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Aid through budget support

*The Government's and Sida's handling of
a key type of development aid*

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Aid through budget support – The Government's and Sida's handling of a key type of development aid

Riksrevisionen (the Swedish National Audit Office, SNAO) has audited the handling by the Government and the Swedish International Development Cooperation Agency (Sida) of budget support as well as the Government's reporting to the Riksdag (Parliament) on budget support. The findings of the audit are presented in this performance-audit report.

Representatives of the Ministry for Foreign Affairs and Sida have been given the opportunity to read a draft version of the final report in order to examine its content from a factual point of view and to provide any other comments.

The report is submitted to the Government in accordance with Section 9 of the Act on the Audit of Public Operations (SFS 2002:1022), and it is submitted at the same time to the Board of Directors of the SNAO.

The report includes conclusions and recommendations which relate to Sida. It is therefore sent for information to Sida.

Lennart Grufberg, Auditor General, has had the right of decision in this matter. *Charlotta Edholm*, Audit Director, has been in charge of presenting material. *Anna Dubaric Norling*, Senior Auditor, and *Hans Folkesson*, Deputy Director, have participated in the final handling of the matter.

Lennart Grufberg

Charlotta Edholm

For information:
Sida

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Summary

Reasons for the audit

The Riksdag (Swedish Parliament) adopted a new Policy for Global Development in 2003. This policy established a new objective for development cooperation: to contribute to an environment supportive of poor people's own efforts to improve their quality of life. At the same time, the Riksdag decided that development aid should amount to 1 per cent of the Swedish gross national income. The growing importance of budget support can be seen against this background. In addition, this development is also a result of international agreements to the effect that aid should increasingly be given in more general forms and that the handling of aid should be harmonised among donor countries.

Budget support is financial support provided to the national budget of a poor country in order to support poverty reduction in that country. The choice of this type of support is based on the assumption that aid will be more effective if it is governed to a greater extent by the recipient country's own priorities rather than by requirements imposed by donors.

From the perspective of recipient countries, it is important that budget support is predictable. This requires that decisions on budget support be based on long-term positions which, in turn, must build on careful analysis.

The effectiveness of budget support depends on two factors: first, the extent of political will in the recipient country to implement measures to reduce poverty and, second, the effectiveness of economic policy and public financial management in that country. For budget support to be an appropriate type of aid, certain basic conditions with regard to the economic policy and public financial management of the recipient country must be met. In addition, the recipient country must have a poverty-reduction strategy whose content is deemed to be credible and relevant.

The Riksdag has emphasised that the Government should create conditions ensuring that decisions on budget support can be based on a solid foundation, given that budget support constitutes support to the overall policy of the recipient country. The Government has authorised Sida (Swedish International Development Cooperation Agency) to prepare matters, enter into agreements and make disbursements in the field of

budget support. This delegation of responsibility makes heavy demands on the ability of the Government Offices (i.e. ministries) and Sida to determine whether the conditions for the provision of budget support are met.

The financial-audit function of *Riksrevisionen* (the Swedish National Audit Office, SNAO) has criticised the preparation of budget-support matters at Sweden's embassies in Mozambique and Tanzania – the two largest recipients of Swedish budget support. This criticism related, among other things, to a lack of clarity in the criteria for the assessment of matters relating to budget support.

The volume of budget support is approaching SEK 1 billion. In 2006, Sida disbursed SEK 862 million as budget support.

Against this background, the SNAO has carried out a performance audit of the Government's and Sida's handling of budget support as well as the Government's reporting to the Riksdag. The SNAO has based its audit on the following audit questions:

- Are the Government's decisions on budget support well-founded?
- Does Sida make assessments of whether the conditions for budget support are met which are well-founded and consistent?
- Does the Government's reporting to the Riksdag on budget support give a fair picture?

The starting point of the SNAO's audit is the Riksdag's decision to adopt a Policy for Global Development. As regards the audit question of whether Sida's decisions on budget support are well-founded, the starting point is the Government's guidelines for cooperation strategies, in particular their appendix containing guidelines for budget support.

The main focus of the audit is on how the Government has exercised control over the budget support and on how Sida has assessed whether the conditions for the provision of budget support are met, i.e. how Sida has applied the criteria included in the Government's guidelines. The audit also deals with Sida's preparations and monitoring prior to decisions to disburse budget support.

The audit concerns budget support decided upon between January 2005 and November 2006. It covers budget support provided to Mali, Burkina Faso, Tanzania, Rwanda, Mozambique, Nicaragua, Uganda and Zambia. It is based on the study of documents and on interviews conducted at the Government Offices in Stockholm and at Sida. The SNAO has visited two of the countries: Uganda and Rwanda. In addition, the SNAO has sent a questionnaire to heads of development cooperation at the foreign missions (i.e. embassies and Sida sectional offices) concerned.

The Government

In April 2005, the Government established guidelines for cooperation strategies, including guidelines for budget support. The guidelines for budget support lay down three main requirements for a country to be eligible for budget support:

- it must have a strategy for poverty reduction;
- its systems for public financial management must be adequately functional and transparent, so that it is possible to monitor whether the funds provided are used for the purposes intended;
- its economic policy must be responsible and long-term sustainable.

Cooperation strategies are the planning tools available to the Government for exercising direction over Sweden's long-term development cooperation with individual countries. The cooperation strategy is where the Government makes long-term political decisions which will then govern Sida's implementation of aid policy. The cooperation strategies shall establish how Sweden views cooperation with the country concerned, how extensive it should be and what results are to be expected.

The Government is to adopt a position on whether budget support may be a suitable form of cooperation with a given country as an integral part of its work to draw up a new cooperation strategy for that country.

Once the Government has adopted a new cooperation strategy, including a decision on whether budget support may or may not be provided, Sida can decide on budget support, including its disbursement, after due preparation of the matter.

The Government decided in May 2005 to authorise Sida to decide on budget support to ten countries. All of the countries included in the audit of budget support – i.e. Tanzania, Mozambique, Uganda, Rwanda, Zambia, Burkina Faso, Mali and Nicaragua – were covered by this decision. The SNAO notes that the authorisation decision does not contain any clarification as to the part which budget support should play in Sweden's cooperation with the respective countries. Instead, the Government has stated that budget support is to be governed by country strategies previously adopted – i.e. by strategies drawn up under earlier rules.

Since then, the Government has decided upon a new cooperation strategy only for Tanzania. The Government began a review of the number of recipient countries in the autumn of 2006. As a result, it has not decided upon any new cooperation strategies including budget support, preferring instead to extend the validity of old country strategies. The SNAO notes that, as a consequence, cooperation strategies do not yet have a governing function as intended in relation to budget-support cooperation with recipient countries. This entails that Sida has to assume greater responsibility than intended under the guidelines for cooperation strategies.

It is important that the assessments made by Sida are based on long-term positions adopted by the Government. If the assessments instead have to be based on more short-term decisions, there is a risk that the countries receiving budget support will not be treated in the same way. What is more, there is also a risk that budget support will be less predictable from the viewpoint of the recipient countries.

With the exception of Tanzania, the Government has failed to decide upon cooperation strategies for the countries receiving budget support. Its decision to delegate authority to Sida is still valid. The SNAO is of the opinion that, against the background of the extent of the responsibility delegated by it to Sida, the Government should have followed up its decision carefully. The present design of consultations between the Ministry for Foreign Affairs and Sida does not, in the SNAO's opinion, meet the requirements of follow-up which should be carried out given the political nature of budget support.

In its audit, based on its analysis of the documentation underlying Sida's decisions, the SNAO has identified a number of deficiencies in the Government's guidelines for budget support.

The guideline document is extensive and has a high level of detail. The factors to be assessed are numerous, but there is a lack of specification as to how the assessments are to be made. The guidelines are intended to be used not only for budget support but also for other types of support which are similar to budget support. Neither the Government nor Sida has specified what types of support are to be considered similar to budget support. Further, the guidelines provide little guidance as to how a follow-up should be achieved in countries whose monitoring systems are inadequate. They deal only briefly with instructions relating to monitoring and disbursement. In its guidelines for budget support, the Government refers to Sida's own steering documents. The SNAO is of the opinion that this is not a very appropriate way to exercise direction over government agencies because there is a risk that it will be unclear what rules apply to budget support. Taken together, the SNAO finds that the Government's guidelines for budget support have not had a sufficiently large impact on the documentation underlying Sida's decisions.

The SNAO finds that the risks associated with general budget support are discussed only to a small extent in the Government's budget bills. The Government's reporting to the Riksdag in the Budget Bill for 2006 includes presentations of all countries having received budget support except Uganda, despite the fact that the political situation in that country was critical at the time. In fact, the political upheavals resulted in the suspension of budget support to Uganda a few months later. The Government's presentations of other countries focus mainly on the positive effects of budget support, less on the risks associated with it. The SNAO is of the opinion that this does not give a true and fair picture of how budget support works.

Sida

The SNAO is of the opinion that the Government, by delegating matters of budget support to Sida, has given Sida a great deal of responsibility for preparing and deciding matters of budget support. Sida has a duty to assess whether the conditions for budget support are met by applying the Government's guidelines for budget support. Three main factors are to be examined: the recipient country's poverty-reduction strategy, economic policy and public financial management.

As part of its assessment of a recipient country's poverty-reduction strategy, Sida has to analyse the link between the strategy and the national budget of that country. Differences among countries are large as regards the thoroughness with which Sida has performed such analysis, for example in the extent to which Sida deals with budget outcomes. In its assessment of a recipient country's ability to implement its poverty-reduction strategy, Sida focuses more on future reforms than on present institutional capacity.

The follow-up of budget support is made more difficult by the inadequacy of monitoring systems in the recipient countries. The Government's guidelines for budget support do not provide sufficient guidance as to how Sida should carry out monitoring in such cases. However, the SNAO is of the opinion that Sida should nevertheless have been able to account in a more transparent manner for the results that individual budget-support actions are expected to yield and for how performance is to be monitored.

Sida's presentations on economic policy are usually brief, and descriptive rather than analytical. According to the Government's guidelines, the view of the International Monetary Fund (IMF) on the economic policy of a country should be an important starting point for Sida's assessments, but Sida uses the IMF's analyses to only a limited extent.

In its examination of the parts of the documentation underlying Sida's decisions which relate to public financial management, the SNAO has found the documentation to be incomplete in this respect. Sida has a checklist which explicitly specifies the factors to be analysed in the evaluation of public financial management in the recipient countries. The SNAO finds, however, that Sida has failed to use this checklist when assessing whether the conditions for budget support are met. Sida's evaluations of systems for public financial management focus much too extensively on the weaknesses of these systems and on reform programmes, without providing an equally large amount of information about those aspects which actually work in a satisfactory manner. It is not sufficiently clear from Sida's presentations whether all the deficiencies identified are the subject of actions, what the time schedules of such actions are or how they are to be monitored. This applies to a greater or lesser extent to the documentation underlying each

of the decisions examined. To sum up, the SNAO is of the opinion that Sida has failed to provide a sufficiently clear picture of how the systems for public financial management are working.

The SNAO also finds that most analyses of corruption included in the documentation underlying Sida's decisions are brief and summary in nature. For example, Sida sometimes states that the requisite legislation exists but does not describe how it works in practice.

Sida's guidance as regards risk analysis is scant, and this is reflected in the documentation underlying its decisions, which in several cases does not contain an exhaustive risk analysis. For example, there is often no discussion of how the risks associated with budget support can be dealt with.

To sum up, the SNAO finds that the documentation underlying several of Sida's decisions rather has the character of a descriptive presentation than of explicit analysis and conclusions. Sida often presents critical remarks relating to various circumstances in a recipient country which could have a negative impact on the effectiveness of budget support. However, Sida does not present objective reasons of a positive nature to the same extent. It is therefore difficult to follow Sida's reasoning and to understand why it concludes that budget support is a suitable form of support. Further, Sida has chosen to base the structure of the documentation underlying its decisions on budget support on that of the template it uses for matters of project support. This adds to the difficulties associated with understanding Sida's analysis and positions with regard to the main requirements for the provision of budget support.

Against the background of the above, the SNAO is of the opinion that Sida has not shown in a satisfactory manner, in the documentation underlying its decisions on budget support, whether the main requirements under the Government's guidelines for budget support are met. Sida's assessments do not comply with the requirements laid down in the Government's guidelines for budget support. The SNAO further notes that the analytical material included in the documentation underlying Sida's decisions does not, for any of the countries, contain analyses which have been performed throughout in a sufficiently systematic way to enable the development of the fundamental factors determining eligibility for budget support to be compared over time or between countries.

The SNAO concludes that Sida has failed to specify the criteria in the Government's guidelines for budget support. Sida has not concretised, in steering documents or the like, how the Government's guidelines for budget support are to be applied in assessments of the main requirements for the provision of budget support. Instead, Sida has a number of steering documents of varying status which have a bearing on budget support, but Sida's steering document on public financial management, to which the

Government refers in its guidelines, is not used by Sida in its preparation of matters of budget support.

The steering documents show that Sida does not lack knowledge in the field, but Sida has failed to translate its knowledge into practical instructions as to the assessment of compliance with the conditions for budget support. The SNAO's observations further indicate that Sida considers the Government's guidelines more as guidance than as instructions which have to be applied to its work. The SNAO finds that, taken together, this means that individual officials will to a large extent have to form their own opinion as to how compliance with the conditions for budget support are to be assessed.

Against the background of the observations made during the audit, the SNAO addresses the following recommendations to the Government and to Sida, respectively:

The SNAO's recommendations to the Government

- The Government should, without delay, decide upon cooperation strategies for the countries which receive budget support;
- The SNAO recommends that the Government should try, as part of the planned review of its guidelines for budget support, to simplify these guidelines and clarify them in the following respects:
 - the Government should provide Sida with additional guidance as to the levels which recipient countries should have attained, in terms of public financial management and economic policy, in order to become eligible for budget support;
 - the Government should clarify its guidelines as regards the following-up of budget support;
 - the Government should also clarify under what conditions the guidelines are to be applied to aid types which are similar to budget support;
- The Government should, against the background of its decision to delegate authority to Sida and for other reasons, carry out systematic follow-ups of Sida's application of the Government's guidelines for budget support;
- The Government should provide a more true and fair picture of budget support in its reporting to the Riksdag, and delineate in a more transparent manner the nature of the risks associated with this type of support.

