

5 GOVERNANCE/OVERSIGHT

5.1 Process of Policy, Planning and management

National health policy, and trends in stated priorities

Health policy is based on the following objectives and is being implemented within the Health Sector Reform in partnership with the donor's community:¹⁶

- To insure access to health services to the entire population and restore the confidence in these services through the amelioration of the quality of services provided
- Enforce a coherent and properly coordinated policy based on Prevention
- Strengthen Human resources through Education and Training
- Define a policy on Pharmaceuticals that insures the availability of medicines at affordable prices
- Encourage the Community to progressively participate in the financing of medical services
- Strengthen the national health programs (Malaria, HIV/AIDS, Tuberculosis, Reproductive Health)

There has been a consistent expression for the need to establish effective mechanisms to recover part of the costs incurred in the delivery of health care, most notably as concerns the purchase of medicines.

The rationale behind this cost recovery stems from several factors, namely:

- The population is effectively paying to receive care, because of the fact that medicines may be lacking, or because they often seek care in private facilities
- There is a large proportion of the population that is not Djiboutian, since expatriates from neighboring countries and refugees seek care in the country because of the availability of services
- The principle of cost recovery may in fact lead to a rationalization of the demand for services
- There is a need to obtain funds to insure the availability of services and pay for minor repair and maintenance

The Government has established the CAMME or "Pharmacies Communautaires" as one measure to increase the recovery of the costs of medicines and medical supplies, albeit the cost will be less since generics will be used and the purchase in volume of medications will bring down the costs.

One should note that the health policy omits the need to encourage the provision of care through the private providers, and is notably vague on the possibility of financing care through social health insurance. We will discuss these matters in details further down in this report.

Formal policy and planning structures, and scope of responsibilities

Governance environment

Improved governance, and in particular stronger accountability, both internal and external, would contribute to improve public expenditure performance. Internal and external accountability are not substitutes. They reinforce each other. Stronger external accountability systems can reveal weaknesses in internal accountability, thus requiring action by the government to be able to respond more effectively to external demands. Stronger internal accountability is needed to generate information about what the government is doing, information on which external accountability depends. Allowing more public debate on the state budget and greater citizen's voice in the quality of service delivery (external accountability) will lead the government to pay more attention to monitoring and evaluating expenditure performance.

Publication of reports by effective government audit agencies (internal accountability) will improve budget control. Progressive focus on performance-oriented budgeting will help reform the civil service corps to achieve greater bureaucratic efficiency. Tackling accountability weaknesses can help improve budget management. When institutional capacities are low at the start, the road to improved budget management may need to be covered in small steps.. Reforming basic incentives that strengthen accountability is the place to start. As incentives become better aligned and internalized and as administrative capacity grows, more advanced reforms can be deployed to support deeper institutional change. Strong accountability in public administration can help the government spend wisely and predictably in line with priorities. By ensuring more active participation of citizens in decision-making, stronger accountability can respond to the needs of the different ethnic groups present in the country. It can also help develop and deploy administrative capacity to take sound decisions at the top and to implement them well. Stronger accountability can also help better manage aid flows. For one, donor coordination is easier where the recipient has a legitimate and credible national development strategy and budget process that can serve as the common framework.

Transparent and accountable budget and public procurement systems can also encourage donors to shift responsibility toward the recipient, reducing duplication, waste and transaction costs. And it can allow donors to provide budgetary aid flexibly, keeping them from crowding into a few fashionable sectors - and thus lessen concerns about absorptive capacity.

A number of practical measures can help strengthen accountability in budget management. These measures include: (i)improving budget classification to link expenditures with expected outcomes; (ii) consolidating public finances by bringing contingent liabilities under the state budget's oversight; (iii) improving budget credibility by casting fiscal choices in the medium-term, taking into account revenue and financing constraints; and (iv) moving the budget process towards a greater performance orientation.

In the current context of Djibouti, it is not realistic to expect improved budget formulation in the form of full-fledged medium-term expenditure frameworks. Rather, the government could benefit from the consultative process that was initiated during the PRSP preparation to translate policy priorities into budget allocations. This would entail including in the budget key sectoral programs to be financed and the main services that are expected to be rendered. Even if just for one year, that would be already a good start. In the short-run, it will be necessary to take a pragmatic approach by building incrementally on existing systems to achieve more effective monitoring capacity and

strengthen accountability. In the absence of a baseline medium-term expenditure framework, multi-year fiscal scenarios can help in assessing likely patterns of spending.

Analysis of plans

Cost recovery is considered a “regressive” measure as far as the poor and indigent population is concerned. In most cases, it may lead to inequity in the access of care and in its financing, to the detriment of the poor. This policy goes against the “pro-poor” policies that are advocated by the Government and by international donors. In the case of anti-retrovirals, a decision to charge non-Djiboutians for these medicines, may also challenge the responsibility of the Government to protect Society, since well treated HIV patients do decrease the risk of transmission of this disease. (See below)

Key legal and other regulatory instruments and bodies: operation and any recent changes

As regards the strengthening of good governance, the government plans to enhance and streamline public expenditure management. Overall, the aim will be to consolidate the current gains, along the following lines:

- Effective application of the new procedures for budget preparation and expenditure tracking and control;
- Strengthening of fiscal control through the publication of the 2003 report of the Audit and Fiscal Discipline Office;
- Publication of the audited financial statements of public enterprises; and
- Implementation of the recommendations on the real sector by end-September 2005, with a view to participating as soon as possible in the IMF's GDDS.

