

**Educational Finance and Poverty Reduction:
The Cases of Kenya, Tanzania, and Ethiopia**

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1. Introduction

In the late 1990s, the World Bank and the IMF started to require the preparation of Poverty Reduction Strategic Papers (PRSPs) by the Heavily Indebted Poor Countries (HIPCs) as a condition to relieve these countries of the accumulated debt resulting from loans provided by development partners (donors). Since then, many HIPCs – most of which are in Africa – have prepared PRSPs, and poverty reduction has become a core objective of national development in these countries. Once the PRSPs have been approved by the World Bank, the IMF, and the aid community, the government will not only be relieved of its debt but it may also receive increased foreign assistance in a number of important areas. Under the Poverty Reduction Strategy (PRS) framework, the social service sectors, especially basic (primary and lower secondary) education and primary health care, receive prioritized resource allocation and strategic emphasis by the government and development partners. For example, the Fast Track Initiative (FTI) is a form of focused assistance by the aid community in the area of education. It was launched in 2002 to help selected countries (18 first group countries and 5 “reserved” countries) achieve universal access to primary education by 2015. Sixteen of the 18 first group countries are HIPCs, and 11 of them are located in Africa. To qualify for FTI assistance, a country should have completed its PRSPs and established an educational sector-wide program (SWAP) – a comprehensive program based on the sector development policy. Therefore, in Africa, the HIPCs, which have already prepared or are currently preparing their PRSPs, have put emphasis on education, especially primary education, as a priority sector for poverty reduction; these countries currently receive increasing amounts of foreign assistance in priority sectors including education.

Two of the countries which the current paper looks at – Tanzania and Ethiopia – were nominated for FTI assistance; these countries already have educational (sub-)sector-wide programs (SWAPs) in place. Another country visited – Kenya – is a slightly different case. Although it is also a HIPC, the international assistance community decided it doesn’t qualify for debt relief.¹ Also, a long history of corruption makes development partners reluctant to commit to this country financially. Given such conditions, Kenya’s education sector has developed with less external influence. Development partners and the Kenyan Ministry of Education, Science and Technology (MOEST) are currently negotiating to develop an education sector program. Even though the process is slower than in Tanzania and Ethiopia, in Kenya, too, education has been given top priority. The Free Primary Education program, which was enacted in January 2003, is a transitional arrangement until the sector development plan will be prepared and the educational SWAP will be enacted based on the development

¹ The loan repayment schedule was relaxed by the Paris Club, the forum of multilateral and bilateral creditors.

plan. The educational policies of these three countries are heading in a similar direction: a greater emphasis on primary education as a pro-poor sub-sector in the area of education. At the same time, each country has adopted its own framework for the education (sub-)sector program differently, depending on the structure of educational administration, the government's attitude toward development partners, the country's political environment, the level of educational development, and other factors.

The purpose of this paper is to investigate the changes and continuities in the education sector in Tanzania, Ethiopia, and Kenya under the PRS framework in order to determine, from the point of view of educational finance, how efficiently and effectively an increased spending on education has contributed to reduce poverty and achieve better educational outcomes. Education has its own objectives, the most basic of which is to increase the knowledge level of the population. At the same time, under the PRS framework, it is also seen as a means to alleviate poverty. This paper investigates whether increased public spending on education has benefited the poor in these three countries; it also looks at the relationship between increased spending and the outcomes of education.

The next section gives an overview of the education sector programs in the three countries (in the case of Kenya, a SWAP-preparatory program) and describes the different modalities used in these countries to involve development partners. I then discuss the question of efficiency in the financial flow from the Ministry of Finance and Ministry of Education to the local governments and schools. Issues related to educational finance, such as decentralization, teachers' salary, and household expenditures on education will also be discussed. I will also consider the issue of equity in distributing public resources and the effects of greater financial commitments of the governments on the quality of educational service delivery.

Given that I spent only one week in each country, this analysis relies mostly on secondary sources as well as on a small number of interviews. Because it takes time for educational changes to become visible, it is too soon to judge the impact of the sector program approach and other aid modalities on the quality of education. Therefore, the analysis presented here is not conclusive; rather, it is an attempt to shed light on important issues which need to be addressed in order to achieve educational objectives and poverty reduction.

2. Education Sector Programs in Tanzania, Ethiopia, and Kenya

2-1. Tanzania

As shown in Table 1, the second phase of the Primary Education Development Program (PEDP, 2001-2006) is currently underway in Tanzania. This program is a

sub-sectoral SWAP, under which development partners and the government work in partnership, following a sub-sector five-year development plan. The goals of this program are to improve access to, and the quality of, primary education and to strengthen the capacity of the Ministry of Education and Culture (MOEC) to plan, manage, and provide educational services.

Tanzania is known for its thoroughness in adopting various public sector reforms and new modalities to deal with development partners. Tanzanian government takes the cause of SWAP-approach so seriously, which is to minimize the time and administrative burden by harmonizing the funding procedures of development partners contributing to the PEDP. This attitude of the government has often caused intolerance to foreign assistance whose procedure is not harmonized – especially those in the form of project, which are not incorporated into the government structure financially and operationally. Those who provide assistance in the form of stand-alone projects or thematic initiatives (e.g., United Nations Children’s Fund (UNICEF)’s global initiative for girls’ education) tend to be viewed as uncooperative. Here, the term ‘donor coordination’ is synonymous with the harmonization of funding procedures. Those who do not participate in pooled funds or direct budget support do not find their efforts appreciated. Development partners who signed the Memorandum of Understanding with the government for the PEDP pooled fund include Canadian International Development Agency (CIDA), the Netherlands, Norwegian Agency for Development Cooperation (NORAD), Swedish International Development Cooperation Agency (SIDA), Ireland, Finland, Belgium, France, and the European Union (EU). The U.K .Department for International Development (DfID)’s position is that by providing direct budget support to the Ministry of Finance, it supports PRSP priority areas including basic education.

Another sub-sector program – the Secondary Education Development Program (SEDP) – began in 2004. This program is led by the World Bank. Other development partners are not keen on following their suit, and there has not been much progress in the implementation of the SEDP as of February 2005.

2-2. Ethiopia

In contrast to Tanzania’s ESDP II, Ethiopia’s Education Sector Development Program (ESDP) covers the whole education sector. The first phase of this program began in 1997, before the border conflict with Eritrea (1998-2000). However, during the conflict, many development partners withdrew their assistance. In 2002, as these development partners came back, ESDP was re-launched. The Ethiopian government and its officials are notorious for their toughness in negotiation. In a way, this toughness is interpreted as a sign of strong ‘ownership’ by the Ethiopian government of its policy making. However, in my interviews in Ethiopia, the staff of the development partners complained about the Ethiopian government’s

stubbornness and unwillingness to listen to useful recommendations. The World Bank's review of the ESDP also reports cases of difficult negotiations (The World Bank, 2001a, pp. 95-106).

Ethiopia's ESDP emphasizes technical and vocational education and training (TVET) and tertiary education, which is in marked contrast to Tanzania, whose program is focused exclusively on basic education. Although the benchmark allocation of public funds to the primary sub-sector, suggested by the international aid community to qualify for FTI assistance, is 67% of the total education budget, in Ethiopia, the percentage of resources allocated to primary education has been decreasing since the beginning of the ESDP (see Figure 1). (The actual amount of budget resources is increasing, as does the allocation of funds to the education sector as a whole). Generally, investments in TVET are costly, and it is difficult to catch up with changes in the labour market. Furthermore, it is unclear whether Ethiopia's focus on TVET and tertiary education is based on an analysis of the absorptive capacity of the labour market. This is one of the reasons behind the reluctance of the World Bank and some other development partners to support the government's policy to strengthen TVET. This is also the reason for the tough negotiations between Ethiopian government and these development partners.

