

Reforms and Challenges in Bolivia,
Guatemala, Honduras and Nicaragua

Public Financial Management and Programme Support



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Executive Summary

This report summarizes and presents support during one year to Sida delegations in four Latin American countries in the areas of public finance management reform, the introduction of sector wide approaches (SWAp) and the introduction of co-ordinated processes to manage budget support.

Public finance management systems in these countries are clearly central oriented, affecting possibilities to uphold a poverty profile in budget expenditure. Reform of control functions in the PFM systems is dominating prior to functions that could facilitate delivery of social services and goods. International co-operation has for a long period of time been dominated by co-operation through projects. Both established creditors and concerned ministries find it difficult to apply the idea of the SWAp. Budget support is also alien. One reason to this might be the fact that external aid historically has represented low levels of financing of public expenditure. This situation is now changing as a result of the HIPC initiative and its implications.

The “joint”/co-operating aspects emphasised in *Sida’s position paper on PFM system* analyses, is very limited in practice in concerned countries. The strong position of the IDB and the World Bank in this area makes it important to uphold the idea of a complementary analysis of the Banks’ diagnostics. As a general rule, Sida should seek to carry out these “second opinions” analyses jointly with other (bilateral) likeminded (European) donors in the country. The best option would however be to carry out already the original analyses in joint teams representing both the government, the Banks and interested bilaterals. In this Sida could act to promote the FMPPFM, PEFA and other more “platform” related starting points as prioritised instruments in the analyses.

There are very few institutional aspects included in the Banks’ PFM analyses, although it is touched upon on and off in the action plans that follows. Europeans, and not least Sida, represent a different conceptual knowledge and “thinking” in this area that would complement the Banks’ analyses.

There are very few initiatives to engage the parliament in formulation of PFM reform action plans, the way this is mentioned in Sida’s position paper.

In relation to Sida’s position paper, it might be worthwhile to reflect on an amendment when it comes to the issue of “second opinions” on finalised corresponding international analyses of PMF functions and

systems in concerned countries (especially in relation to analyses by the World Bank, the IDB and other multilateral institutions).

The conclusions in the handling of *general budget support* in concerned countries would be to ensure a process that includes sufficient administrative resources on both the government and the donor side to be able to handle all the practicalities of a successful introduction, monitoring and review of reforms linked to the provision of budget support. In this institutional, capacity and procedural issues should be integrated. The dialogue needs to cover at least three different dimensions in an integrated manner: A dialogue on the *political* development and dimension, a dialogue on *cross-cutting* institutional areas, including legislation, and a dialogue on *sector-specific* matters.

The concept of SWAp and programme support is still very new in the region. Most Government and aid agencies are unfamiliar with the concepts of what the SWAp is and what it means in practice. Even so it brings on many advantages and signifies in most cases somewhat of a break through in the way of thinking and approaching co-operation between concerned governments and external financiers of public expenditure. On the donor side, the SWAp forces also established external financiers to rethink their policy position in relation to both the governments and donor colleagues.

Bearing in mind the novelty of the SWAp as a concept there are still a number of constraints linked to the process. These are presented in the report.

Sida should take initiatives among the donors and the creditors that could improve the knowledge of the conceptual framework of the SWAp. Different messages of the SWAp as another project need to be explained through seminars and training where countries and donors from the region should be invited to discuss the concept. Sida should also through joint initiatives with other donors support sector ministries at the stages of introduction of the SWAp.

Sida needs to recognise the additional workload that follows from working in a SWAp in comparison to a normal project setup. Another issue to raise both at the embassies and from Sida headquarters is the importance of maintaining a close dialogue and mutual support and advice between the sector programme officers and the economists at the embassies, as well as a strong methodological and practical support from headquarters to field staff.

The fundamental common regulating instruments in the SWAp are the Code of Conduct (the CoC) and the Memorandum of Understanding (the MoU). The sector ministries when working on a Code of Conduct or a MoU for a joint financial agreement need some neutral/independent advisory/TA support in the process. For the formulation of the MoU there exists a good, although somewhat over-regulating, template from the Nordic+ Group that can be used. Its structure provides for much more transparent and understandable MoU documents. One important lesson learned is that the Code of Conduct needs to be signed as first document.

