

Minding the Gaps: Integrating Poverty Reduction Strategies and Budgets for Domestic Accountability



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For the full report, see Wilhelm, V. and Krause, P. (editors) "Minding the Gaps: Integrating Poverty Reduction Strategies and Budgets for Domestic Accountability," Washington D.C. 2007.

Overview

Integrating poverty reduction strategies, national budgets, and their corresponding reporting processes is challenging but has the potential to strengthen government accountability to citizens and the implementation of policies for shared growth in low-income countries. This study, based on case studies in nine low-income countries and a review of relevant experience in four higher-income countries, offers practical insights for donors and national governments on how to strengthen the links between poverty reduction strategies and budgets.

Low-income countries' efforts to better link planning and budgeting initiatives have faced significant challenges. Different institutional ownership, as well as difficulties in aligning timelines and incentives have limited the ability of policymakers to link planning and budgeting processes. This study analyzes the challenges that have arisen in countries where efforts have been made to integrate the PRS with the budget and offers lessons and recommendations on how to further strengthen these links.

Objectives and Methodology

Links between the Poverty Reduction Strategy (PRS) and the budget, whether at the formulation, execution, or reporting stage, have been considered integral to the successful implementation of the PRS for some time. Increasingly, these links are also recognized as vital for enhanced domestic accountability.

To provide insights on the challenges and entry points for institutional reform to strengthen these links, the study reviews the status of budget and PRS integration in nine low-income countries — Albania, Burkina Faso, Madagascar, Malawi, Mali, Mozambique, Rwanda, Tanzania, and Uganda — and the links between policies, budgets, and service delivery in four higher-income countries that are internationally considered to be

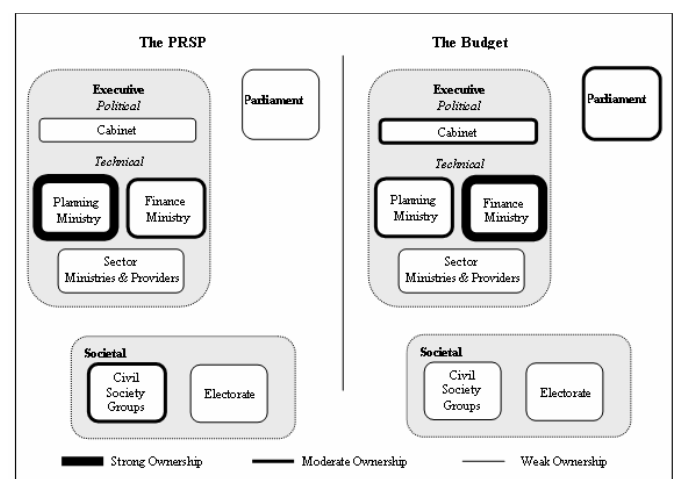
successful reformers in public financial management and service delivery — Australia, Chile, Republic of Korea, and South Africa.

Accountability, Ownership, and Incentives in PRS and Budget Processes

The accountability relationship has three dimensions: ownership of the task; incentives to carry out the task effectively; and capacity to deliver results. While capacity issues in PRS implementation and public financial management reform have received a good deal of attention in previous reviews, and rightly so, this study focuses on issues related to ownership and incentives, since all three dimensions are required for successful development interventions.

Ownership. Would-be reformers have often taken the view that ownership by a restricted group of technocrats and senior civil servants in central ministries will be a sufficient basis for strengthening PRS-budget links. However, the case studies confirm the need to consider also the ownership of other players who affect the PRS and budget

Figure 1: Asymmetries of Ownership in the PRS and Budget



systems — presidents, cabinet ministers, and parliamentarians — and their associated incentives. The degree of wider societal ownership, and the extent to which this brings with it an effective demand and incentives for delivery against stated policy objectives, is another dimension that needs to be explored.

Typically, however, patterns of ownership are asymmetrical between the PRS planners and the budget agencies (Figure 1). One of the principal challenges in promoting links between planning and budgeting processes rests on aligning the ownership of these processes across various groups of stakeholders. Relative to budgets, PRSs have tended to evoke stronger ownership outside the government and weaker ownership within it. The executive and parliament tend to be more involved in the formulation of the budget than in the PRS, and civil society and the public often have less opportunity for meaningful engagement in the former than the latter.

