector strategy and the action plan facilitate the definition of expenditure programs in the MTEF, the prioritization of all the programs and the development of a comprehensive and integrated approach to budgeting through:
    - *Vision* – a clear vision of the overall development of the sector;
    - *Poverty focus* – a focus on the benefits of the strategy on the poor, showing how the strategy impacts on poor people's lives.
    - *Policy* – a comprehensive set of policies for the whole sector which articulates and justifies the roles to be played by all stakeholders;
    - *MTEF* – a fully detailed MTEF supported by input prices and quantities, for all recurrent and development expenditures; and
    - *Monitoring* – a consolidated monitoring review of annual performance against MTEF outputs and PRSP actions for the sector.

Source: Rwanda PEMR (World Bank (2003c))

Annex 3: Benefits of an articulated sector strategy to MTEF/budget formulation and implementation:

The principle of well-defined strategies to guide public actions has been well accepted. Sector strategies have been required for elaborating public investment programs and public expenditures generally. Donors often require a sector strategy as a prerequisite for supporting sectoral investments. The importance of sector strategies to budget preparation and implementation is not in doubt but governments and donor pay only lip service to operating in conformity to a sector strategy. The PRSPs in Rwanda and elsewhere have reinforced the message of the importance of the sector strategies for identifying and effectively implementing priority public actions. In endorsing a sector strategy approach, the Rwanda PRS highlighted the expected broad benefits including:

- ***Co-ordination*** – Planning, budgeting and implementation processes should improve as ministries, donors, NGOs and other actors work together in partnership;
- ***Efficiency*** – increased co-ordination within and between program areas should clarify responsibilities, provide opportunities to pool resources, capabilities, skills, and knowledge; make better use of scarce government resources, and increase ministerial capacities to absorb financing;
- ***Economy*** – the strategy should reduce duplication and overlap in the design and implementation of programs;
- ***Continuity –*** organizational and institutional changes should not lead to abrupt policy changes or interruptions since there should be wide "ownership" by so many actors; and
- ***Role clarification*** – working relationships, responsibilities and co-operation between MINECOFIN, line ministries and donors should become formalised and lead to better performance.

Despite these benefits, the record of the application of strategic frameworks in the decisions on public actions, in Rwanda and elsewhere, is poor and often strategies are ignored as soon as the process of formulation is completed. The reasons for this state of affairs include (i) the strategy process has often been undertaken mainly to fulfill bureaucratic or donor requirements without a prior shared vision of and commitment to its role; (ii) lack of ownership of the strategy by key stakeholders including high level policymakers and development partners that are often unlikely to be participants in the consultative process; (iii) the strategy often lacks administrative/legal legitimacy with no sanctions for disrespecting it; (iv) the inadequate dissemination of the strategy, as often once the strategy is elaborated, it is filed away and does not have a life outside the consultative process; and (v) the lack of realism of the strategy and accompanying action plans, often over-ambitious and inconsistent with prospective financial and absorptive capacity constraints, calling for expenditures and actions beyond the capacity of the government.

Annex 4: Implementation Issues and Constraints in harmonization of procedures.

- A key issue is the government's willingness to own, and its capacity to lead and coordinate, the process. Encouraging harmonized approaches to aid delivery and complementary behavior among donors is important. Here the leadership of the government—manifested in Comprehensive Development Framework/PRSP countries like Bolivia, Ethiopia, Ghana, Tanzania, Uganda, and Vietnam—is indispensable.
- Capacity building to strengthen the national aid implementation and management systems that support poverty reduction strategies will take time and resources. In consultation with the recipient countries, donors will need to address the issue strategically, including weighing the costs and benefits of capacity-building interventions, and setting priorities for their country assistance programs. Governments will also need to articulate the required investment in capacity building. In this regard, PRSPs or equivalent processes offer a practical (and in many cases immediately available) platform for assessing needs, identifying priorities, and taking action.
- A related factor is the importance of a critical mass of in-country donors (with ideas, commitment, and funding) that are prepared to secure from their headquarters, and apply, the flexibility needed to achieve in-country alignment and harmonization with national priorities and systems.
- A well-articulated harmonization program is selective, with a clear set of priorities and careful sequencing of activities, including early wins that help build confidence and momentum for tackling more difficult issues that lie ahead. Such a program takes subnational dimensions into account. It also reflects the role and impact of the private sector (e.g., accounting/auditing/procurement) and the non-government sector, especially when these sectors are large and diversified.
- The harmonization process, which will undoubtedly reduce transaction costs for both recipients and donors over time, entails immediate costs—for example, the costs of providing technical expertise to the countries involved, and devoting managerial time and attention to the process—for which adequate provision has to be made.
- And finally, this initiative cannot succeed, particularly in the implementation phase, without consistent and sustained efforts by donors and recipients across the development agencies they own and the programs they promote.

