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**Institution Building for Poverty Reduction and Local Governance:
The Cases of Tanzania, Ethiopia and Kenya**

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Acronyms and Abbreviations

APR	Annual Progress Review
CAS	Country Assistance Strategy
CCM	Chama Cha Mapinduzi (Revolutionary Party of Tanzania)
CG(M)	Consultative Group (Meeting)
BHN	Basic Human Needs
EFA	Education for All
ERS	Economic Recovery Strategy
GBS	General Budget Support
HDI	Human Development Indicator
HIPCs	Heavily Indebted Poor Countries
IFM(IS)	Integrated Financial Management (Information) System
JICA	Japan International Cooperation Agency
JBIC	Japan Bank for International Cooperation
JSA	Joint Staff Assessment
KLGRP	Kenya Local Government Reform Program
LATF	Local Authority Transfer Fund
LGRP	Local Government Reform Program
LGRT	Local Government Reform Team
LGSP	Local Government Support Program
MDGs	Millennium Development Goals
MTEF	Mid-Term Expenditure Framework
NARC	National Alliance Rainbow Coalition
PAF	Performance Assessment Framework
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Survey
PFM	Public Financial Management
PRBS	Poverty Reduction Budget Support
PRGF	Poverty Reduction Growth Facility
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSR	Public Sector Reform
RDS	Rural Development Strategy
SDPRP	Sustainable Development and Poverty Reduction Program

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Chapter 1 **Background of the Research**

The Poverty Reduction Strategy (PRS) is a basic policy of three East African countries—Tanzania, Ethiopia, and Kenya. The PRS includes coordinated formation of policy and strategy for poverty reduction, budget allocation to priority sectors, execution of policy actions based on the budget, and establishment of management systems for efficient and effective service delivery, poverty monitoring, and auditing. The PRS has various origins in the development debates and practices, and it is embodied in the Poverty Reduction Strategy Paper (PRSP)¹. The three countries have started the formulation and implementation of their PRSPs, which are prepared by governments and endorsed by the International Monetary Fund (IMF) and the World Bank as the basis for concessional assistance².

The three countries are all ranked in the lowest group based on the Human Development Indicator (HDI); they carry heavy accumulated debt, have a budget deficit, and face a high risk of food shortages and starvation. Recently, the poverty rate, which is obtained as a percentage of the total population living in absolute poverty, has declined slightly in Tanzania and Ethiopia, but has risen in Kenya. These trends are viewed as persistent socio-economic trends inherited from the period before the introduction of the PRS rather than as a consequence of the PRS. However, these countries suffer from hardships and cannot easily develop their markets and trade with the outside world under the existing human and physical endowments. For these countries, the PRS policy framework has become particularly important for laying the foundation for future poverty reduction and economic growth.

This paper describes institutions, mainly public financial institutions at both the central and local levels. Institutions are defined as “social practices consisting of easily recognized roles coupled with clusters of rules or conventions governing relations among the occupants of these roles” (Oran, 1989:32)³. Institutions by themselves do not guarantee poverty reduction or social progress; they are needed to maintain sustainable efforts to reduce poverty. Without appropriate institutions, neither the public sector nor the private sector will develop steadily in low-income countries. Institution building generally takes a long time to produce meaningful results. It is in this sense that the design and implementation of the PRS, a recent mainstream approach to international development in Sub-Saharan Africa (SSA) as well as in other low-income countries, must be examined from a long-term perspective.

¹ Because Poverty Reduction Strategy (PRS) is a more familiar and broader framework, the PRSP has come to be called PRS. PRSP began with the introduction of Heavily Indebted Poor Countries (HIPC) initiative; it guarantees large-scale debt cancellation in exchange for accepting a set of conditionalities.

² In 1999, the Annual Joint Committee of the IMF and the World Bank moved away from conventional Structural Adjustment Programs and agreed to adopt PRSP. This was a symbolic start of PRS on the side of multilateral aid. Bilateral donors tended to keep distance from PRSP at the time and did not share the general guidelines for PRS; instead they formed the DAC Pov-Net group (OECD, 2001).

³ Organizations, by contrast, are material entities possessing physical locations (or seats), offices, personnel, equipment, and budgets (Oran, 1989).

Institutions have various functions including financial, technical, legal, social, and cultural. Many of these functions cut across the public and private sectors. Some functions are unique only to the public sector, while others are unique to the private sector. The legal system is the domain of the public sector, while markets are the domain of the private sector. Governance is another broad function to be supported by various institutions in the public and private sectors. Public financial institutions can be regarded as a budget cycle system, and they are indirectly related to all the other institutions. This paper focuses on public financial institutions, because public finance is thought to be related to public needs, and therefore, it motivates people to create good governance.

Public financial institutions must be built in various areas in the PRS process including policy planning, budgetary allocation, sector and regional planning, service delivery, taxation, and auditing as shown in Figure 1-1. This figure shows key institutions in a typical PRS budget cycle system. The institutions highlighted in this paper are underlined. Because development agencies are organizations and not institutions in public administration or actors in international relations, they are not underlined⁴. Figure 1-1 does not include monitoring systems of poverty incidence, but they can be considered to cover the whole PRS process. In all areas, public and private institutions jointly contribute to poverty reduction; it is therefore important to use a participatory and/or bottom-up approach for institution building.

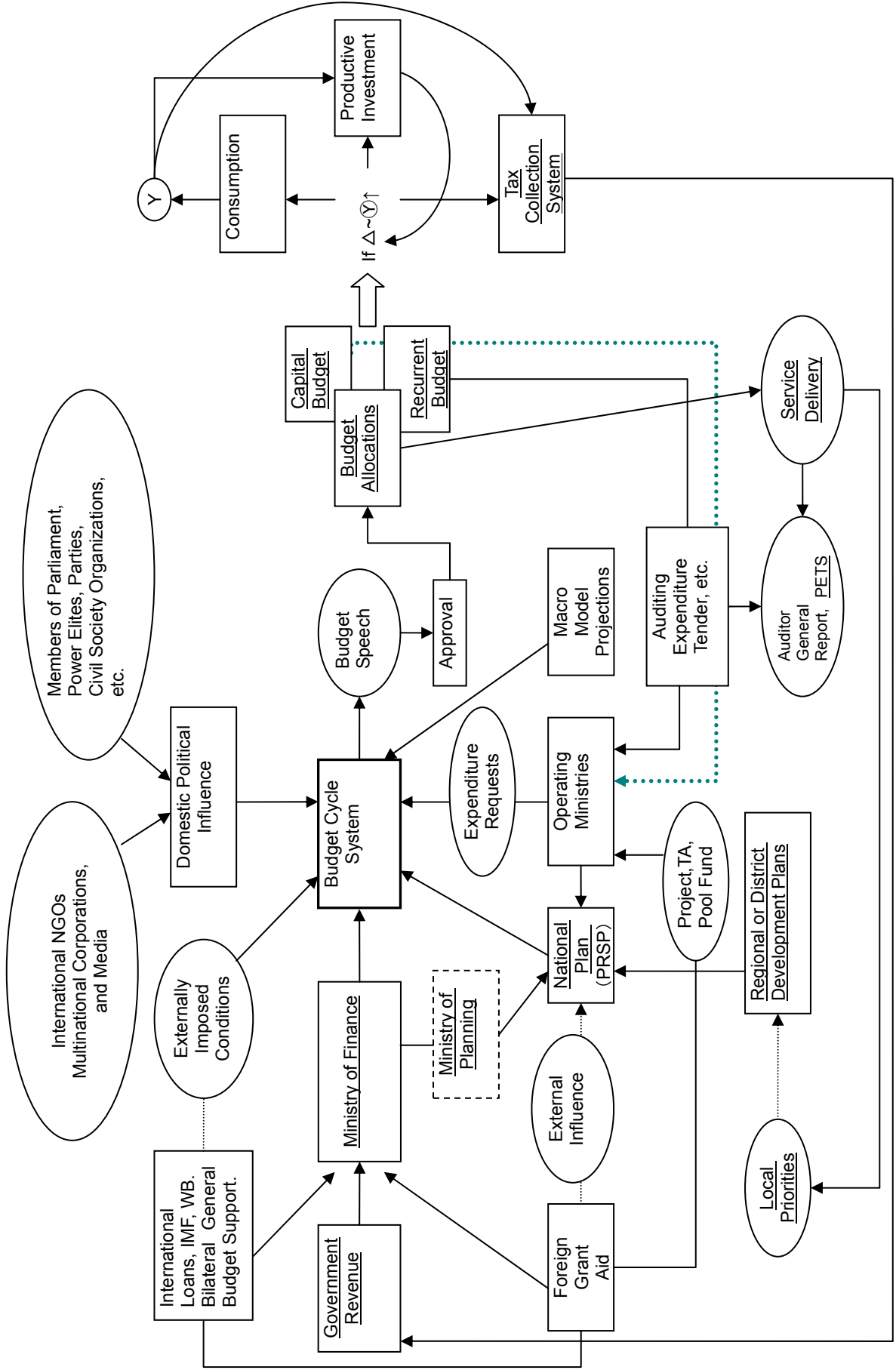
This paper focuses on the poverty reduction strategy, revenue, and decentralization (the issue of local governments and local authorities). They are closely related in the PRS budget cycle. Revenue is needed to strengthen the financial power of the government for sustainable poverty reduction. Decentralization is needed to ensure the delivery of public institution services to the people through local governments, thereby improving the people's trust in the government and their willingness to pay taxes⁵. Therefore, revenue and decentralized financial institutions are important for establishing a sustainable and reliable budgetary process. Decentralization is targeted at ordinary people and the poor at the grass-root level. People who receive public services are usually more involved in public affairs. Local revenue collection is one of the corner stones of decentralization because it ensures financial autonomy at the local level. Therefore, from the financial point of view, a combination of the PRS strategy, revenue, and decentralization is indispensable for long-term poverty reduction.