Incentives. The PRS is intended to boost incentives for performance by providing a results orientation to strategic planning and policymaking. Countries with second-generation PRSs have placed significant emphasis on developing results-oriented strategies, influenced by the strong international focus on development results and achieving the MDGs, and this has generated more attention to the use of performance indicators and targets and to the improvement of information systems.

Institutional arrangements that support the availability of data and help to link information with decision making processes can boost the incentives for improved budget performance by enabling the scrutiny of resource allocation decisions, budget execution reports, and outcome monitoring. Though public financial management in low-income countries has continued to improve in recent years, in many of these countries poor budget formulation and the weak enforcement of rules continue to undermine incentives to execute the budget in line with PRS priorities.

Challenges in Integrating Planning and Budgeting

Gaps and fractures in planning and budgeting systems pose obstacles for attempts to integrate the two systems (Figure 2). All the case study countries face challenges in: the prioritization of plans and coordination between planning and budgeting units; the creation of incentives to formulate realistic budgets and execute them as planned; the expansion of ownership of the PRS at the sector level; the development of a multi-annual perspective in strategic

resource allocation; and the integration of reporting mechanisms with decision making processes.

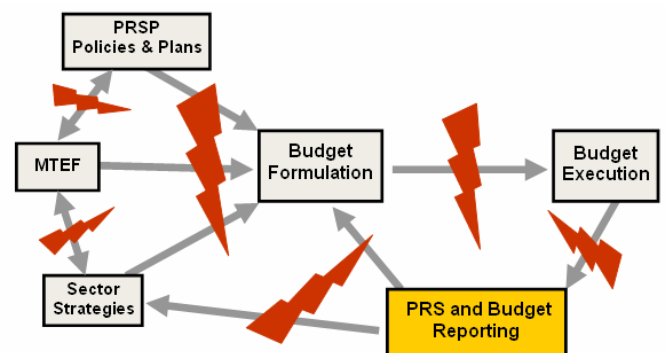
Linking PRSs and Budgets

Donors' main response to the missing links between planning, allocations, execution and reporting have been to promote a series of technical reforms, ranging from the identification of priority “pro-poor” spending programs to the introduction of medium-term expenditure frameworks (MTEFs) and program budgeting. These reforms are at different stages in different countries, reflecting the level of development of public financial management systems. Early efforts in countries such as Madagascar, Malawi, and Mali have tended to focus on narrow technical solutions to the challenge of linking PRSs and budgets, while the objectives of forging ownership beyond a narrow group of technocrats and creating adequate institutional incentives for integration have often been neglected. Across countries, reforms that have taken into account the interests of a broad set of stakeholders have been able to generate strong incentives for the behavioral changes needed for successful implementation.

Lessons from the experiences of the higher-income countries studied may be instructive here. First, domestic ownership of the reform agenda is often crucial and often extends beyond the ministry of finance to the cabinet, and, in some cases, parliament and civil society. Second, an integrated approach to reform rests on strong institutional connections between planning and budgeting. And third, the most effective reforms begin with getting the basics of public financial management right, before moving on to more sophisticated, performance-oriented reforms.

Each of these lessons is also reflected in the most successful reform experiences in the low-income cases. Madagascar is using an innovative and — by early

Figure 2: Fractures in Planning and Budgeting



Box 1: The Leadership and Management Program in Madagascar

Coming to power after a protracted political crisis (December 2001-July 2002), President Ravolamanana's government inherited an inherently problematic PRSP process, weakened by low ownership in the government. The annual budget, lacking a medium-term perspective, did not reflect PRSP or sectoral strategies. As a consequence, activities focused on short-term goals under a variety of shifting objectives, overstressing the state apparatus and causing confusion. A hierarchical organizational culture also meant that the government bureaucracy was ill-equipped to implement medium-term development strategies.

On the President's request, the World Bank helped to initiate a Leadership and Management Program (LAMP) in 2003. LAMP aimed to enable the creation of a coherent development strategy across government, while equipping officials with the technical expertise to overcome bureaucratic obstacles to change. So far it has included a series cabinet-level retreats (2003-06), a one-week management training course in Canada by the Institute of Public Administration of Canada (2004), an ongoing Leadership Training Program (2005-07) and capacity building and institutional support to priority sectors. While the first three of these programs have been aimed at ministers and senior government officials, the fourth is aimed at a broader segment of leaders in government.

