



Summary:

Development aid through international organisations – Ministry for Foreign Affairs handling of multilateral development cooperation

Audit background

The Swedish National Audit Office has audited the Government's and the Ministry for Foreign Affairs' management of multilateral development cooperation.

A large part of Sweden's development aid is implemented through international organisations such as the UN, the World Bank, regional development banks and global funds. Sweden pays annually more than SEK 10 billion in core funding to multilateral organisations. The Government Offices handles this part of development cooperation while Sida is responsible for disbursing the funds to the organisations. The major part of multilateral development cooperation is made up of "non-earmarked" contributions, allocated in the form of core funding. Core funding means that the money goes to the organisation's central budget and core activities and that the organisations themselves determine how the money is to be used. Thus it is not possible to specifically follow how Swedish funds are used in the organisations.

These are often long-term commitments that involve large amounts of money. All in all, this makes considerable demands on transparency and openness in the Government and the Government Offices' management of multilateral development cooperation.

The purpose of the Swedish NAO's audit is to establish whether the Government has created conditions for effective and results-oriented Swedish commitment to multilateral development cooperation, with sound management of public funds.

The Swedish NAO's audit covers the Government's and the Ministry for Foreign Affairs management of multilateral development cooperation and covers the period 2010–2013. The audit is based on interviews and document studies. The Swedish NAO has audited

the five largest instances of core funding in detail; together they constitute about half of Sweden's total core funding to multilateral organisations. The audit focuses on the management of multilateral development cooperation and does not include any assessment of actual effects or results of multilateral development cooperation.

Audit findings

The Swedish NAO has audited decision-making processes, documentation of decisions and follow-up and accounting. The audit shows that there are deficiencies and problems in all components. The Swedish NAO's overall conclusion, after auditing the entire chain from Riksdag decision to implementation and follow-up, is therefore that the Government's and the Ministry for Foreign Affairs' management of multilateral development cooperation is not characterised by transparency, effectiveness and clear divisions of responsibility. The overall objective of Swedish aid is to create opportunities for better living conditions for people living in poverty and oppression. Multilateral development cooperation means that it is multilateral organisations that are to administer Swedish development aid funds.

It is of great importance that these organisations work effectively and achieve results that are relevant to Swedish development aid priorities. According to the Swedish NAO it is not currently possible to determine if the money goes to the most effective and relevant organisations. Nor do the Riksdag and the public have access to the information necessary to understand how multilateral aid is used.

Consequently, the Swedish NAO considers that the lack of transparency in multilateral development cooperation means that it is impossible to assess whether public funds are used in the best way. Thus it is not possible to assess whether the provisions of the Budget Act concerning a high degree of effectiveness and good economy are met.

The transparency of Sweden's multilateral development cooperation is limited

Swedish development aid is to be characterised by high transparency and openness. It must be possible to follow the aid chain from policy direction via the various stages of implementation to follow-up and performance analysis. It must be shown when, to whom and for what purpose money has been paid and what the results were.

The Swedish NAO's conclusion is that multilateral development cooperation is not characterised by high transparency. On the contrary, it is difficult to follow Swedish

taxpayers' money from decision to performance and follow-up. It is not possible to understand the grounds on which the choice of core funding allocation was based. There are several factors that impact transparency negatively.

The levels of annual core funding to multilateral organisations are determined in an informal process by the political leadership. However, the Government does not make any decisions; the formal responsibility for most of the core funding has been delegated to the Ministry for Foreign Affairs.

According to the Swedish NAO the lack of a formal decision on allocation of core funding means that the division of responsibility between the political leadership and civil servants is unclear. The far-reaching delegation in combination with informal decision-making processes creates an unclear chain of responsibility. This reduces the possibilities of control and transparency as well as making accountability more difficult. According to the Swedish NAO limited control and low transparency in the handling of multilateral development cooperation means that there is a considerable risk that deficiencies and errors will not be discovered.

The lack of transparency in the decision-making process and unclear divisions of responsibility are made worse by inadequate documentation of decisions. Formal decisions on core funding often lack information describing background, motives and expected results. The scanty information is problematic, since these are the only formal decisions documenting Sweden's allocation of core funding. The process of replenishment of development funds and development banks is organised in another way, which allows some opportunity for greater transparency, according to the Swedish NAO. However, the deficiencies in documentation of decisions also apply here.

A further aspect of management of multilateral development applies to the Appropriations Ordinance and its requirement that payment of grants must be made in close association with the use of the grant by the recipient. The Swedish NAO has noted that the current application may contribute to lack of clarity concerning Swedish core funding.

When there is a lack of transparency in the decision-making process and motives, and expected results are not clearly described in documented decisions, it will be difficult for the Government to show that Swedish development aid is implemented via the organisations deemed to be the most effective and relevant for Swedish aid.

There is no coordinated performance reporting

The audit shows that neither the Government's nor the Ministry for Foreign Affairs' decisions on multilateral development cooperation contain clear and monitorable performance requirements for Sweden's multilateral development cooperation. Consequently the conditions for clear performance reporting are not in place.

The Swedish NAO further notes that the Ministry for Foreign Affairs' formal performance reporting, in the form of closing memoranda, are not in reality used as a basis for new decisions on core funding. The closing memoranda are in practice a pure formality to conclude and file the cases. The Swedish NAO's opinion is that it is particularly serious that there is no coordinated performance reporting linked to core funding in view of the lack of transparency in the decision-making process and the lack of information in the decision-support data.