While it is important to examine the institutions needed to sustain the PRS(P) process, we need to be careful about the speed, design, and adaptability of institutional reforms. Absorptive capacity, asymmetrical information, and changing political will always affect the adaptation of institutional reforms. Several instruments such as the Public Expenditure

⁴ However, development agencies are expected to undergo institutional changes to mainstream their poverty reduction strategy, partnership, and policy objectives, as outlined in Chapter 5 of the DAC Poverty Reduction Guideline (OECD, 2001).

⁵ Revenue is a rather neglected issue in the study of financial sustainability for poverty reduction except for IMF. Central sector allocation and strategic resource planning receive immediate attention by all the donors.

Figure 1-1 Key Institutions in Typical PRS Budget Cycle System



Note: Originally drawn by Mr. John M. Cohen in his class (Kennedy School, U.S. 1994.4) and modified by the author (2004.4).

Review (PER) and the Mid-Term Expenditure Framework (MTEF) can be introduced into the financial institutions of a PRS(P) country. Institutions which we examine in this paper are assisted by these instruments. Revenue is reviewed in the PER and projected in the MTEF. Some local governments have begun to implement the PER and MTEF.

More and more donors have begun to assist and actually promote institution building for poverty reduction. Much attention has been paid to whether imported institutional reforms, indigenous administrative institutions, and local technical capacity have been effectively matched in the recipient countries. If reforms produce too many new institutions and instruments, there is a risk what might become isolated from the capacity and willingness of the government. In order for the PRS to contribute to poverty reduction in an effective manner, policy makers, practitioners, and researchers must understand the current situation, problems, and challenges of institution building for poverty reduction.

Upon this recognition, we need to examine whether the PRS in SSA is supported by institution building and whether development assistance provided by donors including Japan makes an effective contribution to this process. We also need to examine whether the PRS process, which is imposed by the donors, leads to a gradual development of ownership in the recipient countries, or whether the reform agenda is too overwhelming when compared to the absorptive capacity of the recipient governments and the time given for reform implementation. These reality checks should be done regularly by outside researchers who are not biased against any government or aid agency. Neutrality is hard to achieve for any researcher and research institution, but active interaction and open exchange of views among researchers are important for a fair examination of the PRS.

This paper views the present PRS process as an opportunity for the poor to get out of the poverty trap; it also recognizes many tasks and risks. The next chapter gives a brief overview of the PRS process in Tanzania, Ethiopia, and Kenya. Chapter 3 describes the current situation and the challenges in revenue collection in the three countries. Chapter 4 discusses the dynamics of fiscal and democratic decentralization for poverty reduction. Lastly, Chapter 5 presents tentative conclusions.

This research is part of a broader research project undertaken by the National Graduate Institute for Policy Studies (GRIPS) Development Forum, which examines institution building for poverty reduction in SSA from the viewpoint of the public and private sectors as well as the macro and micro perspectives and analyzes the social support for, as well as the effectiveness, stability, and market viability of, the new institutions. In August and September 2004, a Development Forum team conducted preliminary research in Tanzania, Ethiopia, and Kenya—countries believed to be given high priority in Japanese aid programs.

The research project was implemented with the support of many concerned institutions and people. I would like to thank the governments of Japan, Tanzania, Ethiopia, and Kenya, and the many government and donor-organization officials who provided us with useful

information. I would also like to thank the staff of the Japan International Cooperation Agency (JICA) for their generous support of our field research.

This paper describes preliminary findings; for this reason, the presented analysis has limitations. The paper will be revised and improved as I receive comments from internal and external organizations and individuals.

Chapter 2 Direction of the Poverty Reduction Strategy

2-1 Institutionalization and Participation

In Tanzania, Ethiopia, and Kenya, the governments are vigorously pursuing the PRS and related policies. Expenditures greatly exceed revenues, and foreign assistance has increased dramatically. The three countries are classified as Heavily Indebted Poor Countries (HIPCs). The term enhanced “HIPCs” initiatives were applied to Tanzania in 2001, and later to Uganda and Burkina Faso; in 2004, it was applied to Ethiopia, Ghana, Senegal, and Niger. In contrast, Kenya is considered a relatively sustainable country, like Vietnam, and has not been classified as a HIPC⁶. The government of Kenya anticipates that the country’s debt will be reduced as a result of its policy to replace domestic debt with foreign debt (IMF, 2003a: 6).

The HIPC Initiative identifies 38 countries, out of which 32 are in SSA, as potentially eligible to receive debt relief (as of September 2004). The original scheme called for the country to have a track record of strong performance on a series of measures before being accepted for debt relief. Fourteen countries have reached completion points on the scheme, 11 of which are in SSA, after fulfilling the conditions of a PRSP—a process involving wide-ranging consultations with civil society and donor groups on future priorities for public policy targeted for poverty reduction. At present, the number of countries implementing a PRS(P) has expanded rapidly and becomes larger than the original countries receiving HIPC debt relief.

With an increase in international aid under the formulation of PRS, the problem of mainstreaming aid into the national budgets of recipient countries, so-called on-budget (e.g., donor funds which are at least registered as the government budgets) has started to attract a lot of attention. In Tanzania, more than 20 percent of the recurrent budget is supported by financial aid, which addresses the issues of sustainability and aid dependency⁷ (IMF, 2003c: 2). Aid dependency concerns are also applicable to Ethiopia, but not necessarily to Kenya,

⁶ The ratio of debt to export in net present value was 109 percent in 2003, which is below the HIPC standard.

⁷ Aid dependency has not been exacerbated since FY 2003 with a record of 50 percent of aid in the budget due to an increase in revenue (aid through off-budget support was not included in this calculation).

which only has the potential to face these issues. Financial assistance may result in an appreciation of the value of national currencies because of a substantial external financial flow, but such concerns have not yet been necessary in Tanzania and Ethiopia. Tanzania intends to prioritize General Budget Support (GBS) over other aid modalities, while Ethiopia and Kenya are inclined to accommodate a variety of aid modalities.

As for poverty monitoring, it is only Tanzania (where the Office of the Vice President is the responsible agency) which is forming an institution with clear goals. Although there is currently no institution in Tanzania that can measure the input, output, and outcomes of poverty reduction, the need for the overall effectiveness of poverty reduction is being discussed. A public expenditure tracking survey (PETS) has been conducted in Tanzania to evaluate the efficiency of service delivery. In December 2003, Ethiopia submitted to the International Monetary Fund (IMF) and World Bank a comprehensive plan for monitoring and evaluation of poverty reduction and in May 2004, it presented an action plan. However, no concrete framework has yet been established.

There has been criticism of the low participation of NGOs and civil society in the process of PRSP formulation in Tanzania, Ethiopia, and Kenya (Booth, 2003: 277). It has also been noted that there is no participatory mechanism embedded in civil society in these countries and that the government makes all decisions by itself. In addition, some critics have claimed that the process of PRS and HIPC completion point are being combined and that they are implemented in such a hasty manner that there is not enough time to consult with civil society. On the other hand, many PRS reports are being prepared such as Public Expenditure Reviews (PERs) and Mid-term Reviews as well as Annual Progress Reviews (APRs). It is also true that civil society partially participated in the preparation and discussion of these reports. In Ethiopia, a poverty action network was established with the participation of civil society and NGOs to discuss the quality of public service and the ways of participation of Civil Society Organizations (CSOs) and NGOs in PRS process.

These movements to promote partnership between government and donors invite high expectations from the PRS process, which is different from that of Structural Adjustment Lending (SAL). Here SAL can be characterized as the process among a limited number of stakeholders. Yet, a strategy that determines a concrete path to poverty reduction and economic growth has not been devised. It has also been observed that the long-questioned conditionality of donors has been replaced by benchmarks that are limited to minimum targets but that the number of conditions has not been reduced.

The following sections describe the current situation with the PRS, the process of its implementation, the changes of expenditure performances in Tanzania, Ethiopia, and Kenya, and the future of the PRS.

2-2 PRS Implementation in Tanzania, Ethiopia, and Kenya

2-2-1 Tanzania

In 2000/01, the poverty rate in Tanzania with respect to Basic Human Needs(BHN) was 36 percent, and the food poverty rate was 18.7 percent, according to a Household Budget Survey. The poverty rate has not decreased significantly in the 1990s. The macro economy has been stable since the late 1990s, and the GDP growth rate reached 6.2 percent in 2002 and 5.7 percent in 2003 (GoT, 2004a: 11). This shows that Tanzania has virtually met the PRSP's goal of a GDP growth rate of 6 percent, but this has not resulted in household poverty reduction at the micro level. The agricultural sector recorded a growth rate of 5 percent in 2001 and 2002, but this was mainly due to favorable weather; the growth rate was expected to decrease to 3.3 percent in 2003. There is high unemployment among youth and women in urban areas, and 21.3 percent of children aged between 5 and 17 are in child labor.

In Tanzania, the PRSP was formulated in 2000, and three APRs have been published since then. "A second generation" PRS⁸ was being formulated, as of December 2004. While under the first-phase (generation) PRS, priority sectors were allocated proportionately more budget resources than other sectors, under the second-phase PRS, there is no distinction between priority and non-priority sectors; this strategy was adopted to pursue an outcome-oriented cross-sectoral plan upon recognition that non-priority sectors are also important for improving the efficiency of investment in priority sectors⁹. Furthermore, there has been more recognition that employment and economic growth are important for poverty reduction, and priorities have been expanded to incorporate, for example, secondary education.

Table 2-1 PRSP formulation in Tanzania, Ethiopia, and Kenya (as of September 2004)

	Tanzania	Ethiopia	Kenya
Year: Formulation of PRSP	2000	2002 (SDPRP)	2004 (ERS)
Priority Sectors and Issues	Education (primary), roads, water and sanitation, judiciary, health, agriculture, HIV/AIDS	Agriculture, social sector (education and health), HIV/AIDS, infrastructure (roads, communications, water supply), ESRDF (social investment fund)	Governance, security, law, PSR, infrastructure, production sector, justice and social sector (education, health, HIV, nutrition, employment), agriculture in arid and semi-arid areas

Note: From PRSPs of Tanzania, Ethiopia, and Kenya.