Ethiopia's ESDP accepts foreign assistance through three channels. The first channel is the Ministry of Finance and Economic Development (MOFED), which accepts both earmarked and non-earmarked funds. The second channel is line ministries (including the Ministry of Education). The assistance through this channel does not go through the budgeting process of the MOFED. The third category is the assistance in the form of projects whose funds are appropriated as part of the development budget of the government but which are handled by independent project implementation bodies. In addition to assistance through these official channels, there are projects run by NGOs whose budget is not included in the government budget (the so-called off-budget projects). According to one source at the Oromia Regional Education Bureau, aside from bilateral and multilateral donors, more than 60 NGOs run independent projects outside the governmental structure in this region. In December 2004, the Ethiopian government (MOFED and MOE) signed a memorandum of understanding with a group of development partners (the Netherlands, Ireland, Belgium, SIDA, Finland, and the DfID) for a pooled fund for teacher education. This pooled fund is an example of support through the first channel.

2-3. Kenya

Since the National Conference on Education and Training in November 2003, the Ministry of Education, Science and Technology (MOEST) has been preparing the Kenya Education Sector Support Program (KESSP) in collaboration with development partners. Six

taskforces have been organized and are working on draft reports on the current situation and issues as the basis for the education sector development plan. The six areas under study are: (1) educational statistics, costs, and finances; (2) increased access to basic education; (3) education sector management; (4) quality of primary education and improvement of the retention rate; (5) expansion and improvement of secondary education; and (6) preparation for future investments in TVET. In mid-September 2004, the first Joint Review Mission (JRM) was dispatched with representatives of the development partners and MOEST to monitor educational progress in different parts of the country. The goal of the JRM was to evaluate the Free Primary Education Program – a transitional program to a full SWAP – and to prepare for the KESSP.

The development partners which lead others in the development of the SWAP in Kenya's education sector are the World Bank and the DfID. They are also planning to create a pooled fund specifically for primary education. Because of corruption, development partners are reluctant to commit to general budget support in Kenya, and even those who are oriented toward budget support – the WB and the DfID – do not plan a fast transition. Therefore, most foreign assistance in Kenya's education sector comes in the form of projects. More than 90% of the development budget of the MOEST in 2002 (approx. 8500,000 Ksh) was assistance in the form of projects. Development partners active in the education sector include the World Bank, World Food Programme (WFP), U.S. Agency for International Development (USAID), Organization of the Petroleum Exporting Countries (OPEC), UNICEF, DfID, Japan International Cooperation Agency (JICA), EC, Belgium, African Development Bank (AfDB), SIDA, CIDA, Italy, and Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ: German technical cooperation agency). JICA has a successful secondary-level in-service teacher training project (SMASSE: Strengthening Math and Science in Secondary Education) in Kenya, and it has a large presence in the region. It is co-chairing a donor meeting together with the DfID.

Table 1: Education sector in Tanzania, Ethiopia, and Kenya

	Tanzania	Ethiopia	Kenya
Coverage of Education Sector Program	PEDP (primary education) (2001-) - harmonization of fund disbursement procedure is advancing rapidly SEDP(secondary) - will start within FY2004	ESDP (sector-wide) (2002)	Under preparation
Aid modalities in education sector programs	a. General Budget Support b. Sectoral Budget Support (SEDP) c. Pooled Fund (d. Projects)	a. General Budget Support b. Pooled Fund c. Projects	Under preparation (at this moment almost all external assistance is in the form of project)
Abolition of primary school fees	2001	has always been free	2003
Education expenditure as percentage of GDP	see Table 2		
Share of primary education in the recurrent expenditure on education (FTI benchmark: 67%) (see Figure 1)	60.3% (1999/00)→71% (2002/03) ³	66.7% (1996/7)→54.4% (2001/02) ⁸	55.6% (1996/7)→57.76% (2000/01) ⁹
Gross Enrolment Rate (GER)	70% (1990)→70% (2001) ² (According to PEDP report, after the abolition of school fees in 2002, GER increased by around 30%) ⁴	33% (1990)→62% (2001) ²	95% (1990)b →88% (2000) →104% (2003) ⁵
Percentage of female students in the total enrolment	48.2% (2001) →48.5% (2003) ⁴	39.8% (1990) →40.6% (2000) ¹	48.7% (1990) →49.5 % (2000) ¹
Pupil-teacher ratio (PTR)	46 (2001) →57 (2003) ³	36 (1990) ¹ →65(2001) ⁶	31 (1990) ¹ →33 (2000) →39 (2003) ⁵
Primary completion rate	54% (2001) ⁷	46% (2001) ⁷	45.8 (1989)→57.0 (2003) (8th grade) ⁵
Japanese assistance in education sector (as of FY 2004)	School mapping/micro-planning (Phase II completed, final report under preparation as of March 2005) (JICA-development studies)	Participatory Basic Education Improvement Project (Nonformal education in Oromia region(JICA-technical cooperation project) (2004-on-going)	Strengthening of Mathematics and Science in Secondary Education Project (SMASSE) (JICA-technical cooperation project) (Phase II on-going)
	Education sector coordinator (donor coordination)	Education sector coordinator (donor coordination)	African Institute for Capacity Development (JICA-technical cooperation project and in-kind assistance) (on-going)
	Primary school building construction in Dar es Salaam city (in-kind) (completed)	Equipments for distance learning (in-kind and dispatch of experts) (on-going)	Several technical cooperation projects in higher education in the past
		School mapping/micro-planning in Oromia region (Jica-development studies) (agreement signed)	

Note. 1 – From *EFA Global Monitoring Report 2003/4*, by UNESCO, 2004.

2 – From *World Development Indicators*, by the World Bank, 2004.

3 – From *Tanzania public expenditure review FY 03*, by the World Bank, 2004.

4 – From *Joint review of the primary education development plan (PEDP): Final report*, by United Republic of Tanzania, 2003a.

5 – From *Kenya: Strengthening the foundation of education and training in Kenya*, by the World Bank, 2002.

6 – From *Education in Ethiopia: Strengthening the foundation for sustainable progress*, by the World Bank, 2004a.

7 – From *Human development indicators*, by UNDP, 2004.

8 – From *Ethiopia focusing public expenditures on poverty reduction*, by the World Bank, 2001c.

9 – From *Public expenditure review 2003*, by Republic of Kenya, 2003.

3. Educational Finance

3-1. External Influences and Priority Setting

In Table 2, the difference between the budget deficits before and after the foreign-assisted grants shows the size of foreign assistance spent to cover the government budget deficit. The bigger the difference, the more the government depends on foreign assistance to meet the basic requirements to maintain its structure. Even though there are year-by-year fluctuations, one can observe some characteristic patterns in each country. Of the three African countries, Kenya is the least aid-dependent, probably because of the reluctance of development partners to make financial commitment to this country. The difference between the deficits before and after the grants was less than 1% of GDP in 1997, 1998, 1999, and 2001; the maximum aid dependence was 2.85% of GDP in 2000. Tanzania is the most aid-dependent country, and its dependence is increasing. The budget deficit covered by foreign assistance in this country increased from 2.7% of GDP in 1997 to 4.5% in 2002. Ethiopia's dependence on external assistance is also growing, although to a lesser extent than that of Tanzania (from 1.5% of GDP in 1997 to 2.7% in 2002). It is difficult to estimate the exact amount of foreign assistance directed to the education sector, especially since there are many off-budget resources flowing into the sector. However, in the case of Tanzania and Ethiopia, whose PRSPs indicate education as a priority sector, it would be safe to conclude that the general patterns in relationship with external assistance also apply to the education sector.

In this vein, Kenya is an interesting outlier. Even though it is least dependent on external assistance, it has devoted a considerably greater proportion of public expenditures to education than the other two countries. Kenya also has a slightly different pattern of resource allocation among the sub-sectors of education than the other two countries. Kenya allocates less to primary education and more to TVET and secondary education (see Figure 1). This pattern may indicate the kind of choices in the education sector a government would make when there is less external interference.