However, the Swedish NAO wishes to highlight that there is not a complete lack of performance reporting of Sweden's core funding to multilateral organisations. Within the framework of Swedish governance and advocacy, running assessments are made of the organisations. The problem is that this work is not reported in a coordinated way. It is difficult to follow how the work of the Ministry for Foreign Affairs with the respective organisation is developed and what the concrete results are of Sweden's governance and advocacy.

In addition, performance reporting planned within the framework of organisation assessments and organisation strategies has largely failed to appear during the audit period. According to the Ministry for Foreign Affairs this can partly be explained by a wait for the aid policy framework decided by the Government in spring 2014. The guidelines for performance strategies (that replace the previous organisation strategies) clearly state the performance reporting processes.

Elements of ineffective and unnecessary administration

In the opinion of the Swedish NAO it is possible to increase effectiveness in the management of multilateral development cooperation, for example by reducing administration.

After the levels of core funding have been established the Ministry for Foreign Affairs decides annually on payment of core funding. The purpose of these decisions includes instructing Sida to effect payment. Each of these decisions must be drafted, a new case must be created, follow-up is to be carried out and the case must be archived. For the payments linked to replenishing development banks and development funds this

administration by and large does not add anything to the operations. According to the Swedish NAO administration could be reduced by means of more unified decisions.

The Swedish NAO can also note that since the levels of annual core funding have been determined in a separate process there is no incentive to subsequently formulate clear payment decisions that show underlying motives for core funding.

The Riksdag does not obtain sufficient information about multilateral development cooperation

The reporting of multilateral development cooperation should, according to the Swedish NAO, give a good picture of how Swedish aid is allocated and why, so that the Riksdag is able to assess if the money is used in the way intended. The Swedish NAO is also of the opinion that the Riksdag and the public should receive information on the results achieved, both in the multilateral organisations and in Swedish governance and advocacy. The Swedish NAO's audit shows that the Government's reporting to the Riksdag does not give a complete picture of Sweden's multilateral development cooperation.

On the basis of the reporting to the Riksdag it is not possible to obtain an overall picture of which organisations receive Swedish core funding, and in what amounts, for the period 2010–2013. The Swedish NAO considers that it should be possible to include a report of all organisations, as well as development funds and development banks that receive core funding from Sweden. The performance reporting received by the Riksdag on multilateral development cooperation is also limited, and the governance and advocacy conducted by the Ministry for Foreign Affairs is reported to a small extent.

The Swedish NAO notes that the available space for reporting in the Budget Bill is limited. Consequently it cannot be expected that the Government will provide a comprehensive performance report on Swedish multilateral development cooperation in the Budget Bill. However, there are other ways of reporting, in the form of special communications to the Riksdag.

The opinion of the Swedish NAO (like the Committee on Foreign Affairs) is that the ambitions for annual reporting may have to give way in order to gather resources for a more developed performance analysis at several years' intervals. The performance analysis can then be used to a greater extent in strategic governance.

The Swedish National Audit Office's recommendations

To maintain confidence in Swedish development aid it is important that the deficiencies found in the audit be dealt with. The Swedish NAO believes that there are good opportunities to make changes that will enable the Government's and the Swedish Ministry for Foreign Affairs' activities to be characterised by greater transparency and openness. For example, as has been mentioned, an internal review of the Ministry for Foreign Affairs' handling of grants is in progress, aimed at improving the Ministry's internal processing of grants.

The Swedish NAO's recommendations based on the audit are set out below.

The audit has not examined the present organisation of multilateral development cooperation. However, the Swedish NAO wishes to emphasise that if no improvement is made the Government should conduct an open-minded review of the organisation of multilateral development cooperation.

- The Government should make formal decisions on the allocation of core funding. Swedish core funding involves considerable amounts every year. Decisions on levels for core funding are Sweden's most important policy instrument in multilateral development cooperation. Thus it is reasonable that the Government makes formal decisions on the levels of all core funding. It would facilitate accountability and improve conditions for transparency in the decision-making process.
- The Government and Government Offices (Ministry for Foreign Affairs) should ensure that decisions are documented clearly and informatively. To create increased clarity on motives for decisions, more detailed assessments of the organisations' relevance and effectiveness should be presented in the decisions. The size of the support should also be more clearly linked to these assessments.
- The Government and Government Offices (Ministry for Foreign Affairs) should ensure effective performance reporting of multilateral development cooperation. The performance reporting could be made more active within the framework of the formal organisation assessments and organisation strategies (performance strategies). If the current guidelines on this are followed, there are good chances for better performance reporting of multilateral development cooperation.

- The Government should consider introducing coherent reporting of Sweden's multilateral development cooperation. A coherent performance communication on multilateral development cooperation could be presented to the Riksdag at regular intervals, for example every other year. The performance communication could appropriately contain a detailed performance analysis of Sweden's core funding. Performance reporting should also describe the governance and advocacy of the Ministry for Foreign Affairs as well as the work of organisation assessments and performance strategies.
- The Government should develop reporting in the Budget Bill. It is reasonable that the Budget Bill should contain a complete account of Sweden's core funding to multilateral organisations as well as development funds and development banks. Even if this is not subject to a Riksdag decision it may be valuable for the Riksdag to be informed of Sweden's involvement in international organisations.
- The Government Offices (Ministry for Foreign Affairs) should ensure improved effectiveness in the handling of multilateral development cooperation. The administrative burden can be reduced. It is possible to make the processing of multilateral development cooperation more effective. Certain administrative tasks could be made simpler or eliminated.
- The Government Offices (Ministry for Foreign Affairs) should ensure effective case management and archiving that promotes transparency in multilateral development cooperation. Case management and archiving at the Ministry for Foreign Affairs should be adapted so that day-to-day governance and advocacy in relation to the organisations can be documented better.