⁸ Since Tanzania starts PRS(P) process earlier than most of other countries, its first phase (cycle) will end in FY 2004/05.

⁹ Peniel M. Lyimo, Permanent Secretary, Ministry of Finance, 2004.8.

The government was closely collaborating with donors in formulating a Full-PRSP in 2000-2001. Conditions in the following areas were considered to have been fully met: macro-economy, priority sectors, rural development, and governance. These reform conditions were actually covered by existing programs undertaken by the government and donors. Many donors participated in preparing a Full-PRSP for assessment at a HIPC completion point, and they pressured the IMF and World Bank for approval by a joint declaration before completion point. This collaboration among donors seemed to continue in 2004 and, although there are various views on donor coordination activities, local DAC (Development Assistance Committee) are now trying to formulate a joint aid strategy.

The government of Tanzania has declared its intention to prioritize poverty reduction by promoting Poverty Reduction Budget Support (PRBS), which is a framework for General Budget Support (GBS), and to formulate its PRSP (at present, 14 donors including Japan participate in PRBS). In 2003/04, 34 percent of international aid was provided as GBS, and 17 percent of aid was provided as earmarked Budget Support. Budget Support of the World Bank is provided in the form of Poverty Reduction Support Credit (PRSC), which has been integrated into PRBS since 2002. The risk of causing a war by increasing military expenditures in Tanzania is very low; the main concern in providing budget support is corruption¹⁰. On the other hand, GBS does not have immediate effects on the formation of civil society, and it is practically limited to budget allocations to governmental organizations and institutions (Frantz, 2004: 19).

The monitoring of the Performance Assessment Framework (PAF) targets not only the reform process indicators but also the sector monitoring indicators in the Annex. If the effects of the PRS are questioned by low performance, steps should be taken to review the Public Financial Management (PFM) as a means to achieve the PRS and use the results of the monitoring in the formulation of the next budget. As for APRs, no clear role has been stated for these reviews in any of the three countries. In Tanzania, APRs cite annual findings on poverty monitoring. However, the data of the National Bureau of Statistics and those of line ministries are not immediately related and the results of analysis are not utilized in policy formulation. Thus, it appears that although there is some variation among the three countries, APRs, if translated into national languages, are more useful than the PAF for establishing domestic accountability, for example, in civil society and parliament.

Although rapid expansion of budget support has led to aid dependency, there has been a positive change in two areas. One is that the proportion of salaries in the recurrent budget has been rather constant while the number of primary teachers has increased (the proportion of salaries to GDP was 4.3 percent in FY 1998 and 4.2 percent in FY 2000 and FY 2003 [GoT, 2004b: 11]). Other Charges (recurrent budget other than salaries) have increased the most (by

¹⁰ Corruption refers not only to bribes but also to abuses of public authority such as the forging of documents and nepotism.

4.5, 5.8, and 10.4 percent in the above FYs), followed by the development budget (3.8, 5.3, and 5.2 percent in the above FYs). The other change is that the social sector has been given top priority from the pro-poor perspective; however, the proportion of the budget directed to the social sector has been declining since 2002/03, and slightly more resources have been allocated to economic growth related strategies such as the development of infrastructure¹¹.

2-2-2 Ethiopia

The poverty rate in Ethiopia decreased slightly (from 45.2 to 44.2 percent) between FY 1995/96 and 99/2000. However, while in rural areas the level of poverty decreased (from 47 to 45 percent), in urban areas it increased (from 33.3 to 37 percent) (MoFED, 2004a: 7). Ethiopia suffered a famine in 2002/03; food aid was provided to 13 million people, and real GDP decreased by 4 percent. Since then, food production and economic growth have stabilized.

After the collapse of the military regime in 1991, a new government was established, and it adopted a 5-year national development plan called “Plan for Development, Peace and Democracy.” In line with this new plan, in 2001, the government initiated PRS(P) preparation, and in December of the same year, it completed an Interim PRS(P) in order to obtain a Poverty Reduction Growth Facility (PRGF) credit from the IMF. In this Interim PRS(P), five areas were selected as priority sectors including agriculture, social sector, and HIV/AIDS¹². A pool fund was established in September 2001; the UNDP is responsible for the implementation and management of the fund, and a local Consultative Group (CG) functions as a management committee of the fund (currently, a second phase of the fund is being developed).

In 2002, the Sustainable Development and Poverty Reduction Program (SDPRP) was inaugurated, and the PRS and Millennium Development Goals (MDGs) were declared as long-term goals for poverty reduction. Although there was criticism that this program paralleled the World Bank’s Country Assistance Strategy (CAS) and that the Ethiopian government was dazzled by the funds extended by the World Bank, the SDPRP became a foundation for poverty monitoring and consultations between the government and donors. The goal of the SDPRP is broad-based growth, reduction of economic fragility, and improvement of quality and service delivery. Four pillars of the program are an agriculture-led industrialization strategy, judiciary and public service reforms, decentralization and empowerment, and capacity building in general.

¹¹ The proportion of priority sectors in the total budget has increased from 34.7 percent in 1999/00 to 46.3 percent in 2001/01, but it declined to 45.6 percent in 2002/03.

¹² Budget allocations to priority sectors constitute more than 40 percent of the total public expenditures. The five priority sectors consume 30 percent of the recurrent budget and more than 70 percent of the development budget.

The attitude of the Ethiopian government was appreciated by the donors at a CG meeting in 2002 and as a result, 3.6 billion dollars in aid was pledged to Ethiopia for FY 2003-05. The first APR was submitted in December 2003, and in general, the donors evaluated the government's efforts positively. The Joint Staff Assessment (JSA) advised that the government include promotion strategies in wider areas such as private and financial sectors, rural development, food security, and land reform. An interim APR was completed in September 2004, and the next APR is to be submitted in January 2005. The analysis of the MDGs and APRs will be the basis for SDPRP II, whose implementation phase will begin in July 2005.

The government of Ethiopia expressed its expectation of GBS assistance for the first time in the period of the SDPRP, in December 2002, and some donors including the World Bank, the U.K., and the Netherlands insisted on its effectiveness. By 2004, six more organizations started to provide GBS. In FY 2005, GBS is expected to increase to 387.6 million dollars; 71.1 percent of this aid is multilateral and 14.2 percent is bi-lateral. The budget funding for poverty reduction including GBS increased by 13.8 percent in 2002/3¹³. However, the rate of budget disbursement is not high, and it remains at 77.6 percent (OED, 2004: 16). In addition, defense spending decreased from 13 percent of GDP in 1999/00 to 3.5 percent of GDP in 2003/4 (MoFED, 2004b: 16). The donors regard the financial discipline of the Ethiopian government very highly.

Food security was given priority in December 2003, and the performance of SDPRP was favorably evaluated as being in crisis. The World Bank offered a PRSC earlier than it had planned (grants accounted for one-third of the total PRSC in FY 2004/05). Under the PRS, budget resources were distributed to priority sectors with care, and the share of these sectors increased from 41 percent in 2000/1 to 54 percent in 2004/5. Food security and education were the most highly prioritized sectors among all sectors, while the health sector was under-funded. The military budget was intentionally frozen.

Since 2003, there have been increased efforts to develop a PRS matrix. There are several challenges in the enormosity of indicators and the difference between the matrices of the PRSC and SDPRP. With regard to poverty monitoring, there is a lack of capacity in the Department of Macro Planning and Policy Analysis of the Ministry of Finance and Economic Development (MoFED) and in the Central Bureau of Statistics (note: capacity building is initially required for these key departments). Decentralized management of finances began in FY 2001/2 at the woreda level, which is two levels below the level of the region. This practice has drawn considerable attention¹⁴. The share of the education and health sectors amounted to

¹³ The current budget is geared towards the social sector in Ethiopia, and the need to increase investments in infrastructure, agriculture, and hydroelectricity was also indicated (Leulseged Ahmed, Christian Relief & Development Association).

¹⁴ Woreda is usually translated as 'district'. The role of zones, which are between the woreda and province

61 percent of the whole budget of the federal states at the regional level in FY 2001/2 (69.7 percent at the end of FY 2003/04 according to the interim APR 2004). It is unclear, however, whether these funds are sent from the regions to woreda governments and whether they make public service more efficient.

2-2-3 Kenya

Kenya's long-term economic performance deteriorated in the 1990s under the Moi regime, and the poverty rate increased from 48 percent in 1990 to 56 percent in 2001 (GoK, 2003: 1). Under the regime of the National Alliance Rainbow Coalition (NARC), which won the democratic election, an active dialogue was initiated between the government and donors, and an increase in development aid was pledged at a CG meeting in 2003. The NARC government showed a sincere attitude toward reform; in 2002, an anti-corruption bill was approved by the parliament, followed by bills on procurement and auditing of the government. However, there have been allegations of corruption in the government and criticism of the government's attitude towards reforms. Much attention is being paid to the government responses and to whether it will undertake sincere actions to counterclaim the allegations. It should be noted, however, that there has been some progress in the state of governance—examples include protection of the freedom of speech, a demand for a review of unjust bidding, and public announcements of job postings in the government, none of which previously existed.

In 2004, the donors threatened to postpone aid disbursement unless the government took measures to eliminate corruption. Since then, domestic borrowing has been increasing. While under the previous regime, expenditures were below the expected level and the debt was not increasing, under the current government, the domestic debt has increased to an unsustainable level. Moreover, because negotiations with the IMF delayed the second tranche of the PRGF, there had already existed a problem of financial management¹⁵.

In 2000, IMF suggested that the government of Kenya not submit the Interim- PRSP and Full-PRSP, because there was still room for improvement of the content. In 2002—the election year—the new government prepared a new policy document, but the donors claimed in June 2003 that the document lacked a description of macro-economic policies and measures against poverty. The donors asked the government to revise the document by the end of 2003. Meanwhile, the Kenyan government formulated its Economic Recovery Strategy (ERS) and showed positive consideration of both economic growth and PRS. Because expenditures on Personnel Emolument (PE) are disproportionately high in the financial structure of the government, it is difficult to disburse development budget funds to implement the fairly ambitious ERS program, which covers many sectors and issues. Also, while the

levels, has shrunk, and woreda governments are regarded as district governments.