The SNAO's recommendations to Sida

- Sida should draw up an integrated steering document corresponding to the Government's guidelines for budget support. In this document, Sida should clarify and specify how assessments are to be made in preparation for decisions on budget support;
- Sida should take action to ensure that its decisions on budget support and its documentation underlying such decisions comply with the requirements laid down in the Government's guidelines for budget support;
- Sida should perform, on a regular basis, systematic risk analyses in relation to the recipient countries to which aid is given in the form of budget support or sector support;
- Sida should ensure that clear definitions of the various types of support are established and that all types of support can be monitored and followed up.

1 Introduction

Riksrevisionen (the Swedish National Audit Office, SNAO) has audited the handling by the Government and the Swedish International Development Cooperation Agency (Sida) of budget support as well as the Government's reporting to the Riksdag (Parliament) on budget support. The findings of the audit are presented in this report.

1.1 Background to and reasons for the audit

The Riksdag adopted a new Policy for Global Development in 2003. This policy laid down a new objective for Sweden's development cooperation: to contribute to an environment supportive of poor people's own efforts to improve their quality of life. At the same time, the Riksdag decided that development aid should amount to 1 per cent of the Swedish gross national income. The growing importance of budget support can be seen against this background. This development is also a result of international agreements to the effect that aid should increasingly be given in more general forms. Further, these agreements stipulate that the handling of aid should be harmonised among donor countries and that efforts should be made to obtain a larger degree of alignment with recipient countries.

Budget support is financial support provided to the national budget of a poor country in order to support poverty reduction in that country. The choice of this type of support is based on the assumption that aid will be more effective if it is governed to a larger extent by the recipient country's own priorities rather than by requirements imposed by donors.

From the perspective of recipient countries, it is important that budget support is predictable. This requires that decisions on budget support be based on long-term positions which, in turn, must build on careful analyses.

The effectiveness of budget support depends on two factors: first, the extent of political will in the recipient country to implement measures to reduce poverty and, second, the effectiveness of economic policy and public financial management in that country. For budget support to be an appropriate type of aid, certain basic conditions as regards the economic policy and public financial management of the recipient country must be met. In addition, the recipient country must have a poverty-reduction strategy whose content is deemed to be credible and relevant.

The Riksdag has emphasised that the Government should create conditions ensuring that decisions regarding budget support can be based on a solid foundation, given that this constitutes support to the overall policy of the recipient country. The Government has authorised Sida to prepare matters, enter into agreements and make disbursements in the field of budget support. This makes heavy demands on the ability of the Government Offices (i.e. ministries) and Sida to determine whether the conditions for the provision of budget support are met.

The financial-audit function of the SNAO has criticised the preparation of budget-support matters at Sweden's embassies in Mozambique and Tanzania – the two largest recipients of Swedish budget support. This criticism relates, among other things, to a lack of clarity in the criteria for the assessment of matters relating to budget support.

The volume of budget support is approaching SEK 1 billion. In 2006, Sida disbursed SEK 862 million as general budget support.¹

1.2 Audit questions and audit scope

1.2.1 *Audit questions*

The purpose of this audit is to examine the Government's and Sida's handling of budget support as well as the Government's reporting to the Riksdag. The audit questions to be answered are the following:

- Are the Government's decisions on budget support well-founded?
- Does Sida make assessments of whether the conditions for budget support are met which are well-founded and consistent?
- Does the Government's reporting to the Riksdag on budget support give a fair picture?

1.2.2 *Audit scope*

The SNAO's audit takes as its starting point the guidelines for cooperation strategies established by the Government in April 2005.² The main focus of the audit is on how the Government has exercised direction over budget support and on how Sida has assessed whether the conditions for the provision of budget support are met, i.e. how Sida has applied the criteria laid down in the Government's guidelines for budget support, which are presented in an appendix to the guidelines for cooperation strategies. The audit also deals with Sida's preparatory and follow-up work prior to decisions to disburse budget support.

¹ In the rest of this report, the term 'budget support' refers to general budget support unless otherwise indicated.

² The Government decision of 5 May 2005 whereby Sida is authorised to prepare matters, take decisions and make disbursements in the field of budget support also covers Honduras and Ethiopia. However, Sida has not taken any decisions on budget support to these two countries.

The audit concerns budget support decided by the Government and Sida from January 2005 to November 2006. It covers budget support given to Mali, Burkina Faso, Tanzania, Rwanda, Mozambique, Nicaragua, Uganda and Zambia. Further, the audit is restricted to budget support given within the framework of bilateral aid cooperation. This means, for example, that the budget support to which Sweden contributes through the European Commission is not included in the audit.

1.3 Assessment criteria

The SNAO's assessment of the Government's and Sida's preparation of budget-support matters takes as its starting points the Riksdag's decision regarding a Policy for Global Development and the objective of Sweden's international development cooperation, which is 'to contribute to an environment supportive of poor people's own efforts to improve their quality of life' (the 'poverty objective'). In its assessment of the audit question as to whether Sida's decisions on budget support are well-founded, the SNAO takes as its starting point the Government's guidelines for cooperation strategies, in particular their appendix on guidelines for budget support.

1.3.1 *The Policy for Global Development*

The Riksdag decided upon a new policy for international development cooperation in December 2003. The aim of this policy is to lay the foundations for a coherent Swedish Policy for Global Development (PGD) which will contribute, in turn, to achieving the UN's Millennium Objective of halving the number of poor people in the world between 1990 and 2015. Further, two main perspectives should inform Sweden's development policy: the rights perspective and the perspective of the poor on development, which means that the needs, interests and conditions of poor people should determine the design and orientation of development cooperation.

The importance of enhancing individual countries' abilities to implement their poverty-reduction strategy is stressed in the PGD Bill. One way of achieving this is to increase the share of Swedish aid which is given as budget support. If the conditions for long-term cooperation are met, the option of budget support may be considered. These conditions must include transparency as regards responsibilities, objectives and resources for cooperation. Further, the respective tasks to be carried out by Sweden and the recipient country must also be clearly stated, as must the conditions under which the support will continue to be provided or will be modified, terminated or suspended.

The PGD Bill says that the use of budget support should increase progressively as countries develop greater capacity to implement public operations and report on them. The Government states that countries deemed to meet the conditions should be eligible for general budget support under which they will be independently responsible for the result achievement. The basis for cooperation should be the existence, in the recipient country, of a poverty-reduction strategy with explicit objectives.

The Riksdag further lays down that Swedish aid should go primarily to the poorest countries. It is the Government's task to determine what countries may be eligible for budget support.

The division of responsibility between the Riksdag and the Government as regards the allocation of resources is the following: the Riksdag determines the total aid appropriation, whereupon the Government decides how this should be allocated between multilateral and bilateral aid. Budget support is part of the bilateral aid.

1.3.2 *Guidelines for cooperation strategies, with an appendix on budget support*

As part of its execution of the Riksdag's decision on a new policy for global development, the Government issued guidelines for cooperation strategies which included an appendix containing guidelines for budget support. In this appendix, the Government sets out three main requirements which must be met for a country to be eligible for budget support: it must have a credible and relevant poverty-reduction strategy, a sound and sustainable economic policy and adequate public financial management. The guidelines for budget support also impose requirements with regard to risk analysis and the assessment of the anti-corruption efforts carried out in the country concerned.

1.4 **Auditees**

1.4.1 *Government Offices – Ministry for Foreign Affairs*

At the Ministry for Foreign Affairs, methodological and policy-related matters of budget support are dealt with by the Department for Management and Methods in Development Cooperation (USTYR). This department is responsible for coordinating the aid budget, exercising direction over government agencies and dealing with matters relating to Sida. In addition, it has responsibility for matters of methodology and policy in relation to cooperation strategies and for issues relating to the methods and efficiency of development assistance.

1.4.2 *Sida*

Like other Swedish government agencies, Sida (the Swedish International Development Cooperation Agency) acts independently within the framework laid down by the Riksdag and the Government.

Responsibility for individual budget-support actions rests with the regional department for the country concerned; in the case at hand, the regional departments for Africa and Latin America, respectively, are those responsible. The tasks of these departments include the drafting of proposals for cooperation strategies which are submitted to the Government as well as the subsequent coordination of development cooperation in line with the strategies decided upon. Sida's Policy and Method Department has overall responsibility for coordinating Sida's policy and methodological work in relation to budget support.

Sida's field staff belong from an organizational standpoint to Sweden's embassies. In countries where Sweden has no embassy – including Mali, Rwanda and Burkina Faso – Sida has a sectional office instead. These Sida employees are in charge of preparing matters and conducting operational monitoring in relation to budget support.

By virtue of the instructions for Sweden's foreign representation, Sida is entitled to issue directives to embassies regarding issues relating to international development cooperation. When the term 'missions abroad' is used in this report it refers to Sida's representation in the field.

1.5 Implementation and method

Answers to the audit questions have been sought mainly through the study of documents and through interviews, conducted primarily at the Government Offices and at Sida. This gathering of information has been supplemented with a questionnaire survey among Sida's heads of development cooperation in the countries which have received budget support during the period covered by the audit.

The SNAO has examined the documentation underlying the Government's decisions on budget support and that underlying Sida's decisions to provide and disburse budget support. In addition, the SNAO has examined the Government's reporting to the Riksdag on budget support. The documentation underlying Sida's decisions on budget support has been examined for the period from May 2005 to November 2006. The SNAO has largely chosen to restrict its audit to the documents produced by Sida as a basis for its own decisions ('assessment memoranda').³

³ A joint multi-donor assessment (or 'appraisal') memorandum intended to underpin the decision on budget support to Zambia has been included in the audit.

In addition, the SNAO has visited Uganda and Rwanda to obtain more information about the local handling and following-up of budget support. The visit to Rwanda was carried out in cooperation with the United Kingdom National Audit Office, which was conducting a parallel audit of British budget support.

1.6 Structure of the report

Chapter 2 of the report gives a background to budget support. The next three chapters (Chapters 3–5) present the SNAO's observations. Chapter 3 contains the information on which the SNAO has based its assessment of the Government's decisions on budget support and the Government's reporting to the Riksdag. Chapters 4 and 5 deal with Sida's assessments of whether the conditions for the provision of budget support are met in the countries concerned. The SNAO's conclusions are presented in Chapter 6 and its recommendations are given in Chapter 7.

2 What is budget support?

Budget support is a general form of financial support provided to developing countries.⁴ The Swedish Government defines 'general budget support for poverty reduction' as 'non-earmarked support to the revenue side of a country's national budget provided in order to support that country's implementation of its poverty-reduction strategy'. This means that aid funds are paid directly into the national budget of the recipient country and channelled through that country's own systems.

The effectiveness of budget support is largely dependent on a number of factors in the recipient countries, such as their political willingness to implement actions in order to reduce poverty and improve public financial systems. Several of the countries receiving budget support face problems due to insufficient capacity and weak institutions. Corruption and inadequate public governance further hamper the development of these countries.

According to the Swedish Government, well-designed budget support offers a number of advantages over other forms of support. Budget support is intended to make recipient countries more likely to assume ownership of and responsibility for their own national development as well as to reduce transaction costs both for donors and for beneficiaries. Moreover, budget support may help bring about reforms to improve the macroeconomic situation and public financial management.

2.1.1 *Sweden is not the only country providing budget support*

The Paris Declaration made the UN's Millennium Declaration more tangible in that donors and recipient countries agreed to carry out concrete measures to strengthen the recipient countries' ownership of development processes and enhance harmonisation among donors. One concrete way of achieving this is to reduce the share of project support and increase that of programme support such as budget support. The target is for programme support to account for 66 per cent of all support by 2010.

Swedish budget support is often provided in close collaboration with other donor countries and international organisations such as the European Commission and the World Bank. Budget support necessitates coordination on the part of donors in their contacts with the recipient country. This type

⁴ Examples of other general forms of support include debt relief and balance-of-payments support.

of cooperation also requires that donors abstain from allowing their own interests to take too large a place. Another important player in the field of international development cooperation is the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD), which is a forum where donor countries meet to discuss policy issues relating to international development cooperation.

2.1.2 Budget support in figures

In 2006, Sweden engaged in budget-support cooperation with eight countries: Burkina Faso, Mali, Mozambique, Nicaragua, Rwanda, Tanzania, Uganda and Zambia. A total of SEK 862 million was disbursed as general budget support in 2006. This represents 5.47 per cent of Sida's total development aid in that year. The support paid by Sida in 2006 to international development cooperation amounted to about SEK 15.4 billion. Figure 1 shows the amounts paid to each country in 2006.