Both Tanzania and Ethiopia have been increasing public expenditures on education in the past few years. Within the education sector, the priority is clearly on primary education. In Tanzania, allocations to primary education increased from 60.3 to 74.7% of total educational expenditure between 1999/2000 and 2000/01, and they remain at a level above 70%. Ethiopia also allocates a large proportion of funds to primary education. The difference between Ethiopia and Tanzania is that Ethiopia has recently increased its allocations to tertiary education and TVET and reduced its allocations to primary education. The Ethiopian government has shown strong will to promote TVET and tertiary education, even though it had to face rather strong opposition from the World Bank and some other development partners.

Table 2: Foreign assistance and public expenditure on education

	GDP real growth rate (%)	Budget Deficit as % of GDP		Educational expenditure (as % of public expenditure)	Ed expenditure (as % of GDP)	
		Before grants	After grants			
Kenya	1997	2.4	-2.45	-1.61		
	1998	1.8	-0.15	0.52	36.90	
	1999	1.4	0.43	0.97	37.10	6.2
	2000	-0.2	-4.8	-1.95	29.10	5.8
	2001	1.24	-3.17	-2.43	31.70	6
	2002	1.12	-3.36	-1.75	28.70	6.8

Note. From *Public expenditure review 2003*, by Republic of Kenya, 2003.

Tanzania	1997	3.3	-1.7	1		
	1998	4	-2.3	0.3		
	1999	4.7	-3.1	-0.9	26.40	3.1
	2000	4.9	-5.8	-1.6	21.60	3.3
	2001	5.7	-4.5	-1	27.02	3.4
	2002	6.2	-4.9	-0.4	28.34	4.4

Note. From *Tanzania public expenditure review FY 03*, by the World Bank, 2004.

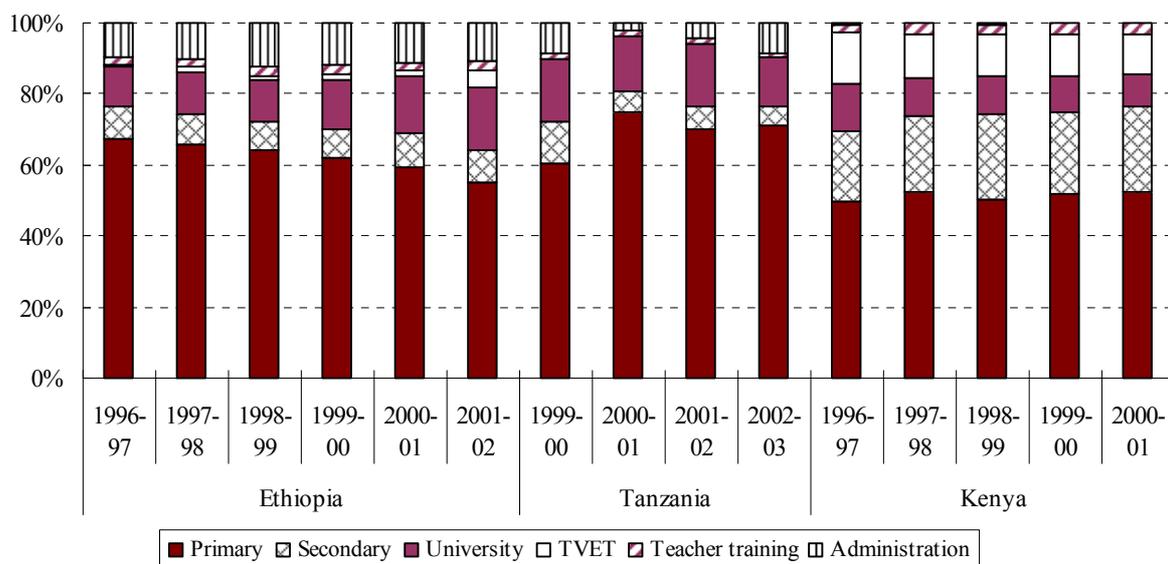
From *Joint review of the primary education development plan (PEDP): Final report*, by United Republic of Tanzania, 2003.

Ethiopia	1997		-2.1	-0.6		
	1998		-3.2	-2	11.50	3.5
	1999	0	-6.3	-4.5	9.60	3.2
	2000	2	-7.7	-6	13.90	4
	2001	7.3	-5.6	-3	17.00	5
	2002	5.5	-7.7	-5		

Note. From *Ethiopia focusing public expenditures on poverty reduction*, by the World Bank, 2001c.

GDP real growth rates are from World Factbook, CIA, 2004.

Figure 1: Share of recurrent expenditure by sub-sector



Note. From *Tanzania public expenditure review FY 03*, by the World Bank, 2004.

From *Ethiopia focusing public expenditures on poverty reduction*, by the World Bank, 2001c.

From *Public expenditure review 2003*, by Republic of Kenya, 2003.

From *Education Sector Development Programme (ESDP): Consolidated National Performance Report, 2002/3*, by the Ministry of Education, Ethiopia, 2004a.

In a way, the overall level of aid dependence and the patterns of prioritization among the educational sub-sectors reflect the magnitude of external influence behind the decisions about policy and resource allocation. Tanzania, which is most rapidly increasing its reliance on foreign financial assistance, does not confront external agencies and adopts the prescribed modalities and SWAP most faithfully. Ethiopia, which is said to express strong ‘ownership’ of policies and which does not easily succumb to external pressure, depends less on foreign assistance than does Tanzania. The controversy here is that although the international aid community states that it welcomes the expression of ‘ownership’ by the governments of the recipient countries, the expression of ‘ownership’ may mean non-compliance with the prescriptions of the funders.

3-2. Practicability of Financial Plans and Efficiency of Distribution

The three countries commonly allocate a large proportion of public expenditures to the education sector. However, even if there is prioritized budget allocation at the stage of policy-making, unless it is executed as planned and the funds are distributed to the end beneficiaries of the educational system, the effects of increased resource allocation would still be limited. At the central government level, the smaller the gap between the budget and the actual spending, the more accurate the implementation of the plan. However, when the gap is big, there is a high probability that the policies expressed in the PRSP and Medium-Term Economic Framework (MTEF) are at variance with the actual implementation. Also, across different cost items, there are wide variations of the level of budget execution, which implies the imbalanced implementation of policy intentions. Furthermore, there are many instances when local spending units such as regions, districts, and schools, do not spend funds on indicated purposes. There could be many reasons for such re-appropriation (or mis-appropriation) including corruption, inappropriate accounting and reporting, and the emergence of urgent needs for funds. In any case, the bigger the leakage, or deviation, of funds in the process of fund allocation from the centre to the actual spending units, the less efficient the financial flow. When there are many vectors between the centre and a spending unit, the efficiency varies according to the degree of accountability and the capacity of the central and local government bodies (Reinikka & Smith, 2004).

3-2-1. Practicability of Financial Plans at the Centre

This section compares the budget and the actual spending on education in the three countries. In Ethiopia, the recurrent budget is spent nearly 100%, and the development budget is spent 55%. Public Expenditure Reviews cite a low level of execution of grants from development partners as a main reason for the low execution rate of the development budget

(The World Bank, 2004b, p.44; 2001c, p.25). Foreign assistance funds except for those deposited directly into the MOF account (general budget support) are included in the development budget.² The budget for primary education, a sub-sector which is highly aid-dependent, was executed only 66% in FY 2003, but the level of budget execution for less aid-dependent sub-sectors was higher (secondary, 88.2%; tertiary, 89.2%) (The World Bank, 2004b, p. 48). In Tanzania, low execution of foreign assistance funds was also observed in the PEDP. While the government budget was executed 88-89% between 2002 and 2004, the assistance funds were executed 65, 74, and 72% in 2002, 2003, and 2004, respectively (REPOA & the Ministry of Finance, 2005, p. 12). It is unclear, however, which side of the actors – the development partners or the government – is responsible for this low execution rate. In Kenya, the recurrent educational expenditures exceeded the budget by 111% in 2003-2004. Half the ministries spent more than 100% of the budgeted recurrent expenses, while some ministries (e.g., the Ministry of Agriculture, Environment and Water Resources and the Ministry of Civil Work) spent as little as 50% of the budget. On average, the recurrent budget of the Kenyan government is executed 99% (The World Bank, 2003, p. 160). Although the execution rate of the educational development budget is lower than that of the recurrent budget (76%), it is higher than the average execution rate of development budget for all the ministries (41.4%). Educational services are labour-intensive, employing many teachers; the majority of recurrent expenditures are spent on salaries. At the same time, because the payment of salaries is at the heart of accountability between the government and teachers, the level of execution of budgeted ‘personal emolument’ funds is high. The issue of teachers’ salaries will be discussed in greater detail later.