¹⁵ Nobuhiro Ikuro, JBIC, Nairobi Office, 2004.9.

government is familiar with macro-economic analysis, institution building for poverty monitoring is a relatively new area¹⁶.

A CG meeting was held in December 2003, and 4.1 billion dollars was pledged for three years (which is larger than the amount pledged for Ethiopia). In January 2004, 350 million dollars of external debt was reduced for a period of three years upon agreement with the Paris Club (out of which 70 percent debt are coming from JBIC). A PRGF grant of 350 million dollars was also approved in November. The overall debt of Kenya at the end of 2002 was 5.2 billion dollars. Two conditions—a reduction in the number of civil servants and in the number of public corporations—were stipulated at the time of fund disbursement in the second tranche of the PRSC by the World Bank.

Ministry of Finance and Ministry of Planning and National Development started positive collaboration on making ERS planning and monitoring system¹⁷. Both Ministries which were split in 2003 agreed to activate MTEF process already adopted in 1999. The former is in charge of expenditure tracking and the latter is in charge of project monitoring function. Regarding poverty monitoring in general, the ERS had 186 indicators at the beginning. These indicators which contained unclear content and lower priority would be examined and selected before the formulation of APR 2003/04 to be published in 2005.

In the Kenyan PRS, both poverty reduction and economic growth are considered in a balanced way. The ERS includes expectations of economic growth and an investment plan for a period up to 2007, and it incorporates a goal of creating jobs for 500,000 people every year, which was promised during the election period as one of the major slogans. The sector share of expenditures on infrastructure and rural development is high in the development budget component; while Personnel Emolument funds in the social sector have come to constitute a high percentage of the recurrent budget since the introduction of free primary education (FPE) in January 2003. Although it is difficult to reduce government personnel due to political opposition, the quality of local public services is generally considered unsatisfactory.

2-3 Progress and Ambiguity

Tanzania, Ethiopia, and Kenya differ with respect to the time of initiating the PRS, the content of PRS, and the relationship with donors. Tanzania made the most progress in reforms with the development of its administrative system and in partnership with donors. Recent complications of ‘composition of’ the priority sectors (clusters) and the abolition of local

¹⁶ The Joint Staff Assessment (JSA) recognizes that the government of Kenya is weak at conducting factor analysis of poverty due to inexperience with poverty assessment. Thus, donors assisted the government in conducting a household budget survey in 2004, based on which an extensive poverty assessment is to be undertaken in 2005.

¹⁷ Joint efforts on policy planning and budget are emphasized internally and externally (David Nalo, Permanent Secretary, Ministry of Planning and National Development)

taxes, in my view, reveal ambiguity as well as consistency in the government's position towards the PRS. Ethiopia places agriculture and social sectors at the center of its PRS, and it seeks donor assistance. Although the proportion of local revenue in the whole revenue is not low when taking into account the capacity of the government and although corruption is minimal, there is a risk that donor dependency and transaction costs may increase as a result of confusion in the government caused by a number of items on the reform list. Kenya formulated an ERS that clearly reflects the position of the new government with its many expectations. However, because of its diverse strategies and the characteristics of its financial structure, effective implementation of ERS can hardly be expected for some time.

The three countries have conducted APRs, but they are still at the stage of institution building for policy, finance, and monitoring rather than at the stage of examining clear outputs and outcomes. For these countries, there is only one option left—to concentrate on building a mechanism of resource allocation which would enable the transfer of funds from donors and the central government to local governments under the PRS. The funds are centering on the social sectors, because pro-poor growth scenario is hardly envisioned at the moment. Were it not be either stable agriculture-based development or economic growth owing to a strong industrial sector, the remained option would be social sectors. It is very important whether the governments of the three countries will make an effort to construct mechanisms that would make it possible for services to reach end users and for funds not to be stopped at the upper level of local society and municipalities where rent-seeking groups with vested interests (e.g., powerful members of the parliament and the ruling party, or their powerful supporters) have been formed. In Kenya, where policy reforms based on the PRS are not being implemented, there is a risk that the new regime may adopt the interests of the old regime. In the other two countries, where policy reforms based on the PRS have progressed and where some institutions have been built, local governments and civil society are still frail and there are not many organizations that can inform the government and donors of the collective opinions of civil society.

An important mechanism for evaluating local service delivery is the Public Expenditure Tracking Survey (PETS), which was undertaken in the education sector in Tanzania. The PETS is a survey that examines whether sectoral budget funds from the central government reach end users under the local governments. Although the fact that funds reach final service points or end users does not guarantee effective service delivery, it is impossible to deliver services if funds and materials do not reach end users. In this sense, the PETS is a preconditional survey. To ensure the transfer of funds to local governments, local government budgets are publicized to the population through various media. To ensure the transfer of funds to each school, school headmasters post a notice about the receipt of the funds on the bulletin boards. As a next step to accountability, a PETS result and annexed survey should be added to the PER sector reviews.

The usefulness of GBS is evident in Tanzania and Ethiopia. The governments also claim that GBS and sector budget support have improved the predictability of aid flows (URT, 2003b: 12)¹⁸. However, two limitations must be mentioned here. First, since only GBS is expanded, sector performance cannot be measured accurately. The nature of block grants (BGs) in Ethiopia does not serve the purpose of sector performance as well. There is a risk of distorting the existing structure of incentives in each sector. The second limitation is the problem of resource allocation within the government and to civil society. GBS is geared too much towards the government, and donors must agree on the distribution of funds to the government and civil society. In particular, it should be noted that GBS does not have immediate effects on building good relations between civil society including the poor and policy makers and on governance building.

Institution building is based on a bottom-up approach, and it relies on collective will and active participation of community members and local organizations (see Chapter 4). Institution building in the rural PRS process is behind all other policy actions. This is an area that is difficult to promote only by means of central institution reforms and programmatization. The only example in the rural area may be the formation of strategies for the Rural Development Strategy (RDS) in Tanzania. What needs to be strengthened is organizations that are rooted in local communities such as agricultural cooperatives and school management committees. Appropriate channels must be created to support administrative service provision, allow community members to complain about services, and enable them to participate in commercial activities in local markets.

Chapter 3 Challenges of Revenue Collection

3-1 Background

In Tanzania, Ethiopia, and Kenya, there has been a decline in revenues in the short and medium terms. This decline has become a concern because of an attention paid to high volume of aid, an emphasis on investment in the social sector and weak economic growth. While it would be unrealistic to expect an increase in revenues at this time, it may be possible to increase revenues to some extent by improving tax collection, for which institutions must be built. It would not be possible for these countries to ensure sustainability without creating an institution that will increase revenues in the medium and long terms in response to an increased aid flow. In other words, if an institution is built which will increase revenues in the long term, it may be possible to justify an increase in aid and aid dependency in the short and

¹⁸ According to this report, predictability will improve if the strict conditions of the donors are relaxed.

medium terms¹⁹.

The three countries are oriented towards increasing their revenues by reorganizing revenue institutions, overcoming heavy dependence on customs duties in tax collection, and activating the private sector to generate business; the main taxes in these countries are expected to be the VAT and the income tax. Once a central tax collection system is established, these tax revenues will get on the right track with normal economic growth. Nevertheless, increasing local revenues is generally difficult because it is difficult to establish a tax collection system even though there are some potentially important sources of revenue such as the building property tax and the land use tax.

Among the three countries, Tanzania has the lowest ratio of government revenues to GDP and Kenya has the highest ratio. However, recent trends in Tanzania and Kenya show some improvement in the ratio. In Tanzania, the VAT is high, and the VAT efficiency ratio (VAT revenue/VAT rate to GDP) is 0.2, which is lower than the SSA average (0.27). In contrast, in Kenya, the ratio of revenues to GDP is high because the informal sector is dominant and the GDP was considered to be underestimated, which caused relative decline in the efficiency of tax collection. Therefore, institutions must be built to ensure effective tax collection, including from the informal sector, and to establish measures against tax evasion²⁰.

3-2 The Current Situation in Tanzania, Ethiopia, and Kenya

3-2-1 Tanzania

Tanzania has a remarkably low ratio of revenues to GDP among all countries in Africa. In FY 2004, the income tax system in Tanzania was amended, and its revenue increase effect is highly anticipated. Many local taxes were abolished in 2003 and 2004, which has led to a concern about the idleness of policy makers. The abolished taxes included a development levy

**Table 3-1 Proportion of Government Revenue to GDP in Tanzania, Ethiopia, and Kenya
(% ; excluding grants)**

	1997-2001	2002	2003	2004 (estimate)
Tanzania	11.2	11.0	11.4	12.2
Ethiopia	18.2	20.0	19.5	18.6
Kenya	24.6	21.0	21.2	22.2
SSA Average	20.0	20.8	21.3	21.9

Note: The SSA average excludes South Africa and Nigeria.

From Regional economic outlook Sub-Saharan Africa, by IMF, 2004, p. 37.

¹⁹ Bevan (2001) claims that there is no short-term solution to the revenue problem and that effective measures must be taken to increase revenue before donor funds start to decrease; he also points out that the revenue problem cannot be solved by economic growth alone.

²⁰ Government of Kenya statement, CG meeting 2003

and taxes on business licenses and natural resource products (the tax rate on crop cess was reduced). There is also a rational side behind the abolition of taxes: For example, the development levy, which was called a “nuisance tax,” cost as much to collect as it produced in revenue. Although the abolition of local taxes reduced the tax burden on the people, it also directly reduced the revenues of the local governments. Approximately half the shortage of revenue was subsidized by grants from the central government, which specified the uses of these grants in various sectors. There is also a view that the fact that CCM (Chama Cha Mapinduzi, the Revolutionary Party of Tanzania) suddenly decided to abolish local taxes, and the central parliament ignored the possible reactions of the local governments; this process in itself symbolizes that CCM and the central government neglected the ownership of the local governments²¹.