Figure 1. Countries to which Sweden gave budget support in 2006

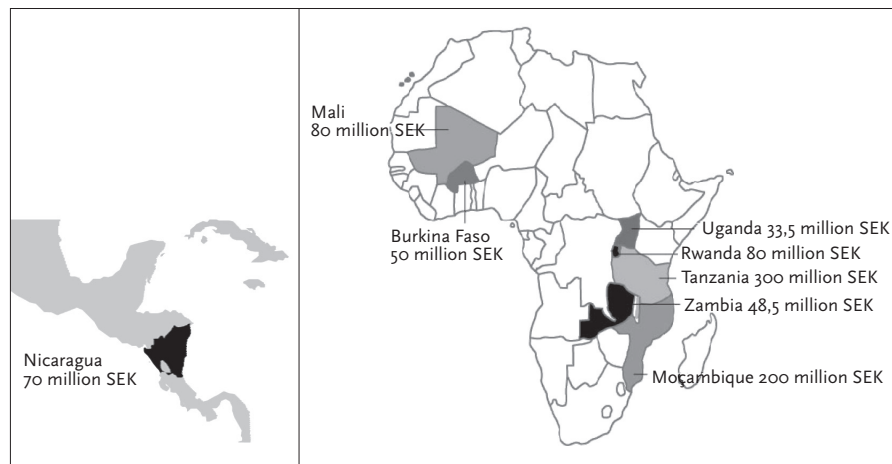
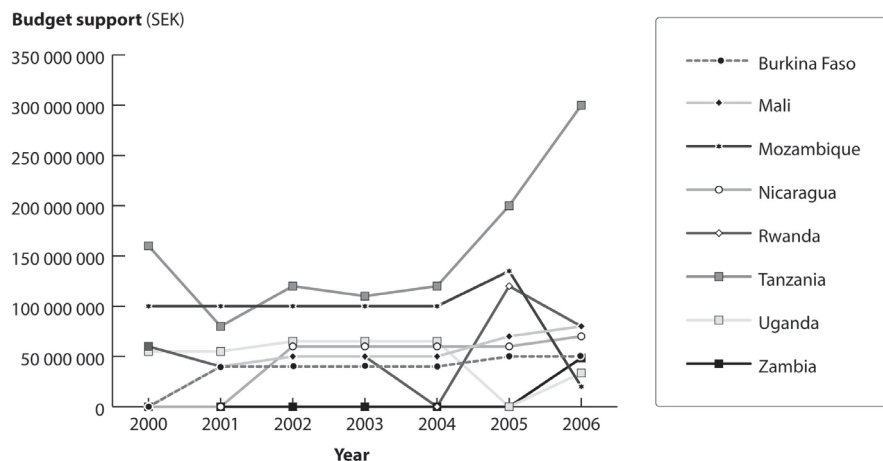


Figure 2 on the next page shows the development of budget support to the countries which received such support in 2006. For Tanzania and Mozambique, the amount of budget support has risen rather strongly during the period concerned. Part of the explanation is that aid which was previously channelled in other forms is now given as budget support. For Nicaragua, Burkina Faso and Mali, the level of budget support has been more or less the same throughout the period. Zambia received budget support for the first time in 2006. Uganda and Rwanda have seen a more uneven development as regards the amount of budget support provided to them.

Figure 2. Countries which received budget support from Sweden in 2001–2006 (amounts in SEK)



Source: Sida Inventory of Programme Support, 2007.

2.1.3 OECD/DAC evaluation of budget support

In the spring of 2006, the OECD/DAC published an extensive evaluation⁵ of the budget support provided to seven countries, of which Burkina Faso, Mozambique, Nicaragua, Uganda and Rwanda are covered by the present SNAO audit of budget support. One of the conclusions drawn was that it was not possible to say whether budget support had led to a reduction of poverty. Two reasons were given for this: first, it was difficult to isolate the effect of budget support from that of other factors; and, second, budget support in its present form had existed for only a few years. In spite of this, however, the evaluators considered that they were able to state that budget support had helped improve access to education and health. In addition, they concluded that budget support had helped improve the systems for public financial management of the countries concerned. On the other hand, the evaluation criticised donors for an inadequate analysis and management of political risks. It suggested that a stepwise reaction is a better way for donors to signal dissatisfaction than a complete freezing of their budget support.

The evaluation also found that a prerequisite for effective budget support is that there is a political will in the recipient country to implement measures leading to a reduction in poverty. In addition, it considered there to be a need for better coordination of capacity-building actions. Recommendations

⁵ Joint Evaluation of General Budget Support, Organisation for Economic Cooperation and Development – Development Assistance Committee, 2006.

were also given as regards conditions for budget support and as regards the monitoring and following-up of such support, especially sector support.

The OECD/DAC evaluation does not discuss the handling of budget support by individual donors.

3 The Government's control of direction and its preparatory work in relation to budget support

This chapter deals with the SNAO's observations as regards the Government's control over the direction of budget support. It concludes with a review of the Government's reporting to the Riksdag on budget support. Taken together, this provides answers to the first and third audit questions.

The Government made two decisions of crucial importance to budget support in the spring of 2005. These decisions altered the division of responsibility and the procedure for the preparation of matters of budget support. First, in April, the Government established guidelines for cooperation strategies, including an appendix containing guidelines for budget support. Just over a week later, the Government authorised Sida to prepare matters, make decisions, enter into agreements and make disbursements relating to budget support to ten specific countries during the period of validity of the respective country or regional strategy. The Government decision also states that budget support shall be governed by the above-mentioned guidelines for cooperation strategies.

3.1 Cooperation strategies

The Government established guidelines for cooperation strategies in April 2005, following the Riksdag's adoption of a Policy for Global Development. The cooperation strategies concerned are intended to function as the Government's planning tools for the implementation of the new policy. It is by means of cooperation strategies that the Government exercises direction over Sweden's long-term development cooperation with individual countries. The cooperation strategies replaced the earlier 'country strategies'.

Budget support is also covered by cooperation strategies. The Government is to take a position on budget support as an integral part of its decision to adopt a new cooperation strategy. Previously, decisions on budget support were made outside the framework of cooperation strategies: the Government then decided on budget support based on annual communications from Sida.

Cooperation strategies shall outline the targets and orientation of the whole development cooperation. A strategy shall be a tool in steering the direction of development cooperation while at the same time reflecting the action which Sweden aims to take in other policy areas. The strategy shall be closely linked to the recipient country's own poverty-reduction strategy, as shall be increasingly coordinated with other donors' strategies for development cooperation in the country concerned.

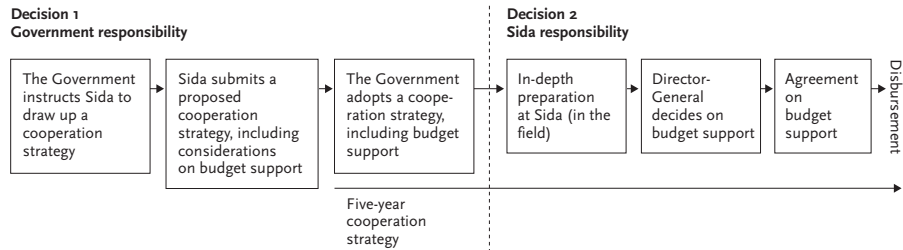
Cooperation strategies deal with fundamental conditions, positions on political matters (democracy, human rights, public governance, etc.), and policy dialogue and donor coordination in development cooperation. Important considerations and issues of dialogue are to be addressed. Cooperation strategies shall establish how Sweden views cooperation with the country concerned, how extensive it should be and what results are to be expected.

Cooperation strategies for individual countries and regions are drawn up jointly by the Ministry for Foreign Affairs and Sida, and they are adopted by the Government. By virtue of its guidelines for cooperation strategies, the Government entrusts Sida with the task of drawing up proposals for cooperation strategies. Such tasks are typically given in the appropriation directions for Sida and are followed by separate and more specific tasks relating to individual countries. Under the guidelines for cooperation strategies, the Government prepares matters of budget support as an integral part of the development of a new cooperation strategy. In cases where it is necessary to consider whether the conditions for budget support are met, Sida is to present its assessment of this matter in a special appendix to its proposed cooperation strategy, stating whether the criteria laid down in the guidelines for budget support can be deemed to be met at an overall level. This will then be part of the basis for the Government's decision as to whether budget support may be an appropriate type of support for the country concerned.

Through this decision, the Government authorises Sida to decide – after due preparation of the matter – on amounts, terms and conditions, and contractual arrangements for budget support as well as on the disbursement of such support. In its guidelines for budget support, the Government states that the handling of matters of budget support should be decentralised as far as possible to the relevant mission abroad.

The figure below illustrates the responsibilities of the Government and Sida in the budget-support process.

Figure 3. Decisional process for budget support under the guidelines for cooperation strategies



If the Government has not adopted a position with regard to budget support in its cooperation strategy for a given country and the situation changes, Sida may submit a communication to the Government asking it to reach a separate decision with regard to budget support.

When the new guidelines for cooperation strategies were adopted, it was decided that they should be reviewed after three years.

3.2 Guidelines for budget support

The guidelines for cooperation strategies decided by the Government in April 2005 were supplemented, in an appendix, by new and more extensive guidelines for budget support. These guidelines replaced earlier guidelines for economic reforms and debt relief.

The guidelines for budget support take as their starting point the Riksdag's Policy for Global Development, in which poverty-reduction strategies, local coordination of aid, harmonisation of aid procedures and an increased focus on programme support assume ever increasing importance.

The guidelines for budget support are intended to clarify and supplement the guidelines for cooperation strategies as regards the handling and assessment of matters of budget support, including monitoring and following-up. This also includes the follow-up of budget support previously given. The assessment process for budget support should concern the same fundamental conditions in the recipient country as are involved in the process to draw up the cooperation strategy. The Government is of the opinion that, as a result of the 'general nature' of budget support, stricter requirements can be imposed on recipient countries receiving budget support than on recipient countries participating in other forms of development cooperation.

3.2.1 *Requirements imposed by the guidelines on Sida's assessments*

The main requirements laid down by the Government in its guidelines for budget support are the following: (i) there must be a nationally owned poverty-reduction strategy in the recipient country, and the content of this strategy must be considered credible and relevant; (ii) there must be overall positive trends in the development of the country's systems for public financial management and a credible reform programme to remedy any deficiencies; and (iii) the economic policy pursued must be responsible and sustainable in the long term. For each of these main requirements, the guidelines give a closer description of the factors to be addressed in the documentation underlying decisions in matters of budget support. The Government does not state any minimum levels.

The analysis performed by Sida must include an evaluation of both the present situation and development trends. The expected results of budget support must be weighed against the risks involved. Sida must provide a detailed description of how it has arrived at its overall assessment. While its analysis may build on analytical work already done, Sida must always draw its own conclusions.

3.2.2 *The Riksdag's view of the guidelines*

In the autumn of 2005, the Riksdag endorsed – in the report presented by its Committee on Foreign Affairs with regard to the Government's budget bill – the Government's efforts to produce a new planning tool (cooperation strategies) in line with the Riksdag's Policy for Global Development. In its report, the Committee emphasised that the Government's considerations regarding budget support should be an integral part of its work to draw up a new cooperation strategy. As part of any decision adopting a new cooperation strategy, the Government will determine whether budget support may be an appropriate type of aid for the country in question.

The Committee also stresses the difficulties often encountered in development cooperation with poor countries. Such countries often have weak institutions, inadequate capacity and corruption problems. Given that budget support constitutes support to the overall policy of a recipient country, the Committee concludes that the provision of this type of support places heavier demands on the analytical work to be performed and on careful weighing of risks and potential benefits than do other types of support.

3.3 How do the Government's guidelines for budget support work?

The guidelines for budget support apply to general budget support and sector budget support.⁶ Further, the Government notes in its guidelines for budget support that there are other types of support which have a similar form to budget support in that resources are channelled to a greater or lesser extent through the recipient countries' own systems. These are all various types of programme support, and here, according to the Government, the guidelines for budget support are to 'have a bearing' on the analysis performed prior to decisions to carry out actions. Various types of programme support are growing in importance, in part as a result of the Paris Declaration.⁷ The SNAO finds that the wording used by the Government in its guidelines for budget support is such that it will be Sida that has to decide how the guidelines are to be applied in such cases.

The Government elaborates on the main requirements of its guidelines for budget support by presenting, in great detail, a number of factors in each area which Sida is to assess. In this context, the Government mixes formulations oriented towards objectives (e.g. on the appropriate design of systems for public financial management) with 'softer' formulations on how assessments should be made (e.g. that the risk of resources not being used for the purposes intended should be weighed against the expected positive effects of budget support).

In several instances, the guidelines for budget support contain passages which are identical to passages in the main document, i.e. the guidelines for cooperation strategies.

In its guidelines for budget support, the Government states that Sida, in its assessment of the recipient countries' systems for public financial management, is to assign an important place to the risks of corruption. The Government goes on to say that an explicit integral assessment of corruption is to be made. However, the Government does not further specify what is to be included in this assessment.

Many of the countries with which Sweden engages in long-term development cooperation are among the least-developed countries of the world. They have weak systems and institutions. It should be kept in mind that these are the countries which are to be assessed on the basis of the Government's guidelines for budget support. The Government states in

⁶ In the Government's 'Guidelines for cooperation strategies' sectoral budget support is defined as 'financial support to a country's national budget which is not earmarked but for which assessment, dialogue, conditions and performance monitoring focus on a specific sector.

⁷ Follow-up of the Paris Declaration shows that, in March 2005, 47 per cent of Swedish aid went to the public sector and was channelled through the beneficiary countries' own systems. An equally large share of the aid was programme-based. This information has been taken from a publication entitled 2006 Survey on Monitoring the Paris Declaration – Overview of the results, OECD/DAC, 2007, and it is based on a questionnaire survey of 34 beneficiary countries which represented 59 per cent of all aid destined for specific countries in 2005.

these guidelines that no minimum levels can be set, but it is also not clear from the guidelines at what level the standard should be set. The wording used by the Government is that 'thresholds should be rather high' for entering as well as abandoning budget-support cooperation.

The Ministry for Foreign Affairs emphasises that these guidelines are to govern Sida's work on budget support.

Questions relating to the interpretation of the guidelines for budget support were included in the questionnaire used in the SNAO's survey among heads of development cooperation in the countries which receive budget support. The guidelines receive fairly good marks on several counts when it comes to their ease of use, for instance as regards clarity, guidance in the assessment of poverty-reduction strategies and assessment of public financial management. However, most respondents are of the opinion that the guidelines are too extensive and detailed. Another frequent comment is that the guidelines focus more on the development of cooperation strategies than on the preparation of matters of budget support, and that it is unclear what requirements apply to which type of work.

In several places in the guidelines for budget support, the Government places requirements on Sida's preparation of budget-support matters by referring to documents used in Sida's internal control. For instance, the Government states that the preparation of budget-support matters should comply with Sida's rules for the preparation of major aid programmes. As regards Sida's assessment of systems for public financial management, the Government refers to Sida's steering document on public financial management, in which there is a more detailed checklist of how to make assessments. In Sida's internal management and control structure, this document has the status of a 'position paper'.⁸ As a result, there is a risk that there may be a lack of clarity as to what are the requirements imposed upon Sida by the Government and what is Sida's application of the control exercised by the Government.