Public Expenditure Reviews in Ethiopia and Tanzania point to a big gap between the mid-term budget plan in the MTEF and the actual budget prepared each year in these countries. One reason for this gap is that the government’s plans – such as MTEF and PRSP – exceed its capacity to finance the planned activities and to absorb foreign assistance (GOE, 2004; GOT, 2003a). In the case of Ethiopia, whose plans are too unrealistic, the PER has suggested that the country narrow its strategic focus, for example, to the provision of universal access to the first cycle (four years) of primary education instead of to all eight years, or to reaching only the “accessible poor” living in relatively highly populated areas which are close to cities (GOE, 2004, pp. 24, 48).

3-2-2. Efficiency of Resource Distribution

The financial flow does not end with the execution of the budget at the Ministry of

² This way, the items which are generally considered recurrent, such as the cost of teaching and learning materials or maintenance of facilities, are included in the development budget when they are funded by development partners.

Finance. There is still a long process to follow to direct allocated funds from the centre to spending units at the local level. A recent trend in educational finance in low-income countries is to disburse the funds for teaching and learning materials and for the maintenance of facilities directly to schools (or as close as possible to schools) in the form of capitation grants³. This approach is used to reduce the number of intermediaries, and it reflects the realization that vertical disbursement from the centre has been a cause of financial leakage and that in many cases schools could receive only a small part of the funds they were entitled to. This approach to school-based financial management delegates the authority for decision-making to the schools, and it is considered effective in meeting the needs of the end users of educational services. The DfID is a strong promoter of direct disbursement to schools in the three countries studied. It is a way to ensure that its financial support at the macro level reaches the end beneficiaries and contributes to alleviating poverty. In other words, the DfID tries to increase the impact of its assistance at the macro level by supporting also the development of the capacity of schools as spending units and monitor the flow of funds.

In Tanzania, Public Expenditure Tracking Surveys (PETS) were conducted to assess the amount of resources directed from the centre to the schools (REPOA & the Ministry of Finance, 2005; REPOA & the Economic and Social Research Foundation, 2001). The surveys have shown that the government has failed to unify the management of the PEDP funds in the Basic Education Development Committee and that the funds are disbursed through three channels: the Ministry of Finance, the Ministry of Education and Culture, and the President's Office – Regional Administration and Local Government (PO-RALG). In addition, the funds from the PO-RALG are disbursed either through regions or directly to the district councils. Such diversity of disbursement routes and different schedules of disbursement among different channels cause misappropriation and misreporting at the local level (REPOA, 2005, pp. 24, 33). In Tanzania, some part of the capitation grants is disbursed to schools as cash and part is retained by the district councils to procure textbooks.⁴ In 2002, 50% of the capitation grants disbursed from the centre were recognized at the schools and recorded. In 2003, this figure increased to be 68%. However, when the disbursement of capitation grants is broken down into the parts of cash disbursements and in-kind provision (e.g., textbooks), it becomes clear that while cash reaches the schools at a rate of 80% (after an average of two years), textbooks reach the schools at a much lower rate. In fact, it is reported that after the beginning of the PEDP and despite increased enrolment, the number of textbooks per student has decreased (REPOA, 2005, p. 42).

³ A capitation grant is calculated by multiplying the per-pupil cost by the number of pupils in each school, and it is disbursed to the school as a gross amount. For example, in Tanzania, the capitation grant per pupil is \$10 including the cost of textbooks and school maintenance.

⁴ From FY 2004/05, schools receive the full amount in cash and procure textbooks by themselves. But at the time of the PETS survey, textbooks were still procured by the district councils.

PETS in the education sector in Kenya are still in the preparatory stage. At the 279 schools surveyed, 20% of all registered teachers are ghost teachers, and the leakage in the disbursement of personal emolument funds is high (Nafula Kimalu, Kiringai, Owino, Manda, and Karingi, 2004, p. 49). On the other hand, Nafula, et al. claim that there is no leakage of funds other than personal emolument funds, because all other funds are disbursed directly to schools (pp. 52-3). However, it is unlikely that there is no leakage at all. Also, from the interviews I conducted at the MOEST and Ministry of Local Government, I assume that the disbursement mechanism of educational funds should be much more complex than all funds other than teachers' salaries are sent directly to schools. It is hoped that an earnest PETS will present more detailed picture of financial flow in Kenyan education sector.

In Ethiopia, schools must have two bank accounts, one for teaching and learning materials and the other one for facility maintenance. However, in reality, many schools have only one account, for teaching and learning materials, which is closely monitored by the Dfid. What is noteworthy about Ethiopia is a report claiming that there is very little leakage and misappropriation of resources (The World Bank, 2004b, p. 25). It is also said that teachers' absenteeism is almost non-existent in this country. This can be attributed to the high accountability of teachers and educational administrators. There is no way to prove this claim, though, because no PETS have been conducted in Ethiopia.⁵ Ethiopia's management of educational resources is the most decentralized among the three countries. For example, the ratio of central to regional educational expenditures in 2003/04 was 34:66 (The World Bank, 2004b, p. 35). However, capitation grants are unlikely to be included in the regional expenditures because they are directly disbursed from the centre to the schools. Therefore, the centre-region ration provided in the Public Expenditure Review does not necessarily provide the comprehensive picture of the decentralization in educational finance.

In all the three countries, the route of disbursement is multiple, and it is difficult to grasp the whole picture of educational finance. Even so, the PETS conducted in Tanzania show that the leakage of funds has decreased between 2002 and 2003. This means that close monitoring and guidance of financial management at the district and school levels can improve the efficiency of the flow of financial resources. However, at the local level, education offices often appropriate resources across budget items to meet urgent financial needs such as school construction. For example, the PETS conducted in Tanzania show quite a few cases of over-appropriation of development grants for school construction and under-appropriation of capitation grants. The policy to decentralize authorities for decision-making and financial management to allow more flexibility in the field can sometimes contradict to the demand for efficiency in financial management (REPOA, 2005, p. 58).

⁵ According to the Global Corruption Report, the rating of Ethiopia is declining. This could affect the efficiency of educational financial flow, too, as corruption will increase the leakage in the process of disbursement (Transparency International, 2004).

Also, the current drive to maximize the amount of resources to be received by the schools may weaken local educational administration. Currently, the districts have a limited budget under their discretion. Salaries account for the majority of recurrent expenditures allocated to local governments, while the non-salary recurrent budget, which can be spent on transportation or equipment to monitor and maintain educational service delivery, is marginal. The absence of a development budget makes it impossible for the local governments to attend to the educational needs of the population which does not have access to schools. The disbursement of more grants to existing schools does not necessarily ensure equity. Schools with higher enrolment receive more capitation grants, while smaller schools or remote areas which do not have schools are left at the mercy of the local governments. However, when local governments do not have enough development grants, they cannot open new schools or extend educational services to populations which are not currently served. Also, many development partners such as the DfID direct capitation grants to the provision of teaching and learning materials; this means that school maintenance still tends to rely on contributions from parents and communities. I will later discuss the high private cost of education, which is expensed by households.

Furthermore, the extent of resource leakage varies across districts and schools (REPOA, 2005, p. 37). According to Reinekka and Smith, this is because of the difference in the districts' and schools' ability to collect information and negotiate with the external bodies including the government education offices (pp. 39-40). Bigger schools have bigger PTAs, which can formulate the wishes of the whole organization and appeal to the outside world. With such PTAs, district education offices are more accountable than with small PTAs, and there is less leakage in disbursement. Reinekka and Smith also pointed out that when the average household income increased by 10%, the leakage of resources to schools decreased (p. 40). If the size of the schools' and parents' income affects the effectiveness of the flow of public expenditures, as Reinekka and Smith suggest, more detailed studies should be conducted of the financial flow and its leakage to make public expenditure on education pro-poor.