One of the factors behind the recent increase in revenues is tax collection efforts by the Tanzania Revenue Authority (TRA). The TRA performance of activities at present has improved substantially compared to that at the end of the 1990s²². After the establishment of the TRA in 1996, the ratio of revenues to GDP increased from 11 percent in 1995/96 to 12 percent in 1996/97, but it declined to 10 percent in the late 1990s and 2000, when corruption involving customs clearance workers was said to increase (Odd-Helge Fjeldstad, 2003: 166). It is interesting to see whether TRA situation has improved with recent efforts aimed at institutional management.

In low-income countries, there is a close relationship between a high tax rate on the one hand and evasion and corruption on the other. It is not impossible to imagine that those who evade import taxes, sales taxes, and corporate taxes bribe tax collectors within the amount of their benefits from evasion. A 1993/94 survey, which became the basis for the establishment of the TRA found that the actual amount of customs clearance revenue lost as a result of evasion was 2.5 times greater than the officially reported amount (Gandhi, et al., 1995: 10). The recovery of taxes by the TRA and the abolition of tax exemption are signs of a positive change; however, the tax rate is still too high, the tax collection system is too complex, and the monitoring and auditing of revenue are too weak.

The abolition of local taxes can be regarded as a populist policy used prior to the election of 2005; the real concern, however, is whether the weakened revenue base of the local governments will improve after the election. The Ministry of Finance is planning to conduct a survey on new sources of revenue in 2004, and it explained to the author that a new tax may be introduced in FY 2005²³. According to the Local Government Reform Team (LGRT) and the Kinondoni Municipal Council, one possibility is the introduction of the land rent tax in urban areas; and also wants to increase the assigned revenue share to local councils.

²¹ Suleiman S.A. Ngware, University of Dar es Salaam 2004.9

²² Stergomena Tax, Economic Social Research Foundation 2004.9

²³ Department of Policy Analysis, the Ministry of Finance, 2004.9

The property tax (which is 10,000 shillings per annum and which is imposed on buildings) has not been used effectively and it is another candidate of revenue according to officials at the Ministry of Finance and the Kinondoni Municipal Council. Whether an effective tax collection system can be established or not is being debated in the central and local policy makers. The future of land rent tax depends on the implementation of the land reform; and property tax needs to fill the gap between its severe content of the law and the actual non-application situation (law is being neglected).

3-2-2 Ethiopia

In 2001, the Ministry of Revenue was created in Ethiopia as part of a structural reform. The new ministry became in charge of tax reforms, which used to be the responsibility of the Ministry of Finance, and later, of customs clearance. As a major tax reform effort, a new income tax law was passed in 2002; the new law established different tax rates and reduced the corporate income tax from 35 to 30 percent and the business income tax from 40 to 35 percent. In 2003, a part of sales tax was abolished and the VAT was introduced²⁴. The main sources of revenue are customs duties and trade-related taxes; the VAT and income tax are new hope. Tax collection was improved in 2002 when major institutional reforms were undertaken, but it has not been stable. First, the government improved some income tax rates to strengthen incentives. Second, the sales tax was replaced with a VAT (15%), and a turnover tax (2%) was introduced in small stores (with an amount of sales lower than 500,000 Birr) to which the VAT did not apply.

These reforms are outlined in the “Tax and Custom Reform Program”, in which the main content is presented in a logical framework (FDR, 2004: 23). There are other institution building activities such as the introduction of a tax payer registration system in 2004, the collection of presumptive taxes from groups from whom it is difficult to collect taxes, the establishment of VAT-related departments, sections, and regional offices, and the management of data by using information technology.

Although the effects of these reforms will become visible in several years, there is no guarantee that revenues at the local level will increase. In Ethiopia, where a relatively high level of revenues has already been achieved in spite of scarce resources, this may not be the time to expect a further increase in revenues²⁵. Ethiopia urgently needs to establish a tax collection system to collect major taxes in urban areas because the disparity between the standards of living in Addis Ababa and in rural areas is very big. In this sense, decentralization at the woreda level may be limited to the development of sustainable activities in local communities over a short-to-medium term because it is not coupled with authority on revenue collection as an outcome of financial decentralization.

²⁴ The VAT does not apply to export, health, education, power, and agriculture.

²⁵ Alexander Y. Kyei, IMF representative 2004.8.

3-2-3 Kenya

There has been a declining trend in the ratio of revenues to GDP since the late 1990s (from 29 percent in 1995/6 to 21.6 percent in 2001/2). This is generally considered, together with a decrease in donor funds, one of the factors that have led to an increase in domestic debt and domestic interest rate, although the latter was also affected by inefficient bank management (IMF, 2003b: 28). Among the reasons behind the low level of revenues are tax exemption and evasion as well as a reduction of the corporate tax and commodity tax²⁶. There are three priorities in ensuring revenue growth—introducing a VAT (with some exceptions), increasing customs duties (the tax rate has been declining), and strengthening a progressive income tax. In FY 2004/5, as a main tax the commodity tax will exceed the VAT (on domestic and imported goods) and customs duties.

The main sources of revenue at the local level in FY 2002/3 were the property tax (25.8 percent), the water and sewage tax (19.4 percent), fees for Single Business Permit (SBP, 14.8 percent; see 4-2-3 for details), and market use fees (6.9 percent). These taxes generated 9.1 billion Kenyan shillings (K.sh.) (MoLG, 2003: 6). Grants from the central government amounted to 3 billion K.sh., and the ratio of grants to local revenues was 3 : 1. The property tax is regarded as a main source of local revenue, and it is expected to increase (Kelly, 1999). By law, the property tax can be imposed on both land and buildings but in reality, it is imposed only on land. The revenues of town councils, which are smaller than municipalities, come primarily from SBP fees, market use fees, and bus parking fees.

In sum, Kenya's main challenges are expanding its tax collection base and improving the efficiency of tax collection including from the informal sector. Kenya used to have more access to foreign currency, more tax revenues, and less international aid than its neighbors. It is interesting to see whether this trend will continue or whether tax revenues will decrease and Kenya will follow the development patterns of its neighbors, with an increase in international aid. If Kenya adopts a development course that prioritizes rural social sectors as did Tanzania and Ethiopia, it will have to increase local revenues in order to build sustainable social services. If Kenya chooses a unique development course that pursues economic growth, it will have to abolish some taxes that hamper economic growth and create a tax system that can redistribute the benefits of growth. At present, Kenya must take steps to prevent its tax revenues from decreasing.

3-3 Future Directions

Two revenue policies are considered important from the perspective of the PRS. First, it is important to increase the revenues of the whole country by establishing an efficient and

²⁶ The ratio of revenues to GDP is the second highest in SSA, after South Africa, but it is seen as a result of the underestimation of nominal GDP (IMF, 2003b: 7).

functional tax system and to promote economic activities and equity. From this point of view, drastic reforms that impede economic activities and related investments should be avoided, and gradual reform goals should be set. Second, the government must disburse local revenues in local areas instead of pumping up these revenues, and it must strengthen the mechanism of redistributing revenues among local governments (the Local Authority Transfer Fund [LATF] in Kenya is the first such mechanism). In the long run, it is crucial to improve the revenue capacity and the reporting system of local governments and to build a financial mechanism that would lead from dependency on aid and central government to self-reliance.

Chapter 4 Decentralization

4-1 Dynamics of Decentralization

When promoting decentralization, the government must take into account the existing political dynamics over resource redistribution in possible collusion between central and local power elites, in addition to practical necessities and the significance of decentralization (Crook, 2003: 86). From the pro-poor perspective, even if an institution has been established to transfer funds to local governments under a decentralized system, it does not necessarily guarantee that the funds will reach final service points. Thus, when the combined reforms of the PRS and decentralization begin to stagnate and services do not reach end users, the public and donors must ask whether this is a result of weak institutions or whether it is an intended distortion by groups with vested interests²⁷. It is vital for the central and local governments in SSA to form a sense of “downward accountability” to the local community including the poor under the PRS framework, although the ideas of democratic decentralization and participatory development will take a long time to take root in African countries.

This argument is related to views that modern nation-states have not been formed in SSA. One such argument centers on a discussion of “the (Neo) Patrimonial State”, and it claims that the roles and responsibilities within governments in SSA are not clearly divided and that political parties are a mere mechanism of connecting certain personal relations rather than a means of advocating clear policies. Nonetheless, it is also true that democratic institutions such as the multi-party system and democratic procedures such as universal suffrage are being introduced in governance in SSA. This means that the emergence of more advanced nation-states is more important than how they are labeled. Decentralization is also a democratization measure, and it can be recognized not only as an external process imposed by developed countries and donors but also as an indigenous process.

²⁷ Groups with vested interests who follow old rules and local government officials constrain the demand for capacity building (Litvack et al., 1998).

Decentralization reforms have increased the revenues of local governments in Tanzania and Ethiopia. However, we need to examine whether the increase was due to an increase in foreign aid or whether it was due to institutional changes²⁸. It is also important to continuously assess whether reforms match the needs of the local community²⁹. Decentralization is a democratic process of resource allocation, when there are a number of poor people and needs for various services in rural areas and they have the right to receive services in an efficient and equitable way. In this sense, there is a close relationship between the progress of decentralization and the needs and requirements of budget support³⁰. Furthermore, the more cross-sectoral the structure of a local government's development plan is, the more appropriate the direct budget support and GBS to local governments are as an aid modality³¹. Therefore, coordination is needed between decentralization and sector programs, which are major components of the PRS, and concrete actions in this direction are now being discussed³².