Source: World Bank (2006) draft, "A leadership approach to achieving change in the public sector, the case of Madagascar."

Box 2: The Strategic Budget Allocation System in Tanzania

Tanzania has gone further than any other country in developing a hard and structured link between the PRS and the Budget through the Strategic Budget Allocation System (SBAS). The Tanzanian PRSP has 3 "clusters" and 181 "cluster strategies," which are very different from the performance-based budget which was structured by MDA, objective, program, and output. Although there are some objectives in between the clusters and strategies, it proved difficult to align budgets to PRS clusters explicitly.

The SBAS was developed to solve this problem. It is a computerized system used as a means of generating MDA ceilings for incorporation in Tanzania's budget strategy document, the Budget Guidelines, based on different ministries' contributions to PRSP clusters.

- **SBAS Micro** - Ministries prepare budget requests on their own versions of SBAS, "SBAS Micro" by identifying resource requirements for MTEF objectives, targets, and activities, and linking these to specific cluster strategies of the *Mkukuta*, Tanzania's poverty reduction strategy, where appropriate. These are submitted to the central Budget Guidelines Committee.
- **SBAS Macro** - The Ministry of Finance uploads the Macro Framework and ministries' requests into SBAS Macro and the Budget Guidelines Committee agrees the necessary cuts to all agency submissions to enable them to fit within the Macro Framework, in doing so scrutinizing the link between ministry requests and the *Mkukuta*. The resultant ceilings are then incorporated in the Budget Guidelines for approval by the Cabinet. Once approved, these ceilings, and allocations to targets are returned to the ministries, allowing them to prepare their detailed MTEF submissions in the normal way and upload them into the IFMIS.

accounts — successful approach to building capacity, ownership, and incentives at the core of government (Box 1). In Tanzania, a Strategic Budget Allocation System has enabled a strong link between ministry priorities and PRS goals (Box 2). In Mali and Uganda, relatively informal approaches to results-oriented budgeting have enjoyed more success than more formal approaches, arguably because they have been at a pace with, rather than ahead of, the level of sophistication of the budget.

Integrating PRS and Budget Reporting

A well-functioning, results-oriented reporting system needs to integrate financial information on actual expenditure inputs with performance information on the outputs and outcomes that have resulted from public spending. Even though the PRS goes beyond the budget (because it includes strategies and priority actions that do not require the allocation of public funds), a country's systems for monitoring government performance in implementing budgets can provide a solid basis for reporting on a critical part of PRS implementation.

From the case studies, three essential elements for integrating PRS and budget reporting emerge:

- Regular budget reporting from various government implementing institutions, such as central ministries/agencies and local governments.
- Advanced monitoring and reporting processes with a focus on outcomes in some sectors, particularly in health and education.
- Data on poverty outcomes from surveys and statistics.

Although these three elements may be considered a function of adequate capacity, they are, more fundamentally, related to bureaucratic and political incentives, (1) to produce information and reports using both financial and performance information, and (2) to

link such information and analysis with policymaking processes.

In most case study countries, incentives to generate information come primarily from donors. This imbalance is particularly evident in annual progress reports (APRs), which have been largely a response to external demands for information on PRS implementation, first linked to the HIPC initiative and subsequently in the context of direct support to government budgets. As a result, APRs tend to be de-linked from domestic reporting mechanisms. Among the few countries that have used existing annual reports as the basis for PRS reporting, Mozambique has successfully generated a domestically-owned product, primed to be integrated into policy processes.

Experience with successful reporting mechanisms in the higher-income countries emphasizes the defining role of core policymaking processes. Most of these processes rely on cabinet-level structures, such as committees and review bodies, that discuss fiscal frameworks and budget priorities and monitor the execution and performance of the budget. These structures ensure the direct engagement and involvement of politicians (mostly ministers, but in some cases also parliamentarians) at key decision points, thus ensuring the necessary buy-in and political peer pressure for “sticking to the path.” This engagement allows the use of information in policy and decision making processes, with positive effects on the design of programs and sectoral policies.