3-3. Teachers' Salary

In all the three countries visited, teachers' salary constitutes the lion's share of recurrent expenditures. In both Kenya and Tanzania, it makes up approximately 80% of recurrent expenditures (Kenya, 78% in FY 1997/98; Tanzania, 81% in FY 2003; no data were available for Ethiopia) (The World Bank, 2002; Lambert and Sahn, 2002, p. 128). Because of the expansion of basic education, the gross salary bill is increasing in all the three countries. At the same time, an individual teacher's salary in these countries is not low compared to that of other public servants. For example, in Ethiopia, the salaries of non-teaching staff in

primary education average 3.7 times the per capita GDP, whereas teachers receive between 6.8 and 8 times the per capita GDP. In secondary education, the non-teaching and teaching employees' salaries is 4.6 times per capita GDP and 11.8 times per capita GDP respectively (see Table 3).

It is well-known that in Kenya, teachers' salary is high. According to the World Bank (2002), teachers' salary tripled between 1995 and 2000; teachers in Kenya currently enjoy the highest salary among all public servants.⁶

Table 3: Average annual salary of teachers (in multiples of nominal per capita GDP)*

	First cycle of primary education (grades 1-4)	Second cycle of primary education (grades 5-8)	Secondary education (grades 9-12)
Ethiopia	6.8	8	11.8
Kenya	6		9

Note. *Including basic salaries and allowances
 ** No comparable data are available for Tanzania.
 From *Kenya: Strengthening the Foundation of Education and Training in Kenya*, by the World Bank, 2002.
 From *Education in Ethiopia: Strengthening the Foundation for Sustainable Progress*, by the World Bank, 2004a.

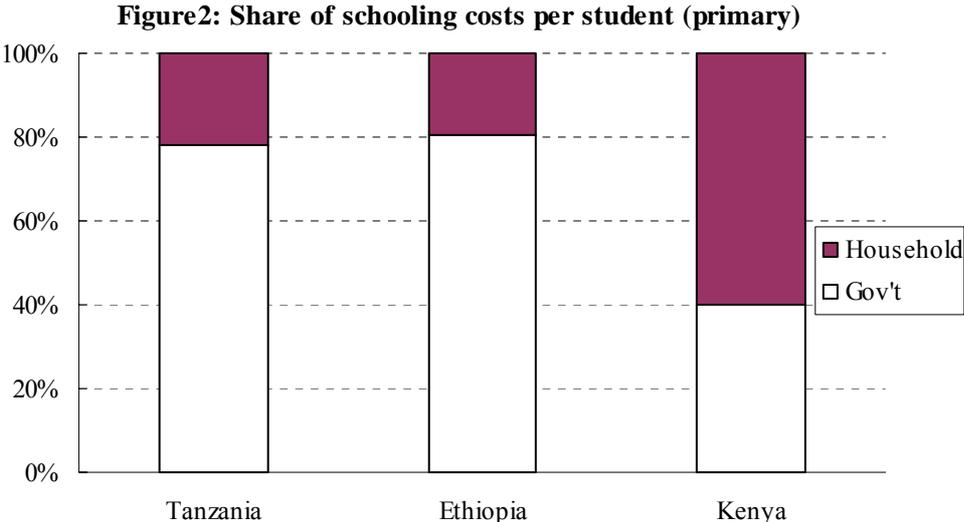
The dilemma faced by these countries is that they have to maintain a certain level of salary to retain good teachers. Major administrative problems in education regarding the teaching force have long been high turnover and a lack of teachers willing to take up positions in remote areas. To retain teachers, their salaries should be maintained at a competitive level. Also, in many developing countries including the three countries visited, improving educational quality is another major goal of basic educational programs, along with the goal of increasing public access to education. Along with efforts to increase the absolute number of teachers, there have been efforts to upgrade uncertified teachers and tighten employment criteria to improve the quality of education. These efforts are also likely to increase the salary bill. In sum, even though local educational offices suffer from a lack of non-salary funds and despite strong pressure from development partners to streamline educational finances, the governments face other pressures, which prevent them from reducing the salary bill.

3-4. Private Cost of Education

Many developing countries have abolished fees for basic education; however, abolition of school fees does not always result in free education. In the three countries visited,

⁶ The data show the average salaries of professional and clerical staff. The average for the professional staff only might be higher than the average for the teachers.

the educational systems depend heavily on sharing the cost of school maintenance with the households. Regardless of the importance of household cost sharing, however, it is difficult to obtain a comprehensive picture of the private cost of education in any country. Figure 2 shows the schooling costs covered by the government and those covered by the households, calculated from sample studies in the three countries. The percentage of costs borne by the households in Tanzania and Ethiopia is 28.2 and 24.5%, respectively.⁷ In Kenya, the households' share of the total costs per pupil exceeds 60%. These data of Kenya come from a household survey conducted in 1997, or before the abolition of school fees. According to The World Bank report, 49% of household expenses in 1997 were school fees (The World Bank, 2002). If so, theoretically, household expenses on education after the abolition of fees in 2003 should be halved. However, the Kenyan Public Expenditure Review of 2004 reports that the household share of per-student educational costs is still around 60% (Republic of Kenya,



Note. Data on Tanzania are from the World Bank's survey conducted in 1998, cited in Incidence of public spending in the health and education sectors in Tanzania, by Lambert and Sahn, 2002. In M. Christian (Ed.), Education and health expenditure and poverty reduction in East Africa, pp. 115-193.

Data on Ethiopia are from a survey of 11,973 households conducted by the World Bank. From *Education in Ethiopia: Strengthening the Foundation for Sustainable Progress*, by the World Bank, 2004a.

Data on Kenya are from a household survey conducted in 1997, cited in *Kenya: Strengthening the Foundation of Education and Training in Kenya*, by the World Bank, 2002.

Reference. Percentage of private costs in per-pupil educational expenditures in other developing countries: Zambia, 80% (1990); Peru, 38.2% (1998, primary and secondary) (From *EdStats*, by the World Bank, 2004).

⁷ In Tanzania and Ethiopia, the share of school fees in the total household expenses on education was 7 and 20%, respectively. In Tanzania, these data were collected before the fees were abolished. Ethiopia has not charged school fees for decades according to an official statement.

2004). If this is true, the abolition of fees may not have reduced the financial burden on the households. To determine the real impact of fee abolition on the households, we need more surveys. In places where schools face a constant lack of resources, abolition of fees without subsidies to compensate for the loss of revenue may result in hidden charges on parents under the name of “contributions”. The psychological effect of fee abolition is not negligible. Partly because of the impression that schools have become more accessible than before, enrolment after fee abolition tends to increase. However, this psychological effect should be considered separately from the substantial impact on the household expenditures. We should be able to see the substantial effects of fee abolition on the households by analyzing the latest household surveys, although any rigorous analysis has not been done by anybody yet.⁸ Also the fee abolition is not necessarily a pro-poor arrangement in the sense that the rich households also benefit from the universal abolition of fees.

4. The Effects of Public Expenditure on Education

The above section looked at efficiency in the distribution of educational funds, which are disbursed from the centre to the schools. For the purpose of assessing the effect of increased educational expenditures, now I will focus on the extent to which public expenditures contribute to achieving the original objectives of financial prioritization of primary education. First, I will discuss the relationship between public expenditures on education and poverty reduction by using the data of “benefit incidence analysis”. These data provide a perspective to assess the degree of benefits the poor population derived from public spending on education. I will then discuss the relationship between educational expenditures and the outcomes of educational services such as increased enrolment and better quality of education.