The strength of the government of Ethiopia lies in its low need for Civil Service Reform (CSR) because of a relatively small scale of the government and its adeptness at implementing various reforms³³. In contrast, the government of Kenya has too many officials, and it must implement its CSRs as part of the PSR (Public Sector Reform) in order to propel the PRS. In Tanzania, the number of public servants was decreasing until FY 2002, but the hiring of more teachers since FY 2003 has reversed the trend. Furthermore, it is unclear how local government officials, teachers, and health workers perform their duties more vigorously. This problem cannot be solved by imposing more conditionality by donors; rather requires the formation of "downward accountability" of local governments to the local community.

In East Africa, there are several types of grants that are provided by the central government to local governments through the mechanism of financial decentralization. The central government imposes a few constraints on the use of these funds. While in the past, grants by sector were the main source of subsidy. This year, in advanced districts of Tanzania, the Government introduced the Recurrent Grant System (RGS), which covers the recurrent budget and is aimed at ensuring flexible execution of funds beyond sector, and the Capital Development Grant (CDG), which injects resources in the development budget. In Ethiopia, cross-sectoral block grants have been the main source of local governments, and the responsibility for their implementation has shifted from regional governments to woreda

²⁸ The proportion of grant in local finance is 82 percent in Tanzania, 70 percent in Ethiopia, and 31 percent in Kenya respectively.

²⁹ Tomoki, Kobayashi, JICA Tanzania Office 2004.9.

³⁰ Joseph N. Mallya, Local Government Reform Team in Dar es Salaam, 2004.9.

³¹ In Tanzania, Northern European Area-based donors plan to shift their resources to GBS in Treasury.

³² This also relates to institutional arrangements of PSR and PFM.

³³ Increase of foreign aid and revenue as well as additional input of human resource is likely to result in expansion of new activities.

Table 4-1 Decentralization in Tanzania, Ethiopia, and Kenya (as of September 2004)

	Tanzania	Ethiopia	Kenya
1. Recent decentralization	Local government reform policy (1998) Legal amendment (1999/00)	Constitution (1994) Woreda decentralization (in 4 regions in 2002)	Draft of constitution (2004)
2. Number of local governments · extended units of central government · basic units · minimum units	· 21 provinces · 114 districts · 10,054 (10,045 villages, 9 towns)	· None · 9 regions and 2 special administrative cities · 612 woredas (districts)	· 8 provinces, 66 districts · 175 (67 counties, 1 city, 62 towns, 45 municipals) · None
3. Selection of chiefs	Election by local assembly	Election by local assembly	Election by local assembly

governments. In Kenya, the number of block grants based on the government revenues is expected to increase through various channels.

Conditional grants have been criticized for being vertical and for taking discretion away from local governments because their use by sector is determined by the central government; still, they can be used in PRS priority sectors to monitor the results by sector and evaluate cost-effectiveness in the budget and aid. In contrast, block grants are more suitable for local autonomy and decision making in the longer term because local governments and bodies can attach a lot of importance to local opinions and discretion, respect individual needs, and can respond to urgent changes in plans. The problem is that unless a reliable monitoring system is put in place, it may be difficult to uncover financial diversion and to evaluate the effectiveness in the short-to-medium term³⁴. Grants should be selected based on the policy environment in, and the capacity of, each country.

Below is an overview of recent trends in fiscal and democratic decentralization in Tanzania, Ethiopia, and Kenya.

4-2 Overview of the Decentralization in Tanzania, Ethiopia, and Kenya

4-2-1 Tanzania

(i) Recent Trends

In 1982, the Local Government Act was adopted in Tanzania (it was amended in 1999/00), and a number of grants were established. Under the Local Government Reform

³⁴ The concrete analysis on grant system is the next round research topic. The analysis here is of tentative nature.

Program (LGRP) initiated in 1996, a local government reform was undertaken in 38 districts in Phase I of the LGRP, and the country was divided into three parts. However, the reform was too radical and it did not go as planned; in June 2002, the program was modified. In the revised LGRP, more time is devoted to particular areas and subjects; the program is to be completed by June 2005.

In 2004, the parliament adopted a new law mandating the unification of fiscal year period between the central and local governments and a revision of the system of grant distribution from the recurrent budget for education and health. As a result, the discretion and potential authority of district governments came to be respected. Also, the Local Government Support Program (LGSP) is currently under preparation; this is a program funded by the World Bank, Ireland, and the Netherlands, for which 121.7 million dollars has been pledged for a period of five years. The Local Government Development Program (LGDP), which was once funded by the World Bank, covered infrastructure area such as local bus terminals and roads between rural cities. In contrast to the LGDP, the LGSP could cover all development plans with a bottom-up approach, and it is a primary source of development budget resources for many local governments.

There has been some progress in the fiscal decentralization of local governments; however, there are still many problems. First, the share of education in the recurrent budget is remarkably high (61.5 percent), followed by the share of general administration (13.9 percent) and that of the health sector (11.9 percent) (GoT, 2004b). The share of other sectors, besides education, in both the recurrent and development budgets has decreased. This means that priority sectors are virtually limited, and that their budget allocation is not built in a balanced way. Second, current reports on disbursement between the central and local governments include too much detail to be handled by the capacity of local governments. Third, there is a lack of data on poverty at the local level at both the planning and reporting stages. District-based data collected after a household budget survey in 2000 do not include data on poverty. The planning and reporting stages of poverty data are being discussed by the Research and Analysis (R&A) Team of the poverty monitoring working group and in PERs, in which local governments now participate.

The relationship between local governments and Area-based development programs also attracts attention. There are 35 donors including NGOs that have taken the area-based approach to promote rural development in districts and at lower levels of government. Bilateral donors now disburse earmarked funds to the Ministry of Finance and not to local governments; at the same time, they promote activities to build the capacity of local organizations. The donors have agreed that by 2008, this approach should become the main approach in the LGSP. This means that each donor's activities in rural development will be undertaken within a framework in which all plans and budgets are controlled by the central government. The advantage of this approach is that it integrates dispersed donor activities,

which are difficult to monitor in the PRS framework, and ensures that they are consistently managed by the central government. On the other hand, there is a risk that the number of programs contributing to local organizations besides local governments may decrease if all financial sources and plans on rural development belong to the local government.

While more developed districts receive more grants, have their own local revenues, and receive LGSP funds, weak districts receive only a small amount of funds. In weak districts, there are few staff trained in participatory planning and appraisal. Personnel training has been conducted by the PORALG (Presidential Office of Rural Administration and Local Government) in 47 districts, but what officers learned has not been realized in their places³⁵. Such disparity in capacity among districts can exacerbate the gap in opportunities.

(ii) Fiscal Decentralization

The main financial challenge is the introduction of a formula-based method for grant calculation; other challenges are the abolition of local taxes and the disparity in capacity among districts. The old formula, for example, used the number of students and enrollment rate as a coefficient for calculating the district budget for education. Because this formula is based on the current situation of service provision and because it allows relatively rich areas such as urban areas to receive systematically more grants than it does rural areas, the pro-poor nature of the framework has been questioned (Boex, 2003: 387). As a result, the government started to discuss the introduction of a new, more equitable, formula.

More basic living conditions have been introduced to coefficients of the formula in the calculating method. In the health sector, for example, weighting scheme of coefficients is 70 percent from population, 10 percent from distance between home and health facility, 10 percent from poverty statistics, and 10 percent from under 5 mortality rate (U5MR). As a result of the calculation, a more pro-poor-oriented resource allocation was developed; however, there has been criticism that the new formula does not reflect the current situation accurately. A fundamental challenge with grants is deciding whether they should prioritize equality or efficiency. In responding to this challenge, it is important to understand that the capacity of local governments in areas with a greater need for equality is low. For this reason, the government developed two transitional grant systems--the Capital Grant (CG) system, which provides general grants, and the Capacity Building Grant (CBG) system, which provides grants for institution and capacity building.

Funds for CGs and CBGs are provided from the development budget under the LGSP. This method has been used to disburse CGs for education and health since July 2004; it will soon be used in other sectors. Conditions for receiving CGs include auditing reports, good progress of activities, and clear plans. Based on these conditions, CGs have been disbursed to

³⁵ Various training programs for local government officials are conducted under the skill training program called Opportunities and Obstacles to Development (O&OD).

47 districts. Twenty five districts, which do not meet these conditions, receive CBGs for capacity building for financial management. The overall grant system is maintained in the recurrent budget (Personnel Emolument and Other Charges) and development budget. Also, there is certain flexibility in budget execution, and cross-sectoral usage is to be introduced in the CG in 2005.

By FY 2004, the Integrated Financial Management System (IFMS) was introduced in 32 out of 114 local governments; this system is to be introduced in 30 more local governments during FY 2004/05³⁶. Although both the IFMS and auditing are indispensable to capacity building of local governments, the present plan may still be ambitious. Because it is districts which are now responsible for development plans, the provinces, which were in charge of local administration until 1998, have shifted their role to monitoring and auditing. Auditing results are reported in the following order: districts, provinces, PORALG, and the Ministry of Finance. To uncover financial diversion and misuse of funds by using a PETS, an auditing system must be established in the Public Financial Management Reform Program (PFMRP).

(iii) Democratic Decentralization

The government advocates devolution as the objective of decentralization. The expression Democracy by Devolution, or “D by D”, has been used frequently. On the other hand, decentralization involves a risk of potential collusion between central and local power elites. Moreover, political motivation to promote bold decentralization emanates from the perspective of ethnicity and religion³⁷. It is unclear to what extent CCM in Tanzania will promote democratic decentralization in the near future. Some local taxes, which were abolished in 2004, were sources of funds used at the discretion of local governments; these revenues, however, were used at the relatively low level of local governments (ward, village and sub-village). Thus, the abolishment did not deal a serious blow to local power elites. Rather, it had an effect of getting support of the incumbent members of the parliament (MPs) in the coming election by reducing the tax burden on the taxpayers. There are enormous anti-taxation sentiments among the population of Tanzania, to which power elites are susceptible; it is hard to expect positive institution building in local society based on the relationship between MPs and local residents.