3.4 Delegation of budget-support matters to Sida

One week after its decision on guidelines for cooperation strategies, including guidelines for budget support, the Government authorised Sida to make decisions, enter into agreements and make disbursements relating to budget support to a number of specific countries. In its decision, the Government stated that budget support was to be governed by its guidelines for cooperation strategies. All of the countries covered by the audit of budget support – i.e. Tanzania, Mozambique, Uganda, Rwanda, Zambia, Burkina

⁸ 'Position paper' is the name given by Sida to governance documents on issues which are considered important but specific.

Faso, Mali and Nicaragua – were covered by this decision.⁹ The authorisation decision is valid for the duration of the respective country or regional strategy. Through its delegation of authority, the Government also removed the ceilings for the size of budget support which had been included in some country strategies. The reason given for this by the Government was that it should be possible to increase budget support if it was appropriate to do so.

Prior to the authorisation decision, the Ministry for Foreign Affairs drafted a preparatory memorandum containing brief (about one page) considerations relating to each country. This memorandum is based on more extensive documents about each country provided by Sida and on supplementary material which the Ministry requested from Sida. The guidelines for budget support include a requirement that, in connection with the drafting of a cooperation strategy, Sida must present its assessment of whether the criteria laid down in the guidelines can be deemed to be met at an overall level. On the basis of Sida's proposals, the Ministry then concluded that there was justification for the Government to decide that Sida should be given authorisation to prepare and make decisions in matters of budget support for ten out of the twelve countries concerned.

In its authorisation decision, the Government stated that budget support is to be governed by the country strategies previously adopted. According to the guidelines for cooperation strategies, the Government's considerations relating to budget support are to be an integral part of its work to draw up a new cooperation strategy. However, the SNAO finds that the authorisation decision does not contain any such considerations.

The special delegation decision was intended as a transitional solution until the Government progressively established cooperation strategies for the various countries. Since that time, however, the Government has decided upon only one cooperation strategy which includes budget support. This strategy relates to Tanzania and covers the 2005–2010 period, and the relevant decision was adopted by the Government in June 2006. This decision is based on documentation provided by Sida which consists of a proposal for a cooperation strategy and an appendix dealing specifically with budget support. In its cooperation strategy for Tanzania, the Government states that there will be a progressive shift from project support to budget support during the period concerned. Budget support will become the principal type of support (but must not amount to more than 70 per cent of the country framework).

On taking office, the present Government initiated a review of aid-recipient countries with a view to reducing their number. This review – called 'country-focusing work' – continued until early September 2007.

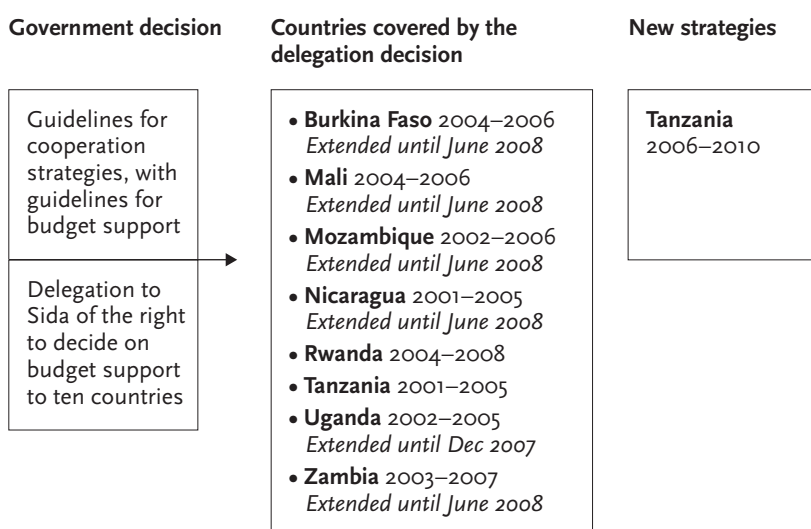
⁹ The Government decision also covered Ethiopia and Honduras, but since Sida has not decided on any budget support to these two countries they are not included in this audit.

During this period, the Government has not adopted any cooperation strategies for countries covered by the SNAO's audit. Instead, it has extended the validity of country strategies which had expired.

This means that, more than two years after the adoption of the guidelines for cooperation strategies, a transitional solution is still being applied to all countries which receive budget support except Tanzania. As a result, many of the country strategies are old. That for Uganda dates from December 2002, that for Mozambique from 2002 and that for Zambia from 2003. The country strategy for Uganda has had its validity extended until December 2007 while those for Mozambique and Zambia will be valid until June 2008.

The figure below shows that the new arrangements apply fully only to Tanzania whereas Sweden's cooperation with the other countries is still governed by country strategies.

Figure 4. The Government has authorised Sida to decide on budget support



The consequence of using country strategies which have not been drawn up in accordance with the guidelines is that these strategies will not play a central part in the dialogue with the recipient country in the way described in the guidelines for cooperation strategies. Instead of there being a cooperation strategy which deals with the most important issues in relation to Sweden's overall contribution to the country, assessments will have to be made on a case-by-case basis as needs arise. This, in turn, means that Sida has not been able to take a long-term view in the way intended. For the countries covered by the authorisation decision, Sida cannot enter into agreements on budget support lasting beyond the end of the period of validity of the individual country strategies.

Taken together, this means that the system for preparing budget support which was established through the issuance of the guidelines for cooperation strategies has not been fully applied during the period audited.

3.5 The Government's follow-up of budget support

As part of the follow-up and planning of Sida's bilateral aid operations, the Ministry for Foreign Affairs and Sida are to conduct consultations twice a year. The Government's appropriation instructions for Sida lay down that Sida will participate, together with the Ministry, in consultations on the cooperation strategies which form the basis of development cooperation, including budget support.¹⁰ This is also clear from the guidelines for cooperation strategies. Responsibility for these consultations rests with the Ministry's geographical departments. For countries to which budget support is given, budget support will be one of the matters dealt with in the consultations.

There are no procedural rules for such consultations. The procedures actually followed depend largely on the participants and the current situation in the region or country concerned. Consultations are documented by the officials in charge where this is deemed to be justified. The Ministry is of the opinion that these consultations are important and considers them to be the tool enabling it to influence or inform Sida under the new budget-support arrangements.¹¹

The Government has carried out no specific follow-up of its decision to authorise Sida to take decisions relating to budget support.

The first step in a review of work on cooperation strategies has been taken, but it did not concern budget support.

3.5.1 *Requirements imposed by the Government on Sida's monitoring of budget support*

The aim of budget support, according to the Government's guidelines for budget support, is that it should support the implementation of the recipient country's poverty-reduction strategy. The performance of budget support is to be measured against the objectives and reforms laid down in the recipient country's poverty-reduction strategy. The Government does not further

¹⁰ The SNAO has obtained information from the Ministry for Foreign Affairs which indicates the exact date or the month when such consultations have taken place. Documentation exists for two of the consultation sessions. The consultations held in the autumn as part of Sida's operational planning are not documented; instead, the conclusions arrived at are presented in Sida's country plans.

¹¹ The Government also always has the option of amending its appropriation directions so as to change conditions for Sida as regards the delegated right to decide on budget support. This matter is dealt with in the decision whereby the Government authorises Sida to decide on budget support.

specify the requirements which it imposes on Sida. For example, it is not clear whether Sida has to ensure that there are assessable targets for the period covered by the budget-support decision in question.

The Government starts from the assumption that multi-donor frameworks will be used to follow-up budget support. A 'multi-donor framework' is an explicitly agreed plan for the monitoring of budget support in a specific country which is based on several donors and the national government of the recipient country coming together and reaching agreement. In its examination of Sida's application of the Government's guidelines for budget support, however, the SNAO has found that the follow-up systems in many of the recipient countries are inadequate. This places particular demands on Sida's monitoring of budget support. The guidelines for budget support deal only briefly with the issue of how monitoring should be carried out if the monitoring systems are inadequate or non-existent. The issue of the appropriate design of disbursement conditions is also treated only briefly.

The SNAO's questionnaire survey shows that Sida does not consider the guidelines for budget support to be sufficiently clear with regard to monitoring requirements.

Sida also has a duty to monitor budget support in connection with its recurrent reports on the implementation of cooperation strategies.

Sida's reporting to the Government is to change. The Government is of the opinion that performance reporting in its present form does not create adequate conditions for the effective monitoring of bilateral aid. A new performance model will be introduced in 2008. Under this model, Sida will draw up a separate, detailed performance report to be presented in an appendix to its annual report.

3.6 The Government's reporting to the Riksdag

The presentation of information in the Government's reporting to the Riksdag on development cooperation is based on themes chosen by the Government (such as democracy and human rights, HIV/AIDS, and trade and development) as well as on the continents concerned. Information about different types of aid makes up only a small part of the Government's reporting on development cooperation. The Riksdag has emphasised the importance of drawing attention to the risks associated with budget support compared with other types of aid. The political character of budget support makes it relevant for the Government to inform the Riksdag and present a nuanced picture of both benefits and risks.

The 2006 Budget Bill contains a survey of budget-support cooperation where the results of budget support are discussed. The Government also reports in this bill on its new guidelines for budget support. The presentation

addressed by the Government to the Riksdag deals in turn with each of the countries which receive budget support, with the exception of Uganda. The country-specific presentations focus mainly on the positive effects achieved by budget support in each country, but problems in relation to corruption and weak institutions are also discussed in some cases.

The budget support provided to Uganda has been the subject of discussion owing to the politically unstable situation in the country and the ongoing conflict in its northern parts. In December 2005, Sweden suspended its budget support to Uganda, citing political upheavals as the reason. The Government then reallocated resources from budget support to humanitarian aid, and Sida instead disbursed a small part of the original budget support in the summer of 2006. The political problems in Uganda were known at the time of publication of the Budget Bill, and several other donors had already suspended payments or were discussing doing so. However, the Government chose not to inform the Riksdag about the budget support provided to Uganda. The decision to stop disbursing budget support was given only brief mention in the 2007 Budget Bill.

The SNAO's overall finding is that the risks associated with budget support are discussed only to a small extent in the budget bills.

3.7 Summary of observations

This chapter has dealt with the two audit questions which concern the Government. The SNAO's main observations are the following:

- The Government uses cooperation strategies to control the direction of Sweden's long-term development cooperation with individual countries. The Government takes a position on whether budget support may be given as an integral part of its decision on a new cooperation strategy;
- The Government has authorised Sida to prepare and decide matters of budget support to a number of countries. All of the countries included in the SNAO's audit of budget support – i.e. Tanzania, Mozambique, Uganda, Rwanda, Zambia, Burkina Faso, Mali and Nicaragua – were covered by the relevant decision. The Government states that budget support is to be governed by the country strategies already decided for these countries. The SNAO finds that this decision to delegate authority cannot be considered to meet the requirements imposed on budget-support decisions under the Government's own guidelines for cooperation strategies;
- With the exception of Tanzania, the Government has not established any new cooperation strategies including budget support. The SNAO finds that cooperation strategies therefore do not have a governing function in relation to budget-support cooperation with recipient countries as described in the guidelines for cooperation strategies;

- The guideline document is extensive and has a high level of detail. The factors to be assessed are numerous, but there is a lack of specification as to how the assessments are to be made. The guidelines are intended to be used not only for budget support but also for other types of support which are similar to budget support. It is unclear when and how the guidelines are to be applied in the latter case;
- The Government has failed to follow up its decision to delegate authority to Sida in spite of the fact that this decision constituted a deviation from the principles established in the guidelines for cooperation strategies;
- The SNAO finds that the risks associated with budget support are discussed only to a small extent in the budget bills. The Government's reporting to the Riksdag in the 2006 Budget Bill includes a presentation of all countries which have received budget support, except Uganda.

4 Sida's preparation of budget-support matters

The next two chapters will present observations made in connection with the examination of Sida's decisions on budget support, i.e. observations relating to the second audit question.¹² This chapter deals with the preparatory process while the next one contains a survey of Sida's application of the criteria laid down in the Government's guidelines for budget support.

4.1 Sida's management of budget support

The Government's guidelines for budget support lay down how Sida is to assess conditions for providing budget support. These guidelines also deal with issues of preparation, decision-making, implementation and monitoring of budget support. According to the Government's guidelines, Sida's handling of budget-support matters is to comply with Sida's rules for the preparation of major aid programmes. As regards public financial management, moreover, the Government refers to Sida's 'position paper' on this topic.

Sida's top management have not drafted any special guidance or otherwise made the Government's guidelines more concrete when it comes to methods and procedures for assessing the poverty-reduction strategy, economic policy and systems for public financial management of recipient countries – i.e. the Government's main requirements. A few examples may be given to illustrate this. For example, Sida has not specified the indicators and measures to be used in the assessment of a country's economic policy. Further, the Government's guidelines for budget support require Sida to analyse the budget process of the recipient country. Sida has not specified the extent of this analysis – such as whether it should cover not only the national but also the regional and local levels. With regard to the analysis of corruption, for example, Sida has not drafted any guidance on the sectors of society to be included.

Sida's top management have not deemed it necessary to make the Government's guidelines for budget support more explicit through special instructions. Like all other actions taken by Sida, matters of budget support

¹² Does Sida make assessments of whether the conditions for budget support are met which are well-founded and consistent?

are to be prepared in accordance with *Sida at Work*. This is a manual for the preparation of support which has been drafted mainly with project support in mind. Several internal Sida reports have pointed out that Sida's guidance on the handling of projects does not provide adequate help in the preparation of programme-support activities (such as budget support). Sida's quality-assurance body, the Project Committee, pointed this out in its annual report for 2005 and then also in that for 2006. What is more, the SNAO's financial-audit function has recommended that Sida should draw up a document to make clear to its staff how the assessments are to be carried out.

Besides the *Sida at Work* manual there are a number of general steering documents which are relevant to budget support. In addition to the position paper on public financial management, there are documents relating to poverty analysis and anti-corruption efforts. Further, 2007 saw the addition of a document on 'integrated economic analysis' and a handbook on public financial management. These steering documents have the status of 'guiding method documents'.