Djibouti's position in global governance data

The assessment of the governance system in Djibouti draws on the six governance indicators developed by Kaufmann et al (2003). The data show that in a sample of about 200 countries worldwide, Djibouti scores in the lower end for most governance indicators, such as political stability, the rule of law, government effectiveness, the regulatory framework, control of corruption as well as voice and accountability. On average, only 20 percent of countries have worse governance indicators than Djibouti.

Djibouti's lowest scores pertain to perceptions of its overall government effectiveness. Djibouti's scores only 16.5, compared with 49.9 for the MENA region and 41.5 for lower middle income countries. This index uses a scale ranging from 0-100, and higher is better.) The quality of public service provision and of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government's commitment to policies are among the aspects measured by this indicator of government effectiveness.

However, the six aggregate governance indicators should be interpreted with caution in view of the paucity of governance data available for Djibouti. Out of the 200 cross-country indicators used by Kaufmann et al (2003) to construct their six aggregate governance indicators, only 10 are available for Djibouti. These ten indicators are derived from the only 2 data sources that cover Djibouti (Freedom House and Heritage Foundation and Wall Street Journal), out of the 25 data sources employed by Kaufmann et al (2003).

5.2 Decentralization: Key characteristics of principal types

5.3 Health Information Systems

Organization, reporting relationships, timeliness

Data availability and access

Sources of information

The follow up and monitoring of the Health Sector Project will be the responsibility of the Directorate of Studies and Planning. This will be accomplished through the conduct of surveys on the utilization of medical services, the epidemiologic indicators, the availability of pharmaceuticals, the PAPPAM study planned for 2002 to establish the baseline indicators for child and maternal mortality rates and the review of quality provided. In addition, data will be collected on the human and physical resources available for the health system.

5.4 Health Systems Research

5.5 Accountability Mechanisms

Governance and service delivery

In Djibouti service delivery outcomes remain among the lowest in the world, in spite of its relatively high GDP and the large amount of foreign grants per capita (about \$900 and \$ 77 respectively). Djibouti's social indicators rank 157th among 174 countries on the UNDP's Human Development Index. Djibouti displays extremely high rates of adult illiteracy, morbidity and maternal and infant mortality. About 50 percent of Djibouti's children do not attend school, compared to over 70 percent in neighboring Yemen, and more than 20 percent of those enrolled do not complete the six years of primary education. Female illiteracy reaches 70 percent (compared to 49 percent for men). Despite progress in expanding access, Djibouti's education system is still not on track to meet the Millennium Development Goals (MDGs). Illiteracy is also very high, especially for women (85 percent). There are also large inequalities in access to education services: enrollment varies widely across income levels, gender, and regions. Basic health indicators are also very low. Life expectancy, the overall health index, is estimated at 49 years, one of the shortest in the world. Infant mortality is at 103 per 1000, high by international standards. The immunization rate is only 45 percent, and malnutrition is a serious problem, with indications that 14 percent of children under the age of five suffer from acute malnutrition, and 31 percent from chronic malnutrition. Diarrheic illnesses and acute respiratory infections are the most extant causes of infant

mortality. Maternal mortality rate is high at about 700 per 100,000 live births and for extremely poor women this rate is as high as 9 percent.

The quality of governance in Djibouti has affected the link between public expenditures and their expected outcomes. Recent World Bank research powerfully argues that governance affects service delivery (World Bank Development Report "Making Services work for the poor", 2004; World Bank Middle East and North Africa Report "Better Governance for Better Economic and Social Development, 2003). Recent cross-country empirical studies corroborate these findings. Rakjumar and Swaroop (2002) found that governance affects the relationship between public expenditures and their expected outcomes. In particular, the authors found that public health spending lowers child and infant mortality as countries improve governance. Their findings also revealed that as countries improve governance, public spending on primary education becomes more effective in increasing primary education attainment. Weaknesses in governance (in particular insufficient inclusiveness and accountability in public affairs and the budget process) have negatively affected the link between public expenditures in education and health and their outcomes.

Insufficiencies in accountability (reflected in the excessive political interference and discretion in the administration of public affairs) have rendered the Djibouti public sector vulnerable to weak expenditure management and bureaucratic inefficiency. Given the important role of government in delivering public services in Djibouti, the institutional arrangements that govern public sector management (budgetary rules, procedures, restraints and alike) impinge on actual service delivery. Because budgets translate policymakers' priorities into policies, programs and projects, a review of the budget process (formulation, execution and control) shows the degree of accountability between policymakers, service agencies and the service users. In spite of considerable progress achieved in expenditure management reform over the past few years, weak transparency and accountability remain a concern throughout the budget process.