4-1. Educational Expenditure and Poverty Reduction

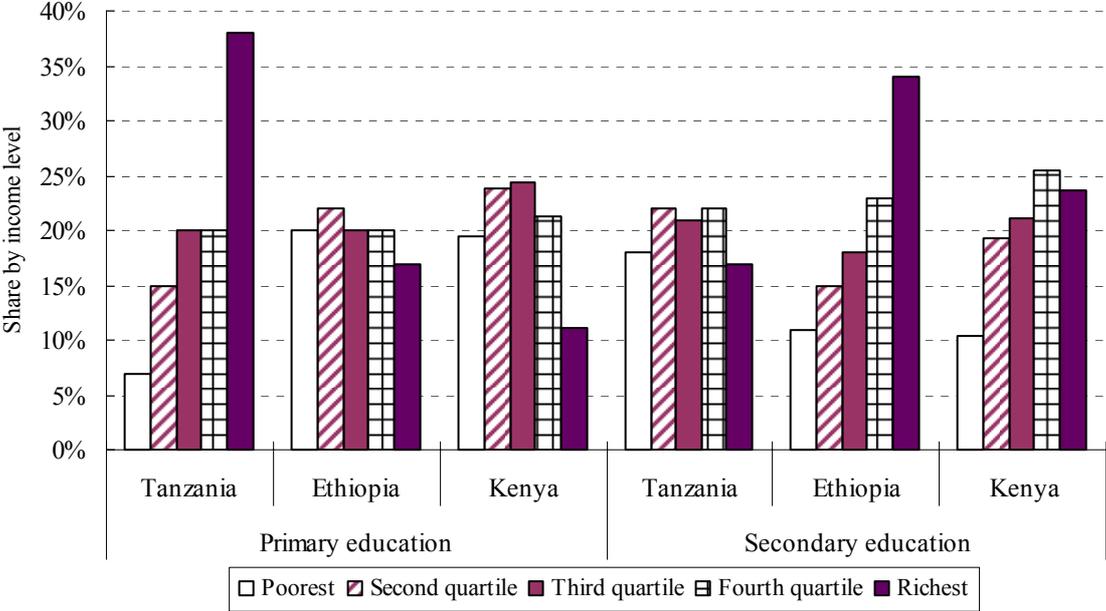
A basic assumption of the Poverty Reduction Strategic Papers (PRSPs) is that prioritised resource allocation to social sectors, including education, will reduce poverty. This assumption, however, will only hold if this financial prioritization by the central government is proved to benefit the poor. In this section, I will discuss the issue of equity in public resource allocation for education. For the sake of global comparison, I will use data obtained not only from the three countries visited but also from other countries of the African continent

⁸ The latest household surveys were conducted in Tanzania in 2000/01 and in Ethiopia in 2004. Kenya is about to start a new survey.

as well as from developing countries in other parts of the world.

Figure 3 shows educational expenditures of five income groups, from the poorest to the richest, in Tanzania, Ethiopia, and Kenya. Nearly 40% of Tanzania’s public expenditures on primary education goes to the richest quartile of the population. In Ethiopia, the richest quartile of the population benefits the most from public expenditure on secondary education. The poorest quartile benefits the least from public expenditure on primary education in Tanzania and on secondary education in Ethiopia and Kenya. It should be noted, however, that these data were collected before the introduction of educational sector-wide programs (SWAPs) in these countries. Therefore, while these findings help understand the socioeconomic structure of the three countries, they cannot be used to evaluate the impact of the PRSP, sector programs, and aid modalities which have been introduced under the Poverty Reduction Strategy (PRS) frameworks. The latest household budget survey was conducted in Tanzania in 2000/01 and in Ethiopia in 2004. A similar survey is being prepared in Kenya. By analyzing the results of these latest surveys, we can better understand the relationship between prioritized resource allocation within the PRS framework and the benefits the poor derive from the allocated public resources. In particular, Tanzania has the most advanced education sector program (PEDP) among the three countries; in this country, the efficiency of

Figure 3: Benefit incidences of educational expenditure in three countries



Note. From “Incidence of Public Spending in the Health and Education Sectors in Tanzania,” by S. Lambert, & D. Sahn, 2002. In C. Morriison (Ed.), *Education and Health Expenditure and Poverty Reduction in East Africa*, p. 130.
 From *Kenya: Strengthening the Foundation of Education and Training in Kenya*, by the World Bank, 2002, p. 61.
 From *Education in Ethiopia: Strengthening the Foundation for Sustainable Progress*, by the World Bank, 2004a, p. 104.

capitation and development grants distribution to schools is also increasing (REPOA & Ministry of Finance, 2005). It is therefore interesting to know how the distribution of benefits has changed since the introduction of the PEDP.

Table 4 shows the distribution of the level of public expenditure on education across different income groups. The benefit incidence method, according to which the data in Table 4 calculated, takes the unit cost in the provision of educational service and imputes this on the basis of number of enrolment to the individuals of different income groups. The table specifically compares the percentage allocated to the poorest population with that to the richest as an indication of the equitability of resource distribution. The smaller the difference, the more equitably the public resources are distributed in a country's educational system. To illustrate the situation in the three countries studies in a global picture, the benefit incidences of these countries are listed with those of other African countries and of low-income countries around the world. Among the three countries, Tanzania gives the biggest share to the richest quartile, which is 2.9 times that of the poorest quartile; this country is followed by Ethiopia (1.9 times) and then Kenya (1.2 times). Among all the African countries shown in the table, Madagascar is the least equitable in its resource distribution (the richest in this country gain 5.1 times more than the poorest). From Table 4, we can see that there are few countries in which the poorest population benefits more from public expenditure on education than the richest (the exceptions in this table are Uruguay, Columbia, Romania, and Panama). We need to take into account the fact that the data are not current. We would also need to realize that these data are not segregated into sub-sectors. If they are analyzed by sub-sectors, the picture could be different. What is clear from Table 4, however, is that increased allocation of resources does not guarantee that the poorest population will benefit from these resources, unless arrangements are made to ensure equity.

Table 4: Benefit Incidence of Public Expenditure on Education (all levels)(%)

Country	Year of Survey	Share of Public Expenditure		Share of the richest as the multiple of the poorest
		Poorest quartile	Richest quartile	
Africa				
South Africa	1993	21.1	23.4	1.1
Kenya	1992-3	16.7	20.7	1.2
Ghana	1992	16.4	20.8	1.3
Malawi	1994-5	16	25	1.6
Ethiopia	1999-00	15.2	28.9	1.9
Rwanda	2000	15	28	1.9
Uganda	1992	13	32	2.5
Cote d'Ivoire	1995	13.5	34.8	2.6
Tanzania	1993	13	38	2.9
Guinea	1994	8.5	26.9	3.2
Madagascar	1997	7	36	5.1
Other low income countries				
Uruguay	1998	27.6	14.7	0.5
Columbia	1992	23	14	0.6
Romania	1994	21.5	17.1	0.8
Panama	1997	19.8	17.5	0.9
Jamica	1992	18	21.8	1.2
Peru	1994	14.8	22.1	1.5
Morocco	1991	14.8	22.8	1.5
Ecuador	1994	15	26.8	1.8
Kirghiz	1993	14.1	26.5	1.9
Indonesia	1989	15	29	1.9
Pakistan	1991	14.3	29.1	2.0
Guyana	1993	14.5	32.1	2.2
Laos	1993	12	34	2.8
Vietnam	1991	12.2	35.4	2.9
Kazakhstan	1996	8.4	26	3.1
Armenia	1996	7	29	4.1
Nepal	1996	10.5	46	4.4
Nicaragua	1993	9.1	40.1	4.4