The Government's guidelines for budget support state that decisions relating to support are to be made by Sida, based on proposals submitted by the relevant mission abroad. Issues of responsibility for the handling of budget-support matters are described in 'handling regulations' adopted by Sida's Director-General in November 2006. Under these regulations, decisions will be taken by the Director-General if the amount exceeds SEK 50 million, otherwise by the head of the regional department concerned. Decisions to disburse budget support are taken by the head of the regional department concerned.

4.2 Sida's preparation of budget-support matters

The Government's delegation decision of May 2005 is still valid for all ten countries except Tanzania, for which a cooperation strategy has been established. However, Sida is not allowed to enter into agreements on budget support lasting beyond 31 December 2008. There has been uncertainty at Sida as regards the appropriate scope and extent of preparatory work relating to budget support in cases where there is no new cooperation strategy. In the spring of 2007, however, Sida drafted instructions at an overall level for preparatory work in such cases. The SNAO's questionnaire survey shows that several missions abroad are of the opinion that there is a lack of clarity in this respect. In addition, missions also mention in their responses that they have to devote too much time to preparation compared with the time they spend on the follow-up of budget-support matters.

4.2.1 *Experience of Sida field staff from budget-support work*

Documentation as a basis for decisions on budget support is produced by Sida staff at the missions abroad. The staff of all such missions covered by the audit includes an economist. This economist has principal responsibility for producing information as a basis for decisions on budget support, which is presented in an 'assessment memorandum'. The missions abroad are also in charge of monitoring, even though responsibility for this rests with the respective regional departments of Sida. Since the end of 2006, the staff of the regional departments includes special budget-support advisers.

In five of the countries concerned, Sweden has an embassy. In the other countries – Rwanda, Mali and Burkina Faso – Sida is represented by a 'sectional office'. The embassy in Zambia has a limited number of employees from the Ministry for Foreign Affairs. According to the findings of the SNAO's questionnaire survey, the economist at the embassy or sectional office is the person who does most of the work in relation to budget support; the share of working hours devoted by the economists to the preparation and monitoring of budget support ranges from 15 to 85 per cent. Heads of development cooperation also spend some of their time on budget support: varying between 3 and 60 per cent.¹³

The larger missions abroad devote more time to budget support than the smaller ones.

Five of the missions abroad answer 'yes' to the question of whether they have an adequate number of staff to handle matters of budget support in line with the requirements laid down in the Government's guidelines for budget support. The missions abroad in Nicaragua and Zambia answer 'no'. The reply from the embassy in Nicaragua specifies that the problem is a general shortage of resources to handle aid matters whereas the one in Zambia states that it needs reinforcement with regard to competence to make political assessments. The embassy in Uganda emphasises that while it does have a qualified local economist, the economist in charge of budget support should be a person who has been sent out from Sweden, given that budget support has stronger political aspects than other types of support.

Among the five countries where there is staff from the Ministry for Foreign Affairs, three of the missions abroad state that such persons sent out from Sweden are involved in work on budget support. The embassy in Tanzania says that virtually all administrative officials take part in assessing matters of budget support. The political official is involved primarily in assessing issues of a political nature, such as human rights, democracy, corruption, peace and security, and in drawing up proposals for disbursement.

¹³ Since budget support is of a general nature, it can be difficult to distinguish from other types of support.

The staff sent out from Sweden is replaced on a regular basis, which makes the sectional offices particularly vulnerable. It is not rare for there to be long periods of vacancy when staff is replaced. There have been difficulties from time to time in recruiting economists to work in Rwanda, Mali and Burkina Faso. The resulting gaps have been filled by consultants and by officials travelling from Stockholm. The embassy in Uganda also lacked an economist for some time because no temporary replacement was recruited when the permanent official was on leave of absence.

There are large differences among missions abroad in the resources available to Sida in the field for the preparation of budget-support matters. This relates both to the existence of an economist sent out from Sweden and to the extent to which field staff from Sida and the Ministry for Foreign Affairs work together on matters of budget support.

4.2.2 *Types of support which are similar to budget support*

The SNAO concluded in the previous chapter that there is a lack of clarity as to how the Government's guidelines should be applied to types of support whose design is similar to that of budget support. Opinions differ within Sida as to the types of support which constitute sectoral budget support. The findings from the SNAO's questionnaire survey show that sectoral budget support exists in Uganda¹⁴, Mozambique¹⁵, Mali¹⁶ and Nicaragua¹⁷. According to a summary drawn up by Sida's head office in Stockholm, however, only the support provided to the health sector in Uganda can be characterised as sectoral budget support. For example, in Rwanda, Mozambique and Tanzania separate programme support to the education sector has been discontinued and is now included in general budget support.

An investigation carried out at the request of Sida also shows there to be a lack of clarity as regards how various programme-support actions should be defined. There is a lack of clear demarcation lines between different types of support. What is more, sectoral budget support cannot be distinguished in Sida's statistical system.

The SNAO finds that Sida has failed to clarify how the Government's guidelines for budget support should be applied to types of support whose design is similar to that of budget support, i.e. mainly 'sectoral programme support'. Sida has also failed to request clarification in this respect from the Government.

¹⁴ In the health sector and the water and sanitation sector.

¹⁵ In the agricultural sector.

¹⁶ In the health and education sectors, through delegated partnership with the Netherlands.

¹⁷ In the health sector, the rural-development sector and the education sector.

4.3 Structural and formal aspects of the documentation underlying Sida's decisions

Most assessment memoranda for decisions on budget support comply with the structure stipulated in *Sida at Work*. This structure is not designed specifically for budget-support actions, and as a consequence information which is relevant to, for instance, the assessment of public financial management may be located in several places in a document. As regards Rwanda and Zambia, moreover, Sida's assessment is spread across several documents. Although these documents supplement each other, this circumstance also makes it difficult to obtain a coherent picture of the conditions prevailing. In the case of Zambia, the documents are three in number. This is because donors of budget support to Zambia drew up a joint assessment document which Sida then supplemented on two occasions.

Mozambique is the only country for which two decisions on budget-support actions have been taken during the period covered by the audit. The documentation underlying both decisions is included in the audit. The decision on the budget-support agreement with Uganda was taken by the Government under the previous arrangements. As regards Uganda, Sida has taken a decision on disbursement. The documentation underlying this disbursement decision is included in the audit.

The SNAO notes that references to sources are sometimes lacking in the documentation underlying decisions. This has also been noted by the financial-audit function of the SNAO in its audits of project files for budget support at the mission abroad in both Tanzania and Mozambique

The documentation underlying decisions on budget support was produced between May 2005 and June 2006. The decisions relating to Nicaragua, Mozambique (first decision), Zambia, Rwanda, Burkina Faso and Mali were prepared in 2005; those relating to Mozambique (second decision), Uganda (disbursement decision) and Tanzania were prepared in 2006.

4.4 Quality assurance and risk analysis

4.4.1 *Sida's central Project Committee*

Sida's central Project Committee is responsible for quality assurance at Sida. Any action in excess of SEK 50 million must be examined by the Committee. In practice, this covers all budget-support actions. The Committee has an advisory role as instructed by the Director-General of Sida. Its members are to represent a cross-section of Sida in terms of sex, age, level of experience and organisational affiliation.

The Committee examines documentation intended as a basis for decisions before it is submitted to the Director-General for the actual decision, and the Committee's recommendations are presented in minutes. The Committee's role is an advisory one.

The Committee plays a leading role in quality assurance and is, in practice, the Sida unit which has the task of ensuring the consistency of the assessments made prior to decisions on budget support. In addition, budget-support actions are also to be examined by the local project committees of the regional departments.

In its annual report for 2005, the Committee considered there to be a need for more extensive guidance on the preparation of budget-support matters. The existing guidance was deemed to be inadequate. The Committee returned to this issue in its annual report for 2006, noting that work was still ongoing.

4.4.2 *Risk analysis and risk management*

The Government stresses the importance of risk assessment on several occasions in its guidelines for budget support. It also points out that the design of budget support may reduce the associated risks. Aid operations are inherently risky since they are conducted abroad and since the chain linking the donor to the final recipient is often a long one. It is therefore important for Sida to have thought through its risk management carefully.

Risk analysis and risk management, however, are given little attention in Sida's manual for the preparation of project action. Sida has also failed to draw up guidance on how systematic risk analysis is to be performed prior to budget-support actions. Nor is there any guidance as to how budget support shall be designed (e.g. in relation to the terms of disbursement) in order to reduce risks. One substantial difference between budget support and project support is that, in the former case, Sida has less control over the implementation of the operations and thus a limited ability to take unilateral action in order to supervise risks. This makes it particularly important for Sida in its risk analysis to carefully assess the various risks and their potential consequences for the effectiveness of budget support.

Sida's risk analyses are more or less thorough. The assessment memorandum for Tanzania contains a risk analysis which includes an evaluation of various risks in terms of their likelihood as well as a review of possible ways to deal with these risks. The assessment memorandum for Mali also contains a thorough risk analysis. Donors of budget support to Zambia jointly made a systematic risk analysis using a model developed by the United Kingdom's Department for International Development (DFID), which is attached to the documentation underlying the decision relating to

Zambia. This analysis is then made the subject of detailed comments in the donors' joint appraisal memorandum and in Sida's assessment memorandum.

The risk assessments included in the documentation intended to provide a basis for decisions for the other countries are more fragmentary in nature.

The SNAO finds that, in most cases, Sida has failed to perform a systematic risk analysis. The SNAO's financial-audit function has pointed out on several occasions that Sida should develop its risk analysis.

4.5 Summary of observations

This chapter has dealt with Sida's process to prepare decisions on budget support. It is the first of two chapters intended to answer the audit question as to how Sida assesses whether the conditions for the provision of budget support are met. The SNAO's main conclusions can be summarised as follows:

- Sida has failed to specify how the Government's guidelines for budget support are to be applied in the assessment of the main criteria for budget support. This has also been pointed out by Sida's own Project Committee. Instead, Sida has a number of steering documents of varying status which, alongside the Government's guidelines, provide guidance on how compliance with the conditions for budget support is to be assessed. The structure of Sida's assessment memoranda complies with the general template given in Sida at Work. This template, however, is designed for project support and is not specifically adapted to suit budget-support actions;
- Principal responsibility to prepare and monitor matters of budget support, including the production of assessment memoranda, rests with the missions abroad. At these missions, work relating to budget support is carried out primarily by their economist. In three of the countries audited, the mission consists only of a Sida office with limited resources, which makes these countries particularly vulnerable when staff is to be replaced;
- Sida has failed to clarify how the Government's guidelines are to be applied to actions whose design is similar to that of budget support. Moreover, Sida has failed to request that the Government should clarify its guidelines in this respect;
- Sida's Project Committee has pointed out that there is a need for more extensive guidance on the preparation of budget-support matters;
- In most cases, Sida's risk analysis is incomplete and has not been performed in a structured manner. For instance, there is usually no discussion of how the risks concerned can be dealt with.

5 Documentation underlying Sida's decisions on budget support

The Government's guidelines for budget support are the starting point for the SNAO's audit of Sida's assessments of compliance with the conditions for budget support. The structure of this chapter is largely parallel to that of the Government's guidelines for budget support, dealing in turn with Sida's application of the guidelines as regards the poverty-reduction strategy, economic policy and systems for public financial management of each country. The guidelines for budget support are described in Chapter 3 of this report.

The review made of the documentation underlying Sida's decisions on budget support relates mainly to the overall level. The SNAO's observations are illustrated with examples from the documentation underlying individual decisions.

Unless otherwise stated, the above-mentioned documentation is the source of the observations made in this chapter, which is also based on information from the SNAO's questionnaire survey and from its visits to Uganda and Rwanda.

5.1 Poverty-reduction strategies

Poverty-reduction strategies trace their origin to the 'HIPC Initiative'.¹⁸ One requirement for countries to be granted the debt relief offered in that context was that they had to draw up a plan to reduce national poverty. This plan had to be 'nationally owned' and developed through participation by the national population. Further, the plan had to be results-oriented and focus on actions benefiting the poor.

Budget support should be seen as support to the implementation of such plans, i.e. as support to the recipient country's poverty-reduction strategy. This also means that the performance of budget support will be assessed against the objectives set up by the individual countries' poverty-reduction strategies.

It is crucial for Sida to evaluate, in its considerations relating to budget support, the extent to which a given poverty-reduction strategy contributes to an environment supportive of poor people's own efforts to improve their quality of life.

¹⁸ HIPC stands for 'Highly Indebted Poor Countries'; the HIPC Initiative is a debt-relief programme established in 1996 by the World Bank and the International Monetary Fund (IMF).

Under the Government's guidelines for budget support, the analysis is to deal, among other things, with the extent to which a country's poverty-reduction strategy:

- is reflected in the national government's budget and in the outcome of this budget;
- is feasible, i.e. whether there is adequate institutional capacity or, if not, whether support is given for capacity-building;
- can be monitored by means of established monitoring systems;
- has yielded results.

In the following sections, the SNAO discusses Sida's analysis of poverty-reduction strategies against the background of the factors listed above.

5.1.1 *Poverty-reduction strategies and national budgets*

Examining a recipient country's national budget is one step in Sida's evaluation of the credibility and relevance of its poverty-reduction strategy. It is via the national budget that the poverty-reduction strategy will be implemented. That is where the national government will allocate resources and make the financial commitments necessary to provide the public services pledged in its policy documents. The aim of budget support is to increase the resources available through the national budget for poverty-reduction efforts. It is therefore important to ensure that the national budget of the recipient country is based on its poverty-reduction strategy and that the outcome of the budget is followed-up. The budget processes of countries which may be eligible for budget support are often weak. For this reason, Sida has to assess both the present situation and development trends.

In all cases except Nicaragua, the documents underlying decisions contain comments on the link between the poverty-reduction strategy and the national budget. The table below summarises the SNAO's observations in this respect.