The Agenda Ahead

Handling the multiple difficulties inherent in integrating poverty reduction strategies and budgets demands a more sensitive approach to the incentives underlying domestic accountability and country ownership. To improve their assistance in this area, donors need to renew and reinforce their commitments to build on what exists, and to focus on reforms with a potential for political traction. Specific lessons from the case studies are:

Lesson 1: Strengthen and harmonize existing processes and adopt a gradual approach to reform.

The enhancement of the policymaking function of the budget in line with PRS priorities often requires a flexible approach to PRS design, building on existing processes and tailoring interventions to local context and realities. An increased focus on results requires not only technical capacity but also a change in culture and thinking, in the sense of organizational and institutional capacity development. Experience in the case study countries shows that successful budget reform processes tend to start simply, evolve gradually, and be framed within an

integrated approach linking improvements in public financial management with broader civil service reform. In essence, short cuts tend not to work.

Lesson 2: Build support from within, through high-level ownership of policies, a challenge function within the executive, and clear sector roles. Intra-governmental accountabilities, starting at the political (cabinet) level, can be a powerful tool in promoting reform and have so far received insufficient attention. Initiatives that may help to catalyze the improvement of core policy processes and internal accountability include:

- Introducing or reforming cabinet committee structures, to strengthen high-level political ownership and a challenge function within the executive.
- Building policy links “from the budget up,” rather than “from the PRS down.” Successful reform efforts have focused on core policy processes, and on turning budgets into more policy-oriented tools, rather than starting from long-term plans and translating them into annual budgets. The PRSP should therefore guide resource allocations, but not be the basis for the structure of the budget.
- Introducing a strategic phase in the budget process to ensure that there is a stage, before the preparation of detailed operational budgets, at which sector managers and the cabinet review high-level policy priorities and their impact on inter-sectoral resource allocation.
- Developing sector-level policy processes. While the PRS should be seen as a mechanism for developing high-level policy priorities, sector ministries and institutions should be charged with establishing processes to elaborate sector policies and budgets and review policy implementation, and their roles should be clearly defined with respect to larger national objectives.

Lesson 3: Foster incentives for integration: Target reporting to decision making processes.

Reporting instruments best serve their purpose when they are instigated by, and remain linked to, particular decision making processes involving specific actors who are likely to demand and use the information (Figure 3). Strengthening reporting on budget execution, rather than focusing on externally-driven APRs, should be given priority, introducing outcome information alongside financial reporting whenever possible. Providing easy access to quality information helps decision makers to monitor policy implementation and take corrective measures. Better targeting of reports, both financial and performance-related, to users’ needs could facilitate and improve decision making.

Lesson 4: Keep it simple. A strengthened results orientation within the budget need not require sophisticated technical solutions. As the case studies show, comparatively simple budget reforms can significantly improve the budget’s responsiveness to policies. Such reforms start with making budget execution credible and transparent. Structuring a poverty reduction

strategy paper in a more budget-friendly manner, for example by sector, would facilitate the interface with the budget by involving sector agencies in elaborating policy priorities and establishing the resource implications. It could expand ownership and boost incentives for integration of a greater number of key stakeholders, thereby strengthening domestic accountability.

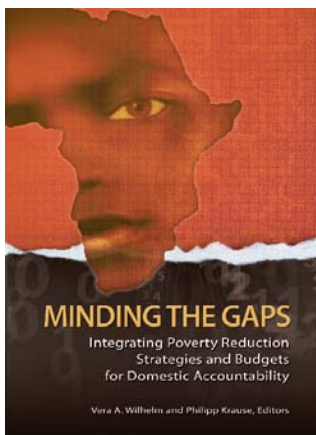
Figure 3: Targeting Reporting to Specific Decision Making Processes