For the donors/creditors not able (or not willing) to sign these documents, mechanisms for dialogue must be ensured where they are included. It would also be important to ensure that the sector ministries designate sufficient internal (HR) resources for the planning process.

The four countries concerned also represent some common structural limitations that influence the process of introducing and working with programme support in these countries. These special conditions are presented in the report.

Finally, the report highlights the administrative and structural implications at Sida HQ and the embassies of the introduction of programme support, stressing the need for more resources (through reallocation?) locally and the need for training. Knowledge of the actual working situation at embassies is far from complete at Sida HQ. The same situation applies in relation to the conceptual definitions of PFM issues and different aid modalities. The importance of continued dialogue also between Sida HQ and its international counterparts on the donor side is emphasised.

The report concludes that the initiative to promote the assignment behind this report in a co-ordinated manner directly from Sida HQ, overall has been successful. The concept of integrating training (in the areas of PFM and programme support) for one “junior” consultant throughout the assignment has proven very fruitful

Abbreviations

BBE	Bilateral Associate Expert
BWI	Bretton Woods Institutions
CFAA	Country Financial Accountability Assessment
CoC	Code of Conduct
CPAR	Country Procurement Assessment Report
CUT	Single Treasury Account
EFA-FTI	Education for All – Fast Track Initiative
EU	European Union
FMPPFM	Framework for Measurement of Performance in Public Financial Management
GBS	General Budget Support
GoB	Government of Bolivia
GoG	Government of Guatemala
GoH	Government of Honduras
GoN	Government of Nicaragua
HIPC	Highly Indebted Poor Country
HR/HRM	Human Resources/Human Resource Management
IDB	Inter-American Development Bank
IFMS	Integrated Financial Management System
FMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IT	Information Technology
JFA	Joint Financial Arrangement
JPO	Junior Programme Officer
MAGFOR	Ministry of Agriculture and Forestry
MDG	Millennium Development Goals
MINSa	Ministry of Health
MoU	Memorandum of Understanding
MTEF	Medium Term Expenditure Framework
NDP	National Development Plan
NGO	Non Governmental Organisation

PAF	Performance Assessment Framework
PDL	Policy Based Loan
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Financial Management
PMU	Project Management Unit
POT	Three-year Operational Plan
PRGF	Poverty Reduction and Growth Facility
PRORURAL	Programme for Rural Development
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
ROSC	Report on Observance of Standards and Codes
SBS	Sector Budget Support
SECEP	Secretariat of Strategy and Coordination of the Presidency
SEGEPLAN	Secretariat of Planning
SIAF	Integrated Financial Administration System
SIAFI	Integrated Financial Administration System
SIGFA	Integrated Financial Administration System
SIGMA	Integrated Financial Administration System
SWAp	Sector Wide Approach
TA	Technical Assistance
WB	World Bank

Introduction

This report summarizes and presents an analysis of an assignment during almost one year with the objective to support Sida delegations in four Latin American countries (Bolivia, Guatemala, Honduras and Nicaragua) and RELA (Sida's Latin America Department) in the areas of public finance management reform and institutional issues linked to this process, the introduction of sector wide approaches (SWAs) in individual sectors and the introduction of co-ordinated processes to manage budget support in three of these countries. Support has materialised as analyses, presentations, training, monitoring of processes and very tangible hands-on work at a number of sector ministries in Nicaragua and Honduras.

Primary sources in this work have been on-going reform processes, knowledge and competence at concerned government (and parliament) institutions and their working material, in countries concerned. Other knowledge and facts come from Sida and other bilateral development partners, materialised through both human resources and written material, and not least from both Washington based Banks, representing broad information bases through diagnostics and analyses carried out and through long representation in the region.

The report will present experiences and conclusions both country wise and, to the extent possible, as thematic recommendations if and when there are conditions in these countries that coincide. Not all variables under one theme are known for all countries. This calls for some cautiousness when reading the report. Still, there are quite a number of issues where documentation is sufficiently broad for comprehensive conclusions. Facts have been identified during a 10 month period. Simultaneously, reform in some areas move forward very fast. This implies that facts in individual cases could already be incorrect. As a trend or theme it would still be likely that impressions overall are correct.