Source: World Bank: **Harmonization of Operational Policies, Procedures, and Practices: Information Note**; September 12, 2002. Paper prepared for the September 28, 2002, Development Committee Meeting.

ANNEX 5: ROLES OF FACILITATING MINISTRIES AND DONORS IN THE AID-COORDINATION SYSTEM

Facilitating Sectoral Ministries	Facilitating Donor Partners
Facilitating the coordination of different Ministries with similar activities at sector/cluster level to ensure coherence of strategic vision of the sectors. In collaboration with other relevant sectoral ministries, facilitating the development of the sectoral policy and ensuring coherence with the Vision 2020 objectives of the PRSP Organizing regular consultations with all the involved parties (Ministries, donors, decentralized entities, private sector, civil society, NGOs) to develop and implement plans and sectoral strategies within a given sector/cluster Coordinating the budget prioritization and allocation process at sector level, as well as discussing budget issues with budget managers at MINECOFIN level Harmonizing approaches, limiting contradictions and overlaps, and creating synergies between the activities and programs to be implemented in the relevant sector Participating in sectoral consultations with donors under the coordination of MINECOFIN Collecting, disseminating information and preparing necessary documentation needed by the central services and partners to mobilize funding at sectoral level. Coordinating the follow-up, evaluation and preparation of reports on sectoral programs Established a timetable for regular consultations and ensuring the dissemination of information between sectoral activities and other relevant entities.	Facilitating, harmonization and simplification or reconciliation with different procedures, approaches and mechanisms of donors involved in a given sector. Initiating debates on ways and means of contributing to aid effectiveness and efficiencies through simplification and harmonization, Supporting and advising the government on resource mobilization strategies for the sector/cluster Liaising with MINECOFIN whenever necessary, on behalf of the other active donors in the sector/cluster. Creating synergy between donors involved in the same sector/cluster, and encouraging them to harmonize their efforts in order to guarantee the complementarities of their interventions Facilitating the process to ensure consistency of donor support with the National Priorities as outlined in the PRS and Vision 2020. In collaboration with other active donors, to facilitate the co-ordination of program formulations, monitoring, as well as the evaluation of financial assistance granted to sectoral programs.
Source: Republic of Rwanda, Ministry of Finance and Economic Planning: **Framework for Aid Coordination in Rwanda,** October 2002.	

Annex 6: Coordination of Development Partners: Clustering Arrangements

Cluster	Facilitating Ministry	Facilitating Partner Agency
1. Agriculture, Land settlement and environment	Agriculture, Livestock and Forestry (MINAGRI)	World Bank, EU
2. Infrastructure and ICT	Infrastructure Ministry	EU, World Bank (WB)
3. HR development and capacity building	Public Service and Labor (MIFOTRA)	Sweden, UNDP
4. Private sector development	Commerce (MINICOM)	USAID
5. Social sector(Education, Gender Youth and Social Services)	Education, Science, Technology and Scientific Research (MINEDUC)	DFID
6. Health	Ministry of Health (MINISANTE)	Belgium
7. HIV/AIDS	MINISANTE (HIV/AIDS and other Infection Diseases, State Minister)	USAID UNAIDS (UNDP, UNFPA)
8. Governance (Macroeconomic Policies, Justice and Parliament)	Ministry of Local Government (MINALOC)	UNDP
9. CDF, Decentralization, and Rural work program	MINALOC	Netherlands, UNDP
10. Energy	Infrastructure Ministry	WB

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