(iv) Public Expenditure Tracking Survey (PETS)

In Tanzania, a PETS was conducted in the education sector in 2004. It found that in 2004, 85 percent of the development budget and 54-64 percent of the recurrent budget of the central government reached schools (MoF and REPOA, 2004: 54). Within the recurrent

³⁶ Joseph Mallya, LGRT 2004.9

³⁷ District-based decentralization in Uganda and Ghana was effective in constraining the federalist movement of powerful ethnic groups.

budget, 76-86 percent of capitation grants—but only 28 percent of textbooks—reached schools in 2002/3. The amount of money in capitation grants per student that reached schools varied from 1,600 Tsh. (Tanzania shillings) to 8,300 Tsh. 265,000 Tsh. Capacity Building Grant had been promised for each school, but only 50 percent of this amount actually reached schools.

The above results are not impressive compared with those of a second PETS conducted in Uganda at the end of 1990s which found dramatic improvement of service delivery, but have improved since a survey conducted in 2001. The Tanzania PETS suggests that financial resources spread across ministries under the Primary Education Development Program be managed by the Basic Education Development Committee (BEDC). With reference to inconsistency in services as well as leakage, it also recommends that capitation grants be transferred to schools directly from the Accountant General's Office. However, although this is a second survey, it is an important departure, and it should be recognized that just pronouncing the results of the survey is of great value to institution building.

After the PETS conducted in Uganda in the 1990s, the government of Uganda took various counter-measures to improve the system with unfavorable results revealed by the PETS. By improving and combining its PFM, decentralization, and education sector program, Uganda was able to build effective institutions of service delivery and monitoring. In contrast, in Tanzania, the results of the PETS conducted in 2001 as part of the PER were not effectively utilized by the government. The latest survey is expected to help the government improve the system, but the recommendation of the REPOA and government report that funds be transferred to schools directly from the Accountant Generals' Office is similar to the modality of the Free Primary Education Program in Kenya, which bypasses local governments and which delays the process of decentralization.

In Tanzania, there are too many reform agendas including one for decentralization; these reforms are beyond the absorptive capacity of the government³⁸. Direct fund transfer to schools remains unavoidable means of service delivery. However, unfavorable PETS results should not lead to the abandoning of the policy direction itself. Then, what went wrong? Since 2000, the pace of reforms in the LGRP has been slowing down. Although there has been progress in fiscal decentralization, central authority is still strong. Therefore, compromised complex administrative structure and duplication of law articles had to be made³⁹. The complexity made public financial flows non-transparent and local administration weak. In some cases, it will be necessary for the decentralization plan to give way to other valid plans and to wait until the capacity of local governments and organizations is improved.

³⁸ One of the evidence is that LGRP suspended the original time table two years after its start in 2000.

³⁹ The role of central and local governments for using sector grants is duplicated and the status of local government officials is still partly attached to central government.

4-2-2 Ethiopia

(i) Recent Trends

A formula-based grant system is currently being discussed in the parliament in Ethiopia. This system has been used since 1994/5. In 2002, the formula used the weighting scheme to calculate 55 percent for population, 20 percent for development level, 10 percent for poverty level, 15 percent for sector progress level (poverty factors were incorporated into the development level, and the population increased to 65 percent in the formula of 2003). The latest formula is to calculate unit costs by sector as the basis for planning. Based on the unit costs, woreda governments will make an overall plan, which will then be aggregated by the regional government; grants for each woreda will be determined within the budget ceiling set by the regional government with the approval of the regional assembly. In the education sector, for example, appropriate recurrent costs per student will be decided upon and expenditures will be estimated by multiplying the unit costs by the number of students. In the development budget, per-student costs will be calculated based on the expenditures over the last 5 years, which will be multiplied by the number of estimated school-age children.

There are plans to change the grant calculation method from the weight-assigned formula, which is based on several variables, to a method that multiplies the current and future demand of a sector by unit costs. The weight of the population is becoming greater in the previous formulas, and thus, they are more equity-oriented with respect to the future state of development rather than the present state. The new method has different formulas for calculating grants in the recurrent and development budgets, and the development budget prepares for potential capacity of a sector.

55 percent of the national budget is currently disbursed at the regional level; 70 to 80 percent of regional disbursements come from grants from the central government and 20 to 30 percent is generated as local revenue. The government admits that there is a huge vertical imbalance between revenues and expenditures. Woreda governments control 45 percent of expenditures at the regional level. At the woreda level, salaries account for 85 to 90 percent of the budget, and flexible allocation of funds to non-salary items is almost impossible. Because project aid funds—the only funds that can be used flexibly—are transferred to local governments directly, they are not reflected in the government reporting system. To solve this problem, donors must inform regional governments of their projects at the local level. The federal government will then reduce its grants to the regions by an equivalent amount under the newly established “off-set scheme.” The off-set scheme is currently being planned for on-budget programs, and it might include off-budget areas (e.g., donor funds are not registered in the government budget); with this scheme, donors are required to provide the central government with detailed information of projects at the planning stage.

(ii) Fiscal Decentralization

Under decentralization, government funds are first transferred to regions as block grants and then to woreda governments. With this system, it is difficult to monitor original sector plans of the ministries and their fund disbursements. Central sector committees have been given a mandate to assess implemented programs, but their actual monitoring capacity is unknown. Regional governments have been given a mandate to monitor and regulate development and recurrent budgets, sub-category of the recurrent budget, and fund diversion from sector to sector, sub-sector to sub-sector, based on the decisions of regional executive committees and with the approval of the regional assembly. Woreda decentralization, which has been implemented since 2002, has resulted in the transfer of decision-making power not to zones, which are one level below the level of the region, but to woredas, which are two levels below the region.

Because of inaccuracies in collected data, a large number of woredas, and flexibility of block grants, it is not easy for sector ministries to correctly estimate inputs and outputs. The education sector used to consume a dominant share of sector funds; however, local funds for each sector are expected to increase. In this institutional environment, it will be a challenge for the government to change the basis for poverty monitoring by incorporating changes in the original sector plan and budget disbursements. Even if the total amount of sector could be inferred, the government must monitor pro-poor allocation of funds within each sector and conduct detailed analyses of sector disbursements. On the positive side, a donor assistance system led by the USAID has been established in four provinces where woreda decentralization has been undertaken.

Woreda decentralization began in 2002, and capacity building has been progressing rapidly. More funds have been transferred from the recurrent budget to woreda using the new formula, but the development budget is still managed by regional state governments. The administrative capacity of woreda governments is low, and there are not enough skilled personnel and administrative resources available. Regional governments are assisting woreda governments in budget management. Decentralization has been criticized because of insufficient training of woreda governments; its proponents, however, claim that institutional capacity building is impossible to achieve without actual transfer of funds⁴⁰. These two views represent the opinions of aid workers and academics both in Ethiopia and in Japan, but the problem is not so serious as long as the amount of resources given to woredas remains minimal.

Decentralization in Ethiopia is faced with a number of difficulties, and the APR conducted in 2002/03 recognized the difficulties of the transitional period (MoFED, 2003: 25).

⁴⁰ A planning manual on participation of grassroots community organizations was produced, and seven employees from each woreda are undergoing training. Nearly 8,000 personnel have already been trained (APR, 2002/3).

These difficulties include insufficient planning, implementing and reporting capacity of woreda governments, imbalance between revenues and expenditures, and delays in making budgeting and monitoring reports. Regions have responded to these problems and have taken short-to-medium-term measures. The central government and donors have also agreed on the need to improve PFM in woreda governments. There has also been confusion in staff deployment as a consequence of rapid reforms. As a result of transferring staff from zones to woredas, families were separated and were sent to unfamiliar areas. This is a crucial moment for the government, because citizens often lose motivation to support the building of a new institution when radical decentralization reforms fail or when these reforms are repeatedly revised.

(iii) Democratic Decentralization

The ruling Ethiopia People's Revolutionary Democratic Front (EPRDF) has departed from the policy of centralization advanced by the Mengestsu regime and has proclaimed its respect for the independence of each ethnic group in the constitution. Because the EPRDF is an alliance of several ethnic groups, with major groups being minority groups, it delegated political authority to regional governments. In this sense, while decentralization at the regional level was based on the principle "divide and rule", the woreda devolution reform of 2002 is regarded as being ideal, but ambitious. Rural manpower development program has been facilitated rapidly with assistance from central ministries. However, in reality, there are many personal connections between members of local administration and members of the ruling party. Under these circumstances, it is unclear whether participatory planning with a bottom-up approach is possible.

4-2-3 Kenya

(i) Recent Trends

The Ministry of Local Government has a secretariat in the KLGRP (Kenya Local Government Reform Program), which prepares a decentralization reform. At present, the plans and budgets of 175 self-governing bodies of various sizes are not included in the national financial plan. Nevertheless, some district (not present local government) plans such as the one for the Rural Development Strategy (RDS) are included in the national financial plan. 175 Local governments with the elected assembly, make annual fiscal plans and rolling plans for a three-year budget. In making plans, a bottom-up participatory planning approach is used under the Local Authority Service Delivery Action Plan (LASDAP). It should be noted, however, that there has been no clear movement for a fundamental policy change during the preparation of a plan for adopting constitutional amendments. The future of the amendment plan, which is aimed at democratic devolution sought by Uganda and Tanzania, is attracting a lot of attention. This amendment plan assumes four levels of horizontal government (national,

zonal, district, and local), by integrating the present three vertical streams of the governments. After the new constitution has been approved, local government-related laws will be revised, and a capacity building plan will be implemented.

The KLGRP began under the former regime in 1995, which was earlier than in Tanzania. Under the KLGRP, the following reforms programs were implemented:

- (1) Single Business Permit (SBP), which dramatically simplified business permits license systems and eliminated complex bureaucratic assessment;
- (2) Integrated Financial Management System (IFMS), which was introduced in local governments in eight cities and three counties;
- (3) Local Authorities Transfer Fund (LATF) (see the next section), which provides resources to all small, but politically decentralized local governments based on a investment formula established in 1998 that includes such variables as the population. Local governments need to share 10 percent budget of LATF projects from local financial resources; and
- (4) Financial Reform, in which the Ministry of Local Government developed guidelines on the budget ceiling based on actual disbursements to enable provincial financial committees to make budget approval more efficient and timely.