	Relevant information	Target decision-making processes	Target stakeholders	
Strategic policy documents	<ul style="list-style-type: none"> Assessment of poverty outcomes drawing on survey and other outcome data, linking back to the implementation of government policies and strategies. Highlights of key policy achievements and outputs by sector in the context of past sector expenditures and future allocations. 	<ul style="list-style-type: none"> PRSP and sector strategy formulation and review processes Cross sector resource allocation mechanisms by the ministry of finance and cabinet (e.g. MTEF) 	<ul style="list-style-type: none"> Ministries of finance and planning Sector policymakers Parliament Donors 	<p>Strategic</p>
Annual budget documents	<ul style="list-style-type: none"> A synthesis of sector reports, highlighting major outputs and policy actions by sector, linked to expenditures against budget. A summary of key results achieved by individual institutions alongside targets for the coming budget year, including expenditure estimates and summaries of past and planned expenditures by program and major economic item. 	<ul style="list-style-type: none"> Budget formulation process, and in particular cross sector resource allocation mechanisms 	<ul style="list-style-type: none"> President and cabinet Ministries of finance and planning Parliamentary budget committee Budget support donors 	
Annual sector documents	<ul style="list-style-type: none"> Reporting on outputs, policy actions, and activities in the context of sector strategies and budgets, linking to outcome data when available and appropriate. Setting out past performance in terms of outcomes, outputs, and policy actions at a sector level alongside future projections/targets in the context of past expenditures and future budget allocations. 	<ul style="list-style-type: none"> Intra-sector resource allocation mechanisms (sector-level MTEF/budget process) Sector policymaking/review forums (e.g. SWAP-related) 	<ul style="list-style-type: none"> Ministers and senior civil servants in sector institutions Sectoral parliamentary committees Cabinet committees Sector civil society organizations Sector donors 	
In-year institutional documents	<ul style="list-style-type: none"> Comprehensive reporting on implementation of institutional operational plans and budgets, including inputs, activities and outputs, and relating these back to expenditures against the budget. 	<ul style="list-style-type: none"> Intra-institution managerial decision making processes Dialogue between sector/institution and ministry of finance/parliamentary committees 	<ul style="list-style-type: none"> Managers within institutions Ministry of finance and central ministries Sectoral parliamentary committees Beneficiaries of services where relevant Donors providing support to institutions 	

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While a lot has been written about the challenges low-income countries face in terms of limited capacity and technical know-how to better link planning and budgeting initiatives, less guidance is available on how to strengthen these linkages through enhanced institutional ownership and incentives. This study analyzes the challenges that have arisen in countries where efforts have been made to integrate the PRS with the budget and offers lessons and recommendations on how to further strengthen these links. Would-be reformers need to consider the level of ownership of different policy instruments by presidents, cabinet ministers, and parliamentarians, as well as the degree of wider societal ownership, and the extent to which this brings with it an effective demand for delivery against stated policy objectives. When ownership is contested and incentives are lacking, domestic accountability tends to be weak. This publication explores the causes of existing gaps in



planning and budgeting and the processes and institutional changes that can gradually help to reduce them.

Part I provides a synthesis of the findings in nine case study countries and provides recommendations on how to strengthen ownership and incentives to link policies with the budget process. It also reviews the experience of successful higher-income reformers, Australia, Chile, South Africa and South Korea. Part II provides summaries for the nine country case studies, Albania, Burkina Faso, Madagascar, Malawi, Mali,

Mozambique, Rwanda, Tanzania and Uganda. The volume closes with a bibliography.

This publication can soon be ordered from the World Bank online bookstore at www.worldbank.org/reference (type "Minding the Gaps"). A free electronic copy can be downloaded from www.worldbank.org/prsp.

Resources on the PRS Approach

The World Bank provides a range of resources available to support the PRS approach. Materials available include:

PRSP. The PRS webpage provides a variety of material and links, including to country documents, the PRS Sourcebook, policy papers and implementation reviews, staff guidelines, training material, and information on the PRS Trust Fund. See www.worldbank.org/prsp.

Poverty analysis. Poverty analysis is a key step in formulating a poverty reduction strategy. The website presents techniques for poverty measurement and analysis. See www.worldbank.org/povertyanalysis.

Poverty and Social Impact Analysis (PSIA). The analysis of the distributional impact of policy reforms on the well-being of different groups, particularly the poor,

promotes evidence-based policy choices and fosters public debate. See www.worldbank.org/psia.

Poverty monitoring. Poverty monitoring involves tracking progress over time in achieving results in terms of reduction in poverty and is an essential component of any PRS. See www.worldbank.org/povertymonitoring.

Impact evaluation. Impact evaluations assess the changes in the well-being of individuals that can be attributed to a particular project, program or policy. The website provides resources to assess and improve the effectiveness of interventions. See www.worldbank.org/impactevaluation.

PRS and the budget. The Public Spending for Poverty Reduction website provides information and good practices on the role of budget systems for PRS implementation. See www.worldbank.org/poverty-pubspending.



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