Table 1. Sida's examination of the link between the poverty-reduction strategy (PRS) and the national budget and its outcome

Question	Yes	In part	No
Does Sida comment on the link between the PRS and the national budget?	Mali Mozambique 2005 Mozambique 2006 Uganda Zambia	Burkina Faso Rwanda Tanzania	Nicaragua
Does Sida comment on the outcome of the national budget based on the country's PRS?	Tanzania Uganda Zambia	Mali Mozambique 2006 Nicaragua Rwanda	Burkina Faso Mozambique 2005

Source: Sida's assessments memoranda relating to budget support between 28 April 2005 and 22 November 2006.

There are large differences in how extensive and how well-founded Sida's assessments are. As regards Mali, for example, Sida's assessment is that the priorities of the national budget reflect the poverty-reduction strategy. This assessment is justified by a description of how a number of budget items have developed since 2001. In a few cases, the documentation underlying Sida's decisions on budget support contains contradictory information. In the case of Burkina Faso, for example, Sida makes a positive assessment of the national budget which it bases on a report from the World Bank. Later on in the same document, however, Sida states that a large share of budget funds in Burkina Faso are not allocated to specific budget items at the beginning of each year. There is also contradictory information about Rwanda. The assessment memorandum states both that the link between the poverty-reduction strategy and the national budget is strong and that it is too soon to draw any conclusions in this respect about Rwanda. The documentation underlying other decisions also contains similar examples, i.e. cases where Sida presents contradictory information without making an integrated evaluation.

Decentralisation reforms are ongoing in several countries, for instance in Tanzania and in Rwanda. The assessment memorandum for Tanzania contains a discussion of possible risks that this may entail, action taken to remedy deficiencies and the monitoring of such action.

The documentation underlying the decision relating to Rwanda does not, however, include any discussion of the consequences that the reforms may entail for the implementation of the poverty-reduction strategy. Moreover, Sida's analysis of the Rwandan budget process does not extend beyond the national level.

Sida rarely touches upon the opportunities available in the individual countries to determine the extent to which resources actually reach their intended recipients, such as schools or health clinics. One tool which may be used to track how expenditure passes through the hierarchy of a certain sector of public administration to its final recipients is 'Public Expenditure Tracking Surveys' (PETS). Among other things, this tool makes it possible to make estimates of resource leakage. In its audit, the United Kingdom National Audit Office has made an inventory of the PETS surveys carried out in countries to which the United Kingdom provides budget support. The SNAO has then supplemented this inventory as regards Mali, Burkina Faso and Nicaragua. The findings show that no regular PETS surveys are conducted in any of the countries which receive budget support from Sweden. However, PETS surveys were conducted in Rwanda in 2004 within the health and education sectors. The PETS survey of the health sector estimated leakage at 2–8 per cent. Sida used the findings from this study in the documentation underlying its decision on budget support to Rwanda.

To sum up, the analysis included in Sida's assessment memoranda is usually not very detailed; Sida typically contents itself with stating, at an overall level, what share of the budget is allocated to the priority sectors, i.e. to expenditure oriented towards poverty reduction.¹⁹ The monitoring of budgets and the analysis of budget outcomes are usually given even less complete treatment in the documentation underlying Sida's decisions.

5.1.2 *Feasibility of poverty-reduction strategies*

There are institutional weaknesses in all of the countries receiving budget support. For example, Sida mentions in the documentation underlying its decisions that the government agencies whose task it is to implement poverty-reduction strategies have inadequate capacity. The weaknesses identified by Sida are mainly that the government agencies and institutions have inadequate financial resources to carry out effective operations and that their skills are insufficient.

One example is Tanzania, where Sida proposes in its assessment memorandum that budget support of SEK 1.2 billion should be given over a three-year period. Despite this, however, Sida does not make any exhaustive evaluation of whether the capacity of the Tanzanian public sector may be deemed adequate as regards the delivery of public services.²⁰ In the case of Mali, Sida concludes that it has a good ability to absorb additional resources, but no analysis of the capacity of the Malian public sector is presented to support this conclusion.

¹⁹ HIPC stands for 'Highly Indebted Poor Countries'; the HIPC Initiative is a debt-relief programme established in 1996 by the World Bank and the International Monetary Fund (IMF).

²⁰ Basic health care, education, etc.

Sida thus often points out deficiencies in institutional capacity but refrains from describing what actually works well. This makes it difficult to form an idea of the present status of the institutions concerned. This observation applies to a greater or lesser extent to the documentation underlying each of the decisions.

The recipient countries' reform programmes to remedy such deficiencies are seldom evaluated. This means that, in most cases, there is no information about the monitoring and follow-up of the reform programmes as well as no information about the time frames of these programmes – i.e. as to when Sida expects the deficiencies to have been remedied.

In other words, Sida describes ongoing reforms. In most budget-support countries, Sida also contributes to these reform programmes, but the link between them and Sida's budget support is often vaguely described in the documentation underlying its decisions. This means that it is not clear how Sida's support to the reform programmes may help reduce the risks involved in the provision of budget support.

To sum up, the SNAO notes that Sida's evaluations of the recipient countries' ability to implement their poverty-reduction strategies focus on institutional deficiencies and treat that which actually works well to only a limited extent. Further, Sida does not state when the deficiencies are expected to have been remedied.

5.1.3 *Monitoring and performance of poverty-reduction strategies*

Under the Government's guidelines for budget support, Sida is to assess the results achieved and the monitoring mechanisms used in the recipient countries. The Government also lays down that the aim of Sida's performance monitoring should be to determine whether the budget support leads to the results expected.

In the introductions to most of its assessment memoranda, Sida provides information about levels of poverty and about the achievements of poverty reduction to date. Except in its assessment memorandum on Tanzania, Sida does this in descriptive form. For Tanzania, though, there is a clear presentation in tabular form of the development of certain poverty-related indicators between 2000 and 2005. All of the performance indicators included have shown a positive development. In another section of the same document, Sida makes the assessment that Tanzania's poverty-reduction strategy is relevant to the achievement of the Millennium Objectives. At the same time, Sida considers that it will be difficult to achieve the objectives in relation to infant and maternal mortality as well as HIV/AIDS and malaria. Information about trends for these objectives, however, is lacking in the above-mentioned table, except with regard to malaria.

As regards the objectives to be achieved through the poverty-reduction strategies, Sida's reflections tend to be at an overall and general level. It is rare for Sida to present, in the documentation underlying its decisions, explicit objectives with a specific deadline laid down in the poverty-reduction strategies.

The Government starts from the assumption that Sida will use existing monitoring systems in the recipient countries – 'Performance Assessment Frameworks' (PAFs) – which are common to several donors. Another way of monitoring performance is through dialogue. At the time of preparation of the budget-support actions covered by this audit, there were PAFs for budget support in Tanzania, Mozambique, Nicaragua and Burkina Faso. Since then, such PAFs have been introduced in Zambia and – slightly later – in Mali, where the first joint performance assessment of budget support will be carried out in 2007. Work is ongoing in Uganda and Rwanda to develop PAFs.

The documentation underlying the decision for Tanzania contains a comprehensive survey of the monitoring system, and Sida's assessment is that it works well. There is, however, no discussion of any shortcomings that the system might have. Sida also includes a presentation of the monitoring system concerned in its assessment memorandum produced prior to its decision on budget support to Mozambique in 2007. In this case as well, there is no discussion of possible shortcomings. Moreover, there is no evaluation of the monitoring system.

The assessment memorandum for Mali contains a detailed description of the monitoring system which does include a presentation of its shortcomings. However, Sida does not provide any information as to whether measures have been taken to remedy these shortcomings. The documentation underlying the decision relating to Burkina Faso contains a description of the monitoring system which also includes a list of shortcomings, but no explicit conclusions are drawn as to the implications of this for the monitoring of budget support. For the other countries, Sida provides only brief information, or none at all, about monitoring in the documentation underlying its decisions.

In its questionnaire survey, the SNAO asked questions relating to monitoring systems in the budget-support countries. According to the findings, only the missions abroad in Zambia, Mozambique and Mali agree completely with the questionnaire statement that there are assessable targets for budget support in the respective country. The answers from the other countries express doubts in this respect. The questionnaire responses are presented in the table below.

Table 2. Answers to three survey questions about the monitoring of budget support

		To what extent do you agree with the following statements about the monitoring of general budget support?	
Country	There are explicit and monitorable objectives	The information used for monitoring purposes is reliable	Monitoring provides sufficient information for Sida's follow-up
Tanzania	I agree in part	I agree in part	I agree completely
Uganda	I agree in part	I neither agree nor disagree	I agree in part
Zambia	I agree completely	I disagree in part	I agree in part
Moçambique	I agree completely	I agree in part	I agree in part
Mali	I agree completely	I agree in part	I agree in part
Nicaragua	I agree in part	I agree in part	I don't know
Burkina Faso	I neither agree nor disagree	I neither agree nor disagree	I agree completely
Rwanda	I agree in part	I agree in part	I neither agree nor disagree

Source: Questionnaire survey carried out in connection with the SNAO's audit of aid provided as budget support, SNAO, 14 May 2007.

Only the missions in Tanzania and Burkina Faso are of the opinion that the monitoring process provides sufficient information for Sida's follow-up of budget support. The answer from Burkina Faso seems odd given that the same sectional office also states that there are neither assessable targets nor reliable information.

In their answers to the survey, several missions abroad express doubt as to the reliability of the information used to monitor budget support. Other problems mentioned are that follow-up information is often not obtained in time and that it may be incomplete.

The SNAO finds that the documentation underlying Sida's decisions and the survey answers together indicate that there are weaknesses in the monitoring systems in most of the recipient countries. These weaknesses are, however, rarely discussed in the documentation underlying decisions. In most cases, Sida has also failed to make it clear what are the expected results of budget-support actions.

5.2 Economic policy

According to the Government's guidelines for budget support, a country must pursue a responsible and long-term sustainable economic policy to be eligible for Swedish budget support. As a consequence, such an economic policy is also a prerequisite for long-term development cooperation. This means that Sida has a duty under the Government's guidelines for budget support to carry out a thorough assessment of a recipient country's economic policy. Sida is to assess the likelihood that the policy pursued will lead to a reduction of poverty, sustainable economic growth, macroeconomic stability, an increase of trade and a good investment climate.

The analyses performed by the International Monetary Fund (IMF) are to guide Sida's considerations. In its guidelines for budget support, the Government states that, as a rule, an existing agreement between a recipient country and the IMF on economic policy is required in order for the criterion of a responsible and long-term sustainable economic policy to be deemed to be met.

Sida has failed to further clarify the Government's guidelines on budget support when it comes to the scope of the analysis or the measures and indicators to be used.

All countries with which Sweden engages in budget-support cooperation had an agreement with the IMF in 2005 and 2006, as is also stated by Sida in its assessment memoranda. In no case does Sida use the IMF's analysis as a basis for its own analysis. However, in the documentation underlying Sida's decisions relating to Nicaragua, Burkina Faso and – to some extent – Mali, it is clear that the IMF's assessments constitute an important part of the basis. What is not always clear, though, is Sida's position on the IMF's assessments. In the documentation underlying its decision relating to Burkina Faso, Sida questions an IMF recommendation that public expenditure should be increased. However, Sida does not explain its reasons for assuming this position.

Sida presents fairly extensive surveys of economic policy in the documentation underlying its first decision relating to Mozambique, in that underlying its decisions on Nicaragua and Rwanda, and in the joint appraisal memorandum relating to Zambia.

The presentations of the economic policy pursued by Tanzania, Mali and Uganda are brief and do not cover all aspects to be assessed under the Government's guidelines for budget support. In the case of Tanzania, there is no overall analysis of economic policy, even though matters of economic policy are dealt with in several places in the document. For example, Sida states that structural changes in the Tanzanian economy are necessary in order for growth to have an impact on poverty, but Sida also abstains from elaborating on the nature of the changes referred to.

The treatment of economic policy in the documentation underlying Sida's decision on Burkina Faso is fragmentary and incomplete. For instance, Sida states that the privatisation of state-owned enterprises is a big issue in Burkina Faso which is being carefully monitored by donors. In this context, Sida points out that the privatisation of state-owned enterprises must be handled by the national government in a manner which is transparent and complies with the law. This conveys the impression that the handling of the matter has previously not met this requirement, but Sida does not elaborate any further on the issue.

Sida sometimes uses different base years for different economic indicators in its descriptions of historical development, for example in its presentations relating to Zambia and Rwanda. In other cases, Sida's analysis is not underpinned with statistics. Economic development in Mali is characterised by Sida as being positive, with reference being made to appreciable economic growth, an increase in average income per head and a fall in inflation. However, no figures or years are given in the assessment memorandum to specify how or when these indicators have changed. There is also a lack of information about the sources from which figures and information have been taken. This also applies to the documentation underlying most other decisions. Complete references are given only in the case of Burkina Faso.

To sum up, the SNAO finds that Sida's presentations of the economic policy pursued by the various countries are in most cases brief and in many cases of a generally descriptive rather than analytical nature.

5.3 Public financial management

Public financial management is crucial to budget support. A recipient country's systems for public financial management will be used to implement and monitor its poverty-reduction strategy. If its public financial management does not function well enough, there is a large risk that resources will not reach their intended destinations.

All of the countries which receive budget support from Sweden have more or less extensive weaknesses in their public financial management. Within the framework of the HIPC Initiative, the World Bank and the IMF jointly made a ranking of countries, dividing them into three groups. Mali and Tanzania were deemed to have the best systems; Uganda, Burkina Faso and Rwanda ended up at the intermediate level; and the largest weaknesses were identified in Nicaragua, Zambia and Mozambique.

The Government states in its guidelines that prior to decisions on general budget support, special scrutiny is to be carried out with regard to the existence of transparent and adequately functional systems for public financial management as well as the country's efforts to strengthen these systems.

In its guidelines for budget support, the Government specifies the aspects to be assessed: the budget process, the payments system, the public-procurement system, financial reporting and auditing. In this context, the Government refers to Sida's position paper on public financial management, in which Sida elaborates on how the assessment is to be made.