Regarding the service delivery reform in the KLGRP, first, the Ministry of Local Government has introduced a three-year rolling participatory plan as the LASDAP. Local governments make plans for the following year based on both this plan and estimated revenues. Also, a poverty targeting mechanism is set for the poor whom this process regards as a client. The third component is community contracting, for which the Ministry of Local Government has developed guidelines.

(ii) Fiscal Decentralization

To ensure fiscal decentralization, the Local Authorities Transfer Fund (LATF), which returns 5 percent of income-tax revenues to rural areas must be strengthened. This fund provides block grants (BGs) to many sectors, and it does not depend on foreign aid. In this sense, compliance with a progressive system of income taxation, which will be introduced next fiscal year, will be very important. The LATF is expected to increase in the next six years from 5 to 20 percent of revenue, as the income tax is increased.

With the donors' precondition of establishing a financial management and monitoring system, it is important to determine which level of local governments should be given authority to make appropriate policy changes so that local governments could take appropriate actions to keep up with the central government.

(iii) Democratic Decentralization

In Kenya, a constitutional definition of the local government as an organ that promotes sound decentralization, related laws, and organizations should be adopted. It is crucial that clear roles for the four levels of government be specified and a relationship among these levels be determined that would eliminate overlap in responsibilities and make the government efficient and easy to monitor. Advanced implementation of one part of some reforms can be attempted, because institutions for decentralization can be built with political will and some legal revisions even if there are not enough constitutional regulations, as in the case of Tanzania.

The NARC regime pursues democratic decentralization, but there appears to be a conflict within the coalition. It is still unclear whether the draft constitution will be approved in its present form and whether related laws and regulations will have an immediate effect. Also, making local governments independent from intervention by members of the parliament is a challenge. In particular, the current system in which up to one-third of members of a local assembly can be nominated by political parties increases intervention in the local development budget and road maintenance and management projects. Local elections in Kenya have revealed clear support by political parties of multi-party democracy, and assemblies with a majority from opposition parties tend to be disadvantaged in budget allocation. It is important to develop a political process that would make local governments independent to avoid such interference from the legislature.

Since its creation, the NARC has been divided into the National Alliance of Kenya (NAK) and the Liberal Democratic Party (LDP), and there appears to be a serious conflict in the NAK between members of the former Democratic Party of Kenya (DPK) and other groups. Members of both ruling and opposition parties routinely change places depending on the content of discussion. The legal “regulation on party defection”, which was adopted under the Moi regime to restrict the action of opposition parties and the number of groups within the ruling party is perpetuating the form of the NARK regime even after the collapse of cooperative organizations created for the elections, and it has resulted in the impasse of an important function of policy decision-making⁴¹. Nevertheless, policy decisions on dispersion of presidential authority and decentralization may still be adopted, as may a new election system. These changes of political system can be regarded as a revival of “majimboism”, which is a policy of deconcentration of power guaranteed by the constitution at the time of independence. Kenya is at a crossroads, and majimboism can be re-instated in the country after forty years of independence.

⁴¹ The regulation on defection from parties was adopted in 1966 to contain the activities of minority groups in the ruling party.

4-3 Summary

The relationship between the PRS and decentralization is very important and both policy directions are likely to succeed if geared towards each other. Moreover, the progress of decentralization and the growth of the need for budget support are inseparably connected. If foreign aid results in the provision of public services to a wider population, the need for aid through GBS or sector pool funds (budget support) tends to increase. This need is low in middle-income countries. Kenya and the other two countries are low-income countries and their need for service provision may increase as decentralization proceeds. Nevertheless, it is too early to conclude that budget support alone can help develop local communities and build governance widely in these countries. In order for local people to become actively involved in public administration, to realize popular autonomy and to activate private business, it is necessary to build various small-scale institutions and to provide support so that local institutions can be built spontaneously⁴².

Fiscal decentralization poses three risks as well as various advantages. First, there is a risk of encouraging possible collusion between central and local power elites in recipient countries. In this case, while receiving a great amount of foreign aid under the name of the PRS, power elites adopt rent-seeking attitudes, and thus, foreign aid will not be used effectively. Second, although it is usually the case sector ministries do not want to lose their authority over budget allocations to local governments, there is a risk of making existing institutions more complex and delaying reforms as a result of compromise. The government must clarify the prioritized goals of decentralization to bring them in line with other strategic goals, and it must coordinate time framework for decentralized activities with improved capacity of local governments and organizations. As previously noted in the evaluation of PETS in section 4-2-1, the government should not make the grant system more complex. Third, there is a risk of synchronizing the progress of local government empowerment with the increase of aid dependency in rural areas, because the current reform relies on increased assistance from donors. Fiscal decentralization is indispensable to the progress of democratic decentralization, which can easily become stagnant; however, it should include measures to increase revenues of the central and local governments.

⁴² See examples in 2-3. The community has not been established in many parts of Africa. In these areas, only administrative boundary line exists. In Tanzania, village was established in 1975 under Ujamaa movement.

Chapter 5 Tentative Conclusions

As observed in the previous chapters, institutionalization of financial mechanism under the PRS has made some progress and has been built in the area of partnership between the central government led by the Ministry of Finance (and Planning) and donors in Tanzania, Ethiopia and Kenya. Developing a country's own institutions increases aid effectiveness by strengthening the country's sustainable capacity to implement and account for its policies to its citizens and parliament. The collaborating instruments to support these institutions are MTEF and PER originally envisioned by International Financial Institutions, GBS initially promoted by Northern European and British donors, and poverty monitoring systems shared by all essential donors.

There are many problems in the area of institution building such as budget allocation, poverty monitoring, transfer of capitation grants, and accountability building in domestic society. Whether strategic budget allocation is on the right track is unclear even in Tanzania, and a new allocation method called 'cluster' (composition of priority sectors) will be used in PRS II. Other problems are more difficult to deal with in Tanzania. The problems of other countries seem to be in more challenging and complex situations.

In one sense, as the other reforms have been progressed very slowly, the decentralization policy is given great expectation as an accelerator in local development, but often causes friction with other reform programs. Aid modality today has the tendency of centralistic nature and it sometimes does not match well with the slow process of decentralization. Support by local people and local organizations would be the necessary and sufficient condition for balancing all the major reform requirements. The government must ensure that decentralization engages all of citizens, and must satisfy them on the counts of participation by people and accountability of the local governments to people.

The process of institution building for poverty reduction in low-income countries takes time, regardless of whether citizens, who are the beneficiaries of service delivery, and clients have voices over service providers, or whether clients as voters can influence policy makers. In particular, if clients are not aware of their own rights and are excluded from the information on government activities, they will not be able to question why they are not receiving services to which they are entitled. In this sense, it is critical that donors provide grants; governments and consultants implement tracking such as PETSs periodically to improve the financial mechanism, that is, that all the partners determine to find the appropriate financial measures of relieving "the reform congestion" such as PSR, PFM, sector program, rural development and decentralization.

Poverty monitoring faces the same kind of difficulties. Poverty data are cross-sectoral, often collected at the local level. However, sectoral ministries tend to concentrate on their own sectoral issues, and the Ministry of Finance and the National Bureau of Statistics have

had no experience in comprehensive analysis of administrative data on poverty. Moreover, the capacity of local governments that have accumulated enormous amounts of cross-sectoral and cross-cutting data is weak, and much more time and effort will be needed to ensure that policy implementers at the local level understand the policies and programs they implement. Therefore, donors must provide more funds to local governments, parliaments must conduct policy briefings, and the parliamentarians and bureaucrats must ensure poverty monitoring from the central government to final service points.

When considering an appropriate financial mechanism for decentralization, an ideal form of decentralization involves local governments in the preparation of recurrent budgets based on their own revenues and provides assistance from the central government and donors for the development budget. However, in Tanzania and Ethiopia, where many poor people reside in rural areas, the social sector is prioritized under the PRS, and it receives a large proportion of the recurrent budget. The current PRS deconstructs traditional fiscal sustainability of the local governments in the sense that they are assisted even in the recurrent budget by donor funding. The state of affairs could be justified from the poverty reduction point of views, but all the partners need to agree on the long term framework of financial sustainability in these countries.

Although this is the preliminary analysis on East African countries, the implication on Japanese aid could also be considered. In public finance and development projects in developing countries, the Japanese government has long been promoting the idea of self-help. However, when it announced a waiver of debt for HIPC's (and it was the last developed country to do so), the Japanese government changed the original idea that debt should be repaid by borrowers. The change of position automatically requires self-help notion in developing countries to be firmly established through a policy dialogue under the PRS. As a logical conclusion, the Japanese government should promote the developing countries' development of a sound macro revenue structure within the PRS framework.

Japan is different from other developed countries and from international organizations in that it is the only donor that does not stipulate detailed conditionality for aid; this policy style should be appreciated and continued, but Japan should also participate in discussions on the macro and revenue policy in a more positive way. The fiscal and financial sustainability in developing countries should be further studied in Japan in the near future. Donors other than IMF should pursue an active dialogue on the revenue policy with developing countries, and donors' project-type assistance should be oriented towards policy support and programs to increase revenues.

Finally, in the PRS process in three countries, domestic accountability is still weak. The APRs, which are low income countries' periodic reviews of progress in implementing the PRS strategies, do not play an important role at present. What was originally expected of the APRs is unclear—it has become a ceremony conducted before donors agree to provide an

enormous amount of financial resources. Currently, APRs do not function as a guide in the PRS process of institution building. Because the PRS process is effective for partnership with donors and not so effective for institution building in domestic society and especially in local communities, APRs should be more actively used to ensure government accountability to citizens rather than to donors. APRs should be used to openly discuss the relationship between the PRS process and domestic constraints including political elements in both the parliament and the media.

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