A transparent and accountable public expenditure system may be a central mechanism for ensuring good service delivery, but it is only as effective as the civil service that administers it. In Djibouti, institutional weaknesses and inefficiencies in civil service administration have also hampered effective service delivery. With virtually no room for spending on other non-wage aggregates, policy actions on the wage bill are crucial steps in allowing greater budget flexibility, improved efficiency of social spending and control of public finances. Wages and salaries take up most of the public expenditure devoted to the social sectors. And access to water and energy is also limited owing to the high utility prices and insufficient capital and maintenance spending.

Governance and the business climate

The quality of governance, through its impact on economic, fiscal and regulatory policy decisions, have also affected Djibouti's business climate. The private sector contributes only about 20 percent to GDP and investment has been staggering. Governance increases the cost of doing business in Djibouti owing to: (i) high production costs (capital, labor and utilities) triggered by weak accountability and weaknesses in public sector administration, and (ii) high transaction costs triggered by bureaucratic red tape. This confirms recent empirical findings on the link between governance, investment and growth (Kauffman et al, 2003)

A key aspect of the quality of the business climate is the rule of law - the security of property rights, Main concerns expressed by investors include the unpredictability of the judiciary (due to the lack of autonomy of judges) and the slowness of the court system in resolving disputes. A good illustration of the impact of these governance weaknesses

on the business climate and the cost of doing business in Djibouti is the lengthy liquidation of two commercial banks (A1 Baraka Bank and the Banque de Djibouti et Moyen Orient), which has yet to be finalized. The two banks were placed in liquidation in 1998 and 1999 respectively. But the recovery of these bank's debts and the gradual reimbursement of depositors have been slow, owing to judicial delays and difficulties in liquidating real state collateral.

Investors in Djibouti are also concerned about the high transaction costs triggered by administrative delays and cumbersome procedures for starting and exiting a business. This has hampered the development of small and medium enterprises, leading a growing number of small entrepreneurs to operate in the informal sector. Another obstacle for businesses operating in Djibouti is the lack of predictable application of rules and regulations which impedes the analysis of investment returns. Entrepreneurs in Djibouti have expressed concerns about the bureaucratic arbitrariness in the determination of taxable profits, the inconsistent application of tax exemptions, and the lack of a commercial court for the resolution of commercial disputes.

Djibouti's governance quality has also affected the cost of doing business through its impact on production costs (mainly, its impact on administrative overheads, labor costs and utility prices). Weaknesses in the judiciary framework have contributed to the high cost of capital and limited credit availability to the private sector. Faced with growing non-performing loans (due to unresolved disputes over real state collaterals and difficulties in enforcing loan agreements) commercial banks have been forced to restraint credit to the private sector and increase the cost of capital, in spite of their comfortable liquidity position. Lending rates average 13 percent on secure loans, and between 18 percent and 25 percent on cash facilities. The apparent insensitivity of wage rates in Djibouti to the high level of unemployment reflects weaknesses in governance, and in particular, a rigid legal framework governing the labor market, and a high level of public wages (which serve as a benchmark for private sector wages). Estimated average salaries for Djibouti public sector employees are more than five times the level in Ethiopia and about four times the level in Yemen. The Labor Code (practically unmodified since 1952) includes a number of regulations that inhibit the efficient functioning of the labor market. Besides labor costs, firms operating in Djibouti face high production costs affected by utilities prices (water, telecommunications, power). As the previous section noted, utilities are expensive because of high public wages, a large and increasing tax burden, and poor management practices. Poor collection rate and payment arrears by the central government have also affected utilities' prices.

Moving the governance agenda forward to improve the link between public spending and outcomes

The Djibouti government has embarked on a reform agenda to improve service delivery and the business climate. One of the key pillars of the PRSP is the improvement of governance and public expenditure management to strengthen the effectiveness of public service delivery. The authorities are also committed to a reform agenda aiming at improving the business environment through: i) the simplification and rationalization of the tax system; ii) the reform of the investment, commerce and labor codes in view of reducing the costs of doing business in Djibouti; and iii) the reform of public utilities' management to improve their efficiency and reduce tariffs. A strong political commitment and sustained efforts in these areas will contribute to shift the perceptions of foreign investors about the business climate in Djibouti.

But these reforms will not go far in the absence of stronger accountability, both internal and external, that would be needed to improve the link between public expenditure and

outcomes. Internal and external accountability are not substitutes. They reinforce each other. Stronger external accountability systems can reveal weaknesses in internal accountability, thus requiring action by the government to be able to respond more effectively to external demands. Stronger internal accountability is needed to generate information about what the government is doing, information on which external accountability depends.

Allowing more public debate on the state budget and greater citizen's voice in the quality of service delivery (external accountability) will lead the government to pay more attention to monitoring and evaluating expenditure performance. Publication of reports by effective government audit agencies (internal accountability) will improve budget control. Progressive focus on performance-oriented budgeting will help reform the civil service corps to achieve greater bureaucratic efficiency.