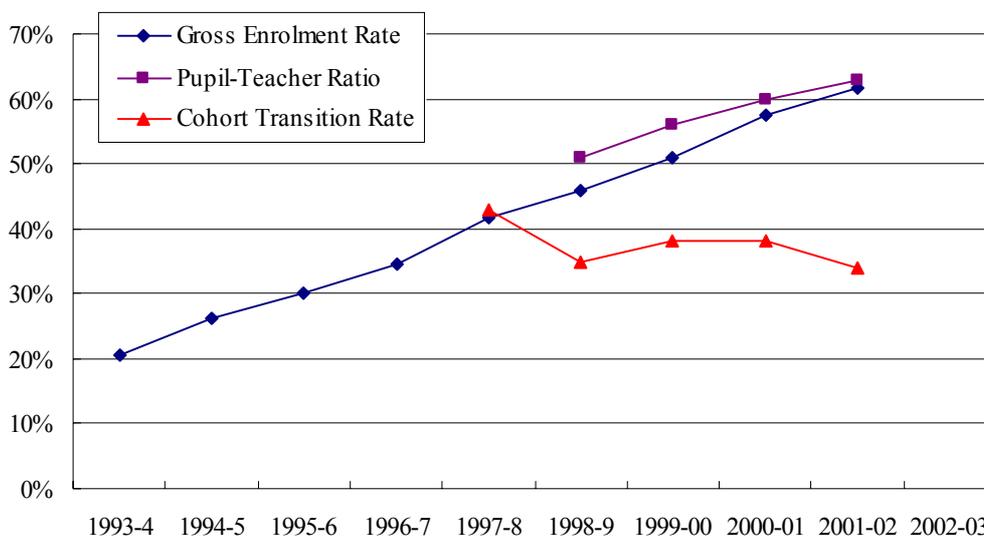
Note. From *Education in Ethiopia: Strengthening the Foundation for Sustainable Progress*, by the World Bank, 2004a.

From *EdStats*, by the World Bank, November 2004.

4-2. Public Expenditure and Educational Indices

Figures 4, 5, and 6 show trends in the access indicator (i.e., the primary gross enrolment rate) and in the quality of education in the three countries. Ten years is not long enough for educational indicators to show a dramatic change. However, the trends in the educational indicators in the three countries, together with the patterns of public expenditure, show a certain pattern. Although there are many indices that can be used to assess the quality of education, for the purpose of cross-national comparison, I use pupil-teacher ratio (PTR), cohort transition rate, and gross enrolment rate (GER), because these indices are commonly

Figure 4: Access to and Quality of Education in Ethiopia



Note. From *Education Management Information System (EMIS), Education Statistics Annual Abstract 2002/3*, by the Ministry of Education, Ethiopia, 2004b.

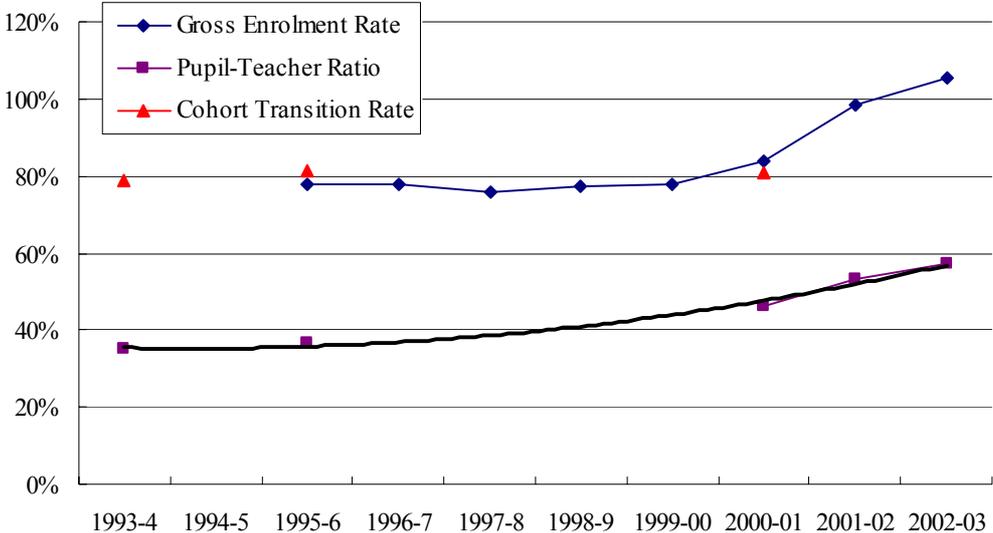
available for the three countries.

Ethiopia shows most visible trends. Its GER increased from 20.5% in 1993/4 to 61.6% in 2001/2. Alongside this steep increase in the GER, the indices showing the quality of education have declined. The number of pupils per teacher (PTR) increased from 51 in 1998/9 to 63 in 2001/2. This means that teachers now have to attend to more students, since the expansion of teaching staff has not caught up with the increased enrolment. As a result, the quality of education a teacher can provide is low. Also, the cohort transition rate has dropped from 43 to 34% between 1997/8 and 2001/2. The cohort transition rate indicates the likelihood that a student can reach a certain grade (e.g., 5th grade) without dropping out or repeating a grade. When the cohort transition rate drops, it means that, with the same public funds as before, government yield less students who proceed the education in the designated years, as it spend more for people who repeat or/and drop out. It is less cost efficient in the financial term because the resources spent for students who later fail are considered waste. Ethiopia is a clear example of a country where a rapid growth of the chances to access education resulted in the deterioration of the quality of education, and in effect, reduced the internal efficiency of the educational service.

Figure 5 shows that after the introduction of the PEDP in Tanzania, the GER, which has been consistently around 70%, increased steeply to more than 100%. However, the PTR is also slowly increasing, which means that the quality of education has declined, at least temporarily. As for the cohort transition rate, no data have been available for many years, which makes it impossible to do timeline analysis and cross-national comparisons. From the

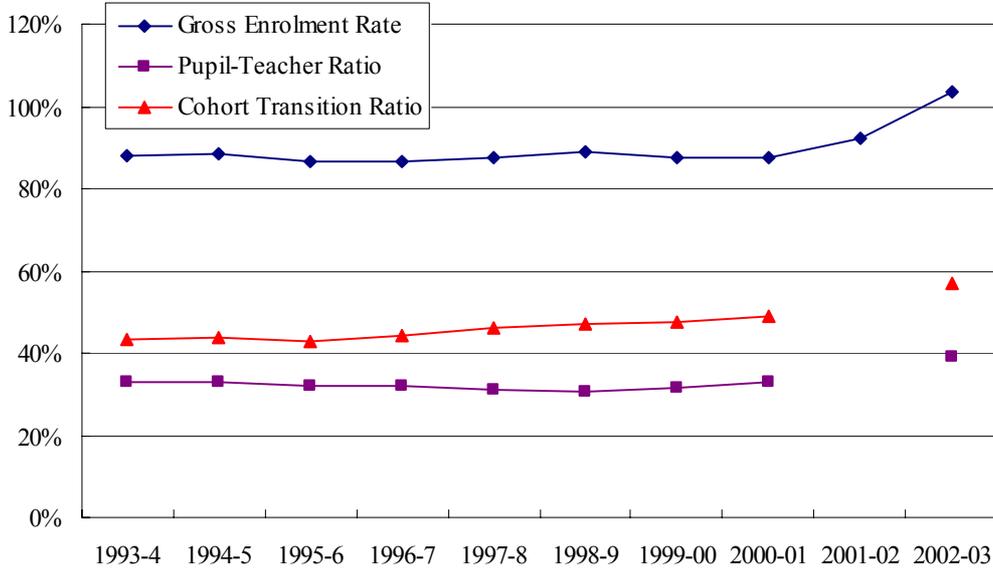
available data, we can see that the cohort transition rate remained at around 80%, which is relatively high, both before and after the introduction of the PEDP.

Figure 5: Access to and Quality of Education in Tanzania



Note. From *Basic Statistics in Education. 1993-2003*, by the United Republic of Tanzania, 2005.

Figure 6: Access to and Quality of Education in Kenya



Note. From *Report of the Sector Review and Development*, by Ministry of Education, Science and Technology, Kenya, 2003.

Kenya’s characteristics are the consistency of its indices over time and its high GER. The increase in the GER above 100% in Kenya in the last two years can be explained by the commitments made to the education sector by development partners and by the introduction

of the “Free Primary Education” program, which was enacted in January 2003. As I explained earlier, Kenya has been the least aid-dependent country among the three countries, and the patterns of its resource allocation to educational sub-sectors are different from those in the other two countries. In Kenya, relatively less resources are allocated to primary education and more to TVET and secondary education. The peculiarity of Kenyan education is also seen in the indices of access and quality. The GER is relatively high, and the average class size has been kept low.