The Government also states that a prerequisite for budget-support cooperation is that public funds are used for the purposes intended and yield results. The provision of budget support presupposes that a thorough analysis of the situation has been carried out and that the trends for the development of the country are largely good. If there are shortcomings, there must be a reliable improvement programme. The Government emphasises that both the present situation and development trends for public financial management are to be weighed together in the assessment. The Government does not provide any further guidance on assessment methodology and procedures or on the relative weights to be given to the present situation and to trends, even though it does state that Sida must document carefully how it has made its integrated assessment.

The Government also points out that one aim of budget support, in addition to poverty reduction as such, is to create incentives for the improvement of national systems by making use of these systems.

The requirements relating to the assessment of the public financial management of recipient countries are not new. Such requirements were included in the previous guidelines as well as in the instructions sent annually by Sida to embassies and Sida offices ahead of their work to produce documentation to provide a basis for the Government's decisions on budget support.

5.3.1 Issues of public financial management in the documentation underlying Sida's decisions

The SNAO's review of Sida's assessment memoranda has shown the following: Sida's presentations usually focus more on future reforms than on describing the present status. Sida's reviews of systems for public financial management are rarely as complete as is prescribed by the Government's guidelines for budget support. This also means that Sida fails to make use of its own position paper on public financial management.

Sida's presentations are based on one or several diagnostic assessments relating to public financial management which have been drawn up by some other actor, often by the World Bank, or jointly by donors and the national government of the recipient country. Under the Government's guidelines for budget support, Sida must always adopt a position with regard to conclusions drawn by others. In many cases, however, Sida fails to evaluate the information presented in a clear way. As regards Nicaragua and Tanzania, Sida presents findings from several investigations of public financial management but does not tie them together.

In its 2005 assessment memorandum on Mozambique, Sida characterises the risk inherent in the system for public financial management as high. However, Sida also states that reforms are progressing in a structured and coherent manner. Sida lists a number of shortcomings, but there is an incomplete link between these shortcomings and the description of how the national government's reform programme is intended to address them. It is not clear from Sida's presentation whether all the shortcomings mentioned will be the subject of actions nor what the time schedule of such actions is.

In the 2006 documentation underlying its decision to extend the budget-support agreement with Mozambique, Sida does not refer back to the shortcomings presented in its previous assessment memorandum. Sida presents the findings of a new diagnostic evaluation of public financial management, but does not provide an exhaustive description of the systems. Some shortcomings are characterised as fundamental, but it is not clear from Sida's presentation whether these are being addressed in a satisfactory way by the national government's reform programme. Similar problems, i.e. a lack of clarity as to whether the circumstances identified by Sida as deficiencies are actually being addressed by the reform programmes of the recipient countries, exist to a greater or lesser extent in all assessment memoranda.

Sida's assessment memoranda sometimes deal with factors relating to external audit. In no case, however, does Sida report on the findings of audits, i.e. on the proportion of government agencies receiving qualified audit reports or on the action taken by the national government.²¹ Nor does Sida discuss the function of the payments system, i.e. the cash flow among the central bank, the finance ministry and final recipients.

The SNAO's observations show that Sida has in no case carried out a complete review of public financial management in line with the requirements laid down in the Government's guidelines for budget support. Moreover, the assessment memoranda do not describe in a clear manner how the shortcomings identified will be dealt with.

²¹ I.e. audit reports including criticism.

5.3.2 Assessment of corruption

There is extensive corruption in the countries which receive budget support. The Government states the following in its guidelines for budget support: 'The extent of corruption, the national government's attitude to and openness about the problems, and the action taken to fight corruption are to be the subject of an explicit integrated assessment.'

The Government also considers that the risks of corruption should be given a prominent place in the assessment of the recipient countries' systems for public financial management, even though it does not further specify what should be included in this assessment. Sida's anti-corruption policy emphasises the importance of assessing the administrative systems of recipient countries as well as their national audit capacity and practices. This policy, however, focuses mainly on the analysis of corruption in connection with the preparation of matters of project support.

Corruption is not easily measurable. Besides the information available in the media, there are also organisations which measure the degree of corruption. Both Transparency International and the World Bank²² regularly publish estimates of corruption in various countries. According to the most recent information available from Transparency International, there is extensive corruption in the countries receiving budget support. The table below shows a summary of its findings.

Table 3. Prevalence of corruption according to Transparency International, 2007 (10 = no corruption; 0 = high level of corruption)

Country	Index	Budget support in 2005–2006
Nicaragua	2.6	SEK 130 million
Zambia	2.6	SEK 48.5 million
Mali	2.7	SEK 150 million
Mozambique	2.8	SEK 335 million
Uganda	2.8	SEK 33.5 million
Rwanda	2.8	SEK 200 million
Burkina Faso	2.9	SEK 100 million
Tanzania	3.2	SEK 500 million
Sweden	9.3 ²³	-

Source: *Transparency International 2007.*

Sida's analysis of corruption is descriptive in nature and the presentations are often incomplete. For example, Sida sometimes states that the requisite

²² Worldwide Governance Indicators.

²³ The EU country considered the most corrupt by Transparency International is Bulgaria, with an index of 3.7.

legislation is in place but does not describe how it works in practice. In most cases, moreover, the analysis does not reach the sectoral level.

A detailed analysis of corruption is, however, included in the assessment memorandum on Tanzania. The documentation underlying the decision on budget support to Mozambique in 2007 characterises corruption as widespread and politically linked. This documentation contains a presentation of the actions being taken, but Sida makes no overall assessment of whether these actions can be deemed credible and sufficient. Such an overall assessment is also lacking in the earlier assessment memorandum on Mozambique for 2005–2006 and in that on Mali.

In the documentation underlying its decision on Burkina Faso, Sida states that the judiciary is not entirely independent and that corruption is increasing both in public administration and in law enforcement. However, Sida cites no source, stating simply that this is ‘a criticism often made’. Then Sida refers to a World Bank report according to which the situation has improved. This contradicts Sida’s previous statement to the effect that corruption is increasing, but Sida fails to comment on this. Further, Sida writes that the national government has established bodies to fight corruption but that they have great operating difficulties owing mainly to inadequate capacity. Burkina Faso’s official anti-corruption bodies have published a report, but the national government has classified it as confidential information. Sida nevertheless makes the assessment that the national government is not deliberately trying to weaken the agencies in charge of fighting corruption, but Sida fails to give reasons for this assessment.

The SNAO finds that Sida’s analysis of corruption is often descriptive in nature and does not treat risks in a systematic manner.

5.4 Follow-up and disbursement

Decisions to disburse budget support are taken by Sida in Stockholm. The conditions to be met for a disbursement to be made are to be laid down in the individual budget-support agreements. Prior to each such decision, Sida has to assess whether the conditions are met. Some of these conditions are performance-related while others are based on the conditions for the provision of budget support. The latter, which are often referred to as ‘underlying principles’, have to be met by the recipient countries under all circumstances. These conditions are usually laid down in an agreement to which multiple donors are parties.²⁴ They relate, among other things, to respect for human rights, a sound economic policy, commitment to poverty

²⁴ Often referred to as a Memorandum of Understanding (MOU) or Joint Financing Agreement (JFA).

reduction, effective public financial management and anti-corruption efforts. Such conditions are included in all agreements, even though the exact wording may differ. The performance-related conditions differ among countries, but they are based on a Performance Assessment Framework (PAF) if one exists.

Sida uses two types of disbursement models. Under one of them, a specified amount is paid out once a year. Whether or not the country will receive the support depends on its compliance with the conditions laid down in the agreement. This type of disbursement is used in Sweden's budget-support cooperation with Burkina Faso, Nicaragua, Tanzania and Uganda. For the other countries which receive budget support from Sweden, disbursements are divided into two parts or 'tranches' – one fixed tranche specified in the agreement and one variable tranche which is determined on the basis of how well the country has, for example, implemented various reforms or complied with its poverty-reduction strategy.

As regards the 'underlying principles', there is no standard at Sida covering all countries for the assessment of the conditions in question. Rather, this is decided on a case-by-case basis. There are also differences between countries as regards whether the performance-related conditions will have an effect on disbursements during the present year or on the volume for the next year. The guidelines for budget support also give no guidance in this respect.

Only the budget-support agreement with Zambia explicitly specifies how monitoring is linked to the disbursement of budget support, i.e. how performance is to be measured and what performance indicators are to be used. The other agreements are more general in nature, leaving scope for interpretation of the performance-related conditions.

Monitoring reports and disbursement proposals are drawn up by the mission abroad concerned. In most cases, these documents are brief reports on how well Sida considers the recipient country to have complied with the conditions. The monitoring of budget support is clearest in the case of Zambia, where Sida recommends that 86 per cent of the variable tranche (which makes up 25 per cent of the total) of budget support should be disbursed, given that the country has achieved a fulfilment rate of 86 per cent in relation to the conditions (indicators) included in the PAF.²⁵ The answer given by the mission abroad in Zambia to the SNAO's questionnaire shows that there are problems associated with the reliability of the information used for monitoring purposes, but Sida does not mention this in the documentation underlying its disbursement decision.

²⁵ Out of a total of 25 indicators, Zambia is deemed to have met requirements fully for 20, partly for 3 and not at all for 2.

In Tanzania as well, performance has influenced the disbursement of budget support, but not until 2007. Sida makes the assessment that the performance achieved is inadequate and proposes that budget support should be reduced from the agreed volume of SEK 400 million to SEK 350 million. This would still amount to an increase of SEK 50 million compared with 2006 (when the amount of budget support was SEK 300 million). According to the mission abroad in Tanzania, the reduction of budget support for 2007 should lead to a corresponding fall in the total amount of bilateral aid to Tanzania. This is because the cooperation strategy for Tanzania requires that budget support should be the predominant support mechanism and should not be replaceable by project or programme support.

Just over a year earlier, in September 2005, the Director-General of Sida had decided to increase – during the current contractual period – budget support to Tanzania in 2005 from SEK 120 million to SEK 200 million, citing good performance as the reason for the decision.

Budget support to Mozambique increased between 2006 and 2007 from SEK 200 million to SEK 300 million. Corruption in that country has increased over the past few years and is said to be politically linked. Notwithstanding this, Sida fails to give any explicit reasons for the increase of support in the documentation underlying its decision on the one-year action in 2007 – as is also pointed out in the minutes of the Project Committee.

In several cases, Sida has failed to document clearly the considerations made in connection with its disbursement decisions. In the case of Burkina Faso, for instance, the conditions are unclear and the assessment made prior to the disbursement decision contains no analysis of the situation in the country. Sida's assessments of the conditions for Mozambique, Nicaragua and Rwanda are similarly unclear.

Sida's Ugandan office, however, performed an extensive analysis of the grounds for assessment prior to the disbursement decision. The background to this is that budget support to Uganda had been suspended six months earlier because of breaches of underlying principles by the national government, through failure to respect human rights in connection with elections. The preparatory work led to 52 per cent of the original amount being disbursed.

The SNAO's review of the budget-support agreements and the assessments made by Sida prior to disbursement decisions shows that the budget-support agreements often leave scope for interpretation of the disbursement conditions. What is more, Sida often fails to document clearly the considerations it has made prior to disbursement decisions.

5.5 Summary of observations

The SNAO's main observations in relation to Sida's application of the Government's guidelines for budget support can be summarised as follows:

- There are large differences among countries in the thoroughness of Sida's analysis of the extent to which a country's poverty-reduction strategy is reflected in its national budget. Further, Sida rarely makes assessments of the present institutional capacity of the recipient countries, focusing more on the reforms which will be carried out. Taken together, the SNAO's observations indicate that there are weaknesses in the monitoring systems of most recipient countries. These weaknesses, however, are rarely discussed in the documentation underlying decisions. In most cases, Sida has also failed to make clear what the expected results of budget-support actions are;
- Sida's presentations of economic policy are often brief, and descriptive rather than analytical. Sida makes use of IMF analyses to only a limited extent;
- Sida lists weaknesses of national systems for public financial management, but the link to the description of how such weaknesses will be addressed in reform programmes and the like is unclear and thus incomplete. Sida's steering document on public financial management, to which the Government refers in its guidelines, is not used in the preparation of budget-support matters. Most corruption analyses are brief, and Sida often fails to make an overall assessment of corruption;
- Sida has failed in several cases to document clearly the considerations made in connection with disbursement decisions;
- Taken together, the presentations given in the documentation underlying Sida's decisions are often descriptive rather than evaluatory in nature.

6 Conclusions of the SNAO

The SNAO has audited the Government's and Sida's handling of budget support as well as the Government's reporting on budget support to the Riksdag.

The SNAO notes that for seven out of eight countries, the Government has failed to make the analyses relating to budget support required by its own guidelines prior to Sida's decisions on the provision of budget support. This means that the Government has delegated a great deal of responsibility to Sida. What is more, the SNAO has found that the Government's guidelines are lacking in clarity in some respects.

Further, the SNAO is of the opinion that the documentation underlying Sida's decisions on budget support has deficiencies, particularly in a failure to ensure that the analyses performed are adequately supported. This is in part attributable to Sida's failure to specify how the Government's guidelines for budget support are to be applied.

The SNAO's audit also shows that the Government's reporting on budget support to the Riksdag does not give a fair picture of the risks associated with budget support.

6.1.1 *The Government's decision to delegate authority to Sida was not adequately supported*

Under the Government's guidelines for cooperation strategies, decisions on budget support are to be integrated in cooperation strategies. The SNAO is of the opinion that this arrangement is in line with the Riksdag's statement to the effect that considerations relating to budget support are to be made within the framework of an integrated assessment of appropriate forms for cooperation with individual countries.

The Government has not yet, except with regard to Tanzania, translated these new arrangements for budget support into practice. Seven of the eight countries included in the audit are still covered by the Government's decision of May 2005 whereby it authorises Sida to decide on budget support to ten specified countries within the framework of previously adopted country strategies.

Under the guidelines for cooperation strategies, the Government is to take a position on whether the provision of budget support may be an appropriate type of cooperation with a given country. Prior to such a decision on matters of principle, an assessment is to be made at an overall level of whether the requirements laid down in the guidelines can be deemed to be met.