Under the PRS framework, the goal to increase access to primary education has been given top priority. Therefore, in HIPC (Heavily Indebted Poor Countries), especially highly aid-dependent ones, the primary GER is increasing rapidly. However, the effectiveness of educational services should be assessed from various aspects--not only that of access, but also those of quality, balance among sub-sectors, and other factors.

Table 5 shows educational indicators and public expenditures on education (per GDP) in African countries including the three countries studied. Figure 7 plots the relationship between public expenditures and the Education Index⁹ taken from Table 5. From Figure 7, it is difficult to tell whether there are any clear patterns in the relationship between public expenditures and the Education Index. For example, among the three countries, Kenya spent twice as much of its GDP on education as Tanzania, but their Educational Indexes are not very different. Also, while in both Ethiopia and Tanzania, educational expenditures are increasing, this does not guarantee better educational outcomes, although it could be one factor contributing to the improvement of educational indices. Many researchers have pointed out a weak co-relation between public expenditures and educational indices (e.g., Roberts, 2003; Yaqub, 1999). In sum, in the three countries studied, increased public resources coupled with strategic prioritization and fee abolition contribute to enhancing the incentives of the beneficiaries and to a short-term increase in access to education. But the expenditures themselves cannot be said to be the main factor leading to improved educational indices. It is also unclear whether the short-term effect of an increased GER will last long.

⁹ Education Index is one of the human development indicators developed by the UNDP. It is calculated based on the adult literacy rate and the primary, secondary, and tertiary gross enrolment rates.

Table 5: Education indicators and public expenditure on education in African countries

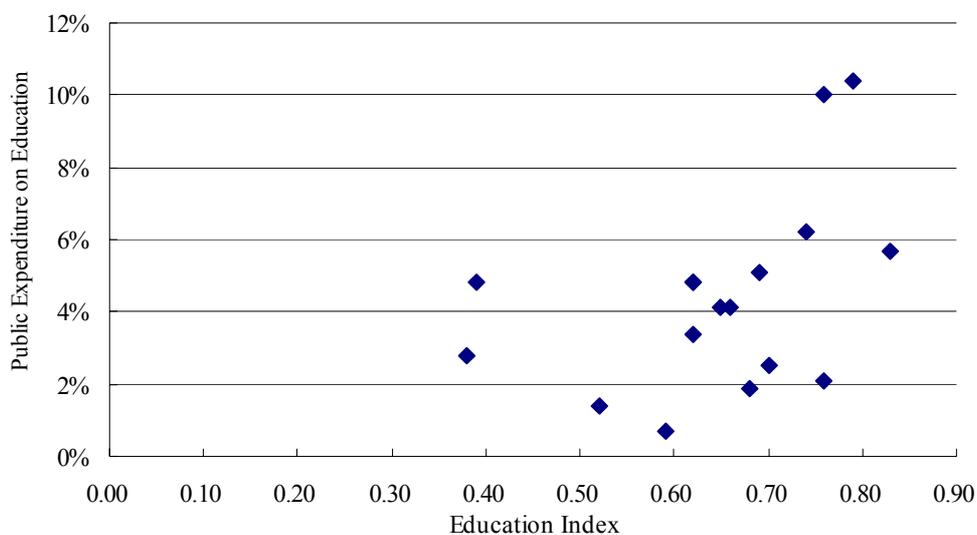
	GDP per capita (PPP US\$) 2002	Education index	Adult literacy rate(% of those aged 15 and above) 2002	Net primary enrolment rate 2001/2 (%)	Educational expenditure as percentage of GDP 1999-2001(%)
Zimbabwe	2400	0.79	90.0	83	10.4
Lesotho	2420	0.76	81.4	84	10.0
Kenya	1020	0.74	84.3	70	6.2
South Africa	10070	0.83	86.0	90	5.7*
Algeria	5760	0.69	68.9	95	5.1
Egypt	3810	0.62	55.6	90	4.8
Togo	1480	0.62	59.6	95	4.8*
Ethiopia	780	0.39	41.5	46	4.8
Malawi	580	0.66	61.8	81	4.1
Ghana	2130	0.65	73.8	60	4.1
Tanzania	580	0.62	77.1	54	3.4*
Angola	2130	0.38	42.0	30	2.8
Uganda	1390	0.70	68.9	n/a	2.5*
Botswana	8170	0.76	78.9	81	2.1
Zambia	840	0.68	79.9	66	1.9
Sudan	1820	0.52	59.9	46	1.4
Nigeria	860	0.59	66.8	n/a	0.7*
Lower developing country average	1307	0.49	52.5	n/a	n/a
Sub-Saharan Africa average	1790	0.56	63.2	n/a	n/a

Note. From *Human Development Indicators 2004*, by UNDP.

* -- *Human Development Indicators 2001*, by UNDP.

Education Index is calculated based on the adult literacy rate and the primary, secondary, and tertiary gross enrolment rates.

Figure 7: Relationship between Educational Index and Education Expenditure as Percentage of GDP



Note. From *Human Development Indicators*, by UNDP, 2001 and 2004.

5. Conclusion

In this paper, I considered the implications of the PRS framework for the education sector, with a focus on financial aspects. It is too soon to evaluate the overall impact of the PRS framework, sector programs, and other aid modalities employed under the PRS framework, on the educational services and poverty reduction. Such evaluation should be based on a detailed analysis of each country's context, which is beyond the scope of this study as it basically relies on secondary data. I showed in this paper that poverty reduction, intended to be achieved through social services, cannot be guaranteed merely by prioritized allocation of resources to the social sectors. It can only be achieved through comprehensive improvement of educational services both in quality and in quantity, and by careful planning to ensure that the poor receive the due share of the public funds to ensure equity. Also, given that an increasing number of development partners emphasize high-level policy dialogue over project implementation, the role of the government in providing social services is likely to increase. It is becoming more important for governments to develop professional capacity to respond in flexible and timely manners to the needs of diverse population. One area of such governmental capacity is financial management. The financial management requires the capacity of: (1) actually appropriating resources as planned in the mid-term financial plans of the government, such as PRSP and MTEP; (2) executing the appropriated budget without big gap between the budget and spending; and (3) efficiently distributing the resources to the final beneficiaries without much leakage in the process. There is a disparity across districts and schools in the actual unit amount of public funds the students can receive. The smaller schools in the remote areas receive less amount per student than bigger schools in urban areas. In other words, the flow of funds tends to be less efficient for the former kind of schools than for other schools. Such disparities are often caused by the socio-economic structure of the bigger society surrounding the schools. This fact indicates that if we want to ensure the equitable distribution of public funds on education to individual students, we also need to think of enhancing the equity across schools, districts, and regions.

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industries of Ethiopia, Kenya and Uganda are low. Scholars have been split into two camps (the self-sustainability camp and the poverty lending camp) on their view of the effect. Instead, poverty-oriented microfinance institutions could potentially deviate from their mission by extending larger loan sizes neither because of "progressive lending" nor because of "cross-subsidization" but because of the interplay between their own mission, the cost differentials between poor and unbanked wealthier clients, and region-specific clientele parameters. In a simple one-period framework we pin down the conditions under which mission drift can emerge. Summary This paper explores tariff reform in Ethiopia, Kenya, Tanzania and Uganda between the early 1990s and early 2000s. In Tanzania for example, agriculture is the dominant economic activity and the primary source of livelihoods for rural households. It is increasingly becoming clear that the agricultural sector alone cannot be relied upon as the core activity for rural households as a means of survival, improving livelihood and reducing poverty. In assessing the true relationship between microfinance services and poverty reduction, there is a need for looking on perception of the SACCOS beneficiaries; observing changes of member's income after embark on micro credits and establishing who has risen up from the poverty line (Assenga, 2008). The impact of financial services on welfare is likely to vary with accessibility to complementary inputs such as irrigation, education, and market services.