However, the guidelines for cooperation strategies go on to state that the Government's considerations in relation to budget support are to be made within the framework of a cooperation strategy in which the Government adopts a position with regard to Sweden's overall cooperation with that country, including budget support. The SNAO notes that the authorisation decision does not contain any such considerations relating to budget support. Instead, the Government states that budget support will be governed by previously adopted country strategies. The SNAO is of the opinion that the Government has thereby failed to make it clear to Sida what part budget support is to play in Sweden's cooperation with the respective countries.

The consequence of using country strategies which have not been drawn up in accordance with the guidelines is that these strategies will not play a central part in the dialogue with the recipient country in the way described in the guidelines for cooperation strategies. Instead, assessments will have to be made on a case-by-case basis as needs arise, such as the assessments to be made by Sida on each disbursement occasion as to whether the recipient country continues to comply with certain fundamental principles of respect for human rights. It is important that the assessments made by Sida are based on long-term positions adopted by the Government. If the assessments instead have to be based on more short-term decisions, there is a risk that the countries receiving budget support will not be treated in the same manner. What is more, there is also a risk that budget support will be less predictable from the recipient countries' viewpoint.

The SNAO finds that the Government, by failing to establish cooperation strategies, has transferred a great deal of responsibility to Sida as regards the handling of budget-support matters from preparatory work to disbursement. At the same time, Sida has not been able to apply a long-term perspective to budget-support cooperation with various countries because the absence of decisions on new cooperation strategies has prevented Sida from preparing budget-support agreements with a duration exceeding one year.

6.1.2 *The Government's follow-up of budget support has deficiencies*

With the exception of Tanzania, the Government has failed to establish cooperation strategies for the countries receiving budget support. Its decision to delegate authority to Sida is still valid.

The SNAO is of the opinion that, against the background of the extent of the responsibility delegated by it to Sida, the Government should have followed up its decision carefully. This decision involves a deviation from the arrangements for budget support laid down in the Government's guidelines for cooperation strategies. The present design of consultations between the Ministry for Foreign Affairs and Sida does not, in the SNAO's opinion, meet the requirements of follow-up which should be imposed given the political nature of budget support.

6.1.3 *The Government's guidelines for budget support are extensive and drafted in an unclear manner*

The SNAO is of the opinion that the Government's guidelines for budget support identify clearly the principal grounds for assessing budget-support matters: poverty-reduction strategies, economic policy and public financial management. On examining Sida's assessment memoranda, however, the SNAO has also identified a number of weaknesses in the guidelines for budget support.

The Government mixes formulations which are oriented more towards objectives with 'softer' formulations on how assessments are to be made. As a result, it is unclear what constitutes the actual requirements which have to be met in order for a country to be eligible for budget support and what rather constitutes the goals of budget support. This creates difficulties in the application of the guidelines, given that all countries which may be eligible for budget support have weak systems. The fact that the guidelines are extensive and detailed, with several instances of repetition, does not reduce the lack of clarity. The SNAO is therefore of the opinion that the guidelines do not provide sufficient guidance as to what *must* be assessed and what *should* be assessed. The SNAO's review of Sida's assessment memoranda also shows that there are large differences among countries receiving budget support in the documentation underlying decisions and in the assessments made.

Further, the guidelines provide little guidance as to appropriate monitoring methods in countries whose systems are inadequate. They deal only briefly with instructions relating to monitoring and disbursement, such as the design of disbursement conditions.

The Government states that the guidelines for budget support are also to 'have a bearing' on decisions relating to actions whose design is similar to that of budget support. The SNAO is of the opinion that the Government's wording is unclear and that the Government should have stated explicitly when and how the guidelines are to be applied to such types of aid. There is a risk that aid types whose design is similar to that of budget support will not be subject to fundamental preparatory work of the kind aimed for by the Government in its guidelines.

In its guidelines for budget support, the Government refers to Sida's own steering documents. The SNAO is of the opinion that this is not a very appropriate way to exercise control over government agencies because there is a risk that it will be unclear what rules apply to budget support. In addition, it will be unclear who is responsible for the design of various components of the rules governing budget support.

Against the background of the above, the SNAO is of the opinion that there is a risk that the guidelines will not have the control effect intended.

6.1.4 *Sida's decisions on budget support lack adequately support*

By delegating authority in relation to budget support to Sida, the Government has entrusted this agency with a great deal of responsibility in the area of preparing and deciding budget-support matters. The assessments of such matters made by Sida are to involve the application of the Government's guidelines for budget support. These guidelines identify three main components to be assessed in relation to the country concerned:

- its poverty-reduction strategy;
- its economic policy; and
- its systems for public financial management.

The Government states in its guidelines for budget support that no minimum levels can be determined for the conditions which have to be met in order for a country to receive budget support. The SNAO is therefore of the opinion that the requirements imposed on Sida can be considered high as regards the thorough documentation and motivation for its assessments of individual countries. The SNAO is further of the opinion that the assessments should be made in such a way that it is possible to ascertain at a later time whether there have been any changes in the factors determining eligibility for budget support and, if so, in what direction.

The SNAO has examined the documentation underlying Sida's decisions on budget support during 2005–2006. Against the background of the observations presented in previous chapters, the SNAO finds that the analyses included in such documentation are not sufficiently complete and

systematic to meet the above requirements. This is attributable in part to Sida's failure to specify the criteria laid down in the Government's guidelines for budget support – an issue to which the SNAO will return later in this chapter.

For all of the countries, Sida concludes that their poverty-reduction strategies are of acceptable quality. At the same time, Sida has not performed a satisfactory analysis of the extent to which the poverty-reduction strategies of Nicaragua, Rwanda and Burkina Faso are reflected in the national budgets of the respective countries. For most other countries, the corresponding analysis also has deficiencies. The SNAO's observations on the feasibility of the poverty-reduction strategies show that Sida's assessments deal more with future reform programmes than with evaluating present institutional capacity. What is more, Sida fails to specify when it expects reform programmes to have yielded results.

The follow-up of budget support is made more difficult by the inadequacy of monitoring systems in the recipient countries. The Government's guidelines for budget support do not provide any clear guidance as to how Sida should carry out monitoring in such cases. However, the SNAO is of the opinion that this does not reduce Sida's responsibility and that Sida should have been able to account in more clearly for the results expected and for how these are to be monitored. Under the Government's guidelines for budget support, the IMF's analyses are an important benchmark to be used in Sida's assessments of the economic policy of recipient countries. However, only from the documentation underlying Sida's decisions relating to Nicaragua and Burkina Faso does it emerge that the IMF's analyses have been an important part of the basis for Sida's assessments. Sida's analysis of economic policy in the documentation underlying its decisions on Mozambique (for 2005–2006), Nicaragua, Rwanda and Zambia is fairly extensive and covers most of the aspects to be assessed under the Government's guidelines for budget support. Nevertheless, there are shortcomings as regards analytical conclusions, even though these shortcomings are not as large as those in the documentation underlying the other decisions. Taken together, Sida's assessments of the economic policy pursued by the recipient countries are all more descriptive than analytical in nature.

In its examination of the parts of the documentation underlying Sida's decisions which relate to public financial management, the SNAO has found the documentation to be incomplete in this respect. In no case does Sida present findings from external audits, and Sida also fails to describe how the payments systems work. Sida has a checklist which explicitly specifies the factors to be analysed in the evaluation of public financial management in the recipient countries. The SNAO finds, however, that Sida has failed to use

this checklist when assessing whether the conditions for budget support are met. Sida's evaluations of systems for public financial management focus excessively on the weaknesses of these systems and on reform programmes, without sufficiently clearly linking together identified shortcomings with necessary actions. There is also a lack of information about those aspects which actually work in a satisfactory manner. It is not clear from Sida's presentations whether all shortcomings identified are the subject of actions. Sida also does not state what the time schedules of such actions are or how they are to be monitored. This applies to a greater or lesser extent to the documentation underlying each of the decisions examined.

To sum up, the SNAO is of the opinion that Sida has not provided a sufficiently clear picture of how the systems for public financial management work.

Sida has a duty to assess the prevalence of corruption in the recipient countries, but the SNAO is of the opinion that – with the exception of Tanzania – its analysis of corruption is in most cases much too brief and summary in nature.

In its guidelines for budget support, the Government stresses the importance of risk assessment. The documentation underlying Sida's decision relating to Tanzania contains a complete risk analysis. That underlying the decisions on Mali and Zambia also includes thorough risk analyses. In the other cases, Sida's risk analyses are incomplete and much too descriptive in nature. The risks involved relate mainly to resources not being used for their intended purposes. The SNAO is of the opinion that a systematic risk analysis is important to ensure that these risks can be dealt with. One possible type of risk-management action is, for example, the provision of support to capacity-building in the recipient country so as to ensure a progressive reduction of risks; another is special monitoring and follow-up. The SNAO thus repeats the assertion that there is a need for a reinforced risk analysis previously made to Sida by its annual financial-audit function.

To sum up, the SNAO finds that the documentation underlying several of Sida's decisions has the character of descriptive presentations devoid of explicit analysis and conclusions. Sida often presents critical remarks relating to various circumstances in a recipient country which could have a negative impact on the effectiveness of budget support, but Sida does not present objective reasons of a positive nature to the same extent. It is therefore difficult to follow Sida's reasoning and to understand why it concludes that budget support is a suitable form of support. Further, Sida has chosen to let the structure of the documentation underlying its decisions on budget support be the same as that of the template it uses for matters of project support. This template has a design which is not adapted to the

Government's guidelines on budget support. This adds to the difficulties in understanding Sida's analysis and positions adopted with regard to the main requirements for the provision of budget support.

Against the background of the above, the SNAO is of the opinion that Sida has not shown in a satisfactory manner, in the documentation underlying its decisions on budget support, whether the main requirements under the Government's guidelines for budget support are met. Sida's assessments do not comply with the requirements laid down in the Government's guidelines for budget support. In most cases, Sida has failed to present clearly either the expected results of budget support or the risks associated with it. The SNAO further notes that the analytical material included in the documentation underlying Sida's decisions does not, for any of the countries, contain analyses which have been performed throughout in a sufficiently systematic way to enable the development of the fundamental factors determining eligibility for budget support to be compared over time or between countries.

6.1.5 Sida's application of the Government's guidelines for budget support is unclear

Sida has failed both to specify the criteria in the Government's guidelines for budget support and to concretise, in steering documents or the like, how the Government's guidelines are to be applied in assessments. Instead, Sida has a number of complementary and partially overlapping steering documents of varying status which have a bearing on budget support. While these documents show that Sida does not lack knowledge in the field, Sida has failed to translate its knowledge into clear instructions as to how compliance with the conditions for budget support is to be assessed. Sida's Project Committee has pointed out that there is a need for more extensive guidance in relation to assessments intended to provide a basis for decisions relating to budget support. The SNAO's observations indicate that Sida considers the Government's guidelines more as guidance than as instructions for its work.

To sum up, the SNAO is of the opinion that Sida has not made it sufficiently clear to its employees what the assessments are to include and how they are to be made. This means that, to a large extent, individual officials have to form their own opinion of how compliance with the conditions for budget support is to be assessed. The lack of explicit instructions from Sida with regard to the assessment of budget-support matters also means that the information presented is not selected completely and systematically. This contributes to making comparison over time and between countries more difficult.

The Government's guidelines for budget support also cover sectoral budget support and, to some extent, other types of support. Sida provides other support whose design is similar to that of budget support in that the recipient countries' own systems are used to a greater or lesser extent. Sida has not made it clear how and when the Government's guidelines are to be applied to such support whose design is similar to that of budget support. Nor has Sida requested that the Government should clarify its guidelines in this respect. The SNAO finds that the requirements imposed on the assessment to be carried out by Sida for these types of support have been unclear. The SNAO is of the opinion that it is important for Sida to categorise its various actions to make it possible to decide to what extent the systems of the recipient country are to be used within the framework of any given action. This would help Sida to make clear what assessments will be required prior to decisions on actions.

6.1.6 *The Government's reporting to the Riksdag gives too one-sided a picture of budget support*

The Government's reporting on budget support in its budget bills focuses excessively on positive aspects. To give a true and fair picture of budget support, the Government should also have described the risks associated with this type of support. The SNAO further finds it remarkable that the Government did not, in its Budget Bill for 2006, report on the problematic situation prevailing at the time in Uganda, a country which was then receiving budget support from Sweden.

7 Recommendations of the SNAO

Below are the recommendations addressed by the SNAO to the Government and to Sida, against the background of the observations made during the audit.

7.1.1 *The SNAO's recommendations to the Government*

- The Government should establish, without delay, cooperation strategies for the countries which receive budget support;
- The SNAO recommends that the Government should try, as part of the planned review of its guidelines for budget support, to simplify these guidelines and clarify them in the following respects:
 - the Government should provide Sida with additional guidance with regard to the levels which recipient countries should have attained, in terms of public financial management and economic policy, before becoming eligible for budget support;
 - the Government should clarify its guidelines as regards Sida's monitoring of budget support;
 - the Government should also clarify when the guidelines are to be applied to aid types which are similar to budget support;
- The Government should, against the background of its decision to delegate authority to Sida and for other reasons, carry out a systematic follow-up of Sida's application of the Government's guidelines for budget support;
- The Government should provide a more true and fair picture of budget support in its reporting to the Riksdag, describing more clearly the risks associated with this type of support.

7.1.2 *The SNAO's recommendations to Sida*

- Sida should draw up an integrated steering document corresponding to the Government's guidelines for budget support. In this document, Sida should clarify and specify how assessments prior to decisions on budget supports are to be made;
- Sida should take action to ensure that its decisions on budget support and its documentation underlying such decisions comply with the requirements laid down in the Government's guidelines for budget support;
- Sida should perform, on a regular basis, a systematic risk analysis with respect to those recipient countries to which aid is given in the form of budget support or sectoral support;
- Sida should ensure that clear definitions of various types of support are established and that all types of support can be monitored and followed up.

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Other material

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