Findings touch not only on Sida on the side of development partners. As can be read in the report, there are a number of issues that relates to "donor behaviour", not least the difference in approach between on the one hand a number of likeminded European donors and on the other the two Washington-based Banks. Existing co-operation agreement with the Interamerican Development Bank and other relations with the World Bank should be utilised by Sida to bring this discussion further.

Also in relation to both partner countries and likeminded donors participating especially in the introduction of SWAs and the introduc-

tion of common budget support matrixes, we would recommend further Sida initiatives. The need for training on the conceptual framework in both these areas is substantial and would facilitate the process. Different from conditions in Africa both these concepts, as well as some related to PFM, are very new in the region (at least in Central America) and knowledge limited. Sida has a very special role in this, at least in the three Central American countries, and it would be fair to say that Sida in many respects represents the most progressive force of all present actors in relation to international agreements on harmonisation efforts. This implies special responsibilities.

The report broadly includes presentations of five different areas: Public finance management conditions, systems and reforms; conditions linked to the introduction of sector wide approaches; status and conditions linked to the introduction of co-ordinated budget support processes; the application of different instruments linked to the introduction of SBS and GBS and an assessment of what kind of support and capacity concerned Sida country offices would need to be able to manage the day-to-day situation. In this the participation of different actors will be commented as will the pros and cons of carrying out this assignment as a regional approach coordinated from Sida-HQ.

Much more detailed descriptions on conditions reflected in this report could be found in the individual documentation from each individual mission carried out during the year, available at Sida and each Sida representation respectively in countries concerned.

Some common features in countries concerned

Public finance management systems in these countries are clearly central oriented with difficulties to find appropriate applications in decentralisation to lower administrative levels including municipalities, clearly affecting possibilities to uphold a poverty profile in budget expenditure. Control features of these systems (further emphasised by the priorities of international financing partners) are dominating prior to functions that could facilitate delivery of social services and goods. International co-operation has for a long period of time been completely dominated by co-operation through projects only, with a lot of negative implications following from this (there is an abundance of international literature on the limitations of project co-operation). From this mental point of departure both established creditors and concerned ministries find it difficult to apply the idea of the SWAp, especially since so many of the ministries' staff actually upholds a livelihood through the projects. Budget support is so alien that many of the PFM systems have difficulties to technically register this kind of financial support. One reason behind this situation might be the fact that external aid historically has represented substantially lower levels of financing of public expenditure than in Africa. Hence, external aid has never been of the same interest to governments concerned until recently (with the exception of Nicaragua) when aid levels have increased substantially through the HIPC initiative.

Pursuing the kind of social agenda and policy that Sida represents in this kind of environment is very complex. A number of different reform areas have to be approached simultaneously where PFM, SWAps and budget support co-ordination have to be defined broadly to include institutional strengthening and political dialogue, apart from system application and definition of different instruments and modalities. In this the link between vertical and horizontal institutional reform also has to be assured. This report only partly touches on these issues calling also for a different flow of information internally at Sida and the need for a more institutionalised co-operation between donors in the region.

Public Finance Management Systems (and some planning)

Features of PFM systems in concerned countries

There are a number of coinciding features when it comes to PFM systems in the four countries:

- All countries have IFMS (Integrated Financial Management Systems, in concerned countries called SIGFA, SIAFI, SIAF and SIGMA respectively) with different levels of quality and different numbers of attaching applications (like payroll systems, HRM systems, statistic databases, planning/programming features, and so on) outside the core functions of budgeting, accounting and payment.
- All IFMS in all four countries are under reform/improvement of existing systems/still in the process of implementing subsystems for the first time. IFMS are everything from 20 years old to still under implementation. Reform is concentrated on control and core functions through the subsystems of accounting, payment and, with some differences, internal audit functions. In addition there are also improvements of programming and budgeting functions.
- All IFMS-systems are gradually becoming more adapted to facilitate sector needs and conditions through the introduction of e.g. possibilities to individually design sector programme structures. Possibilities to track and link individual funding to individual expenditure areas (like a SWAp) even as a cash flow through the government's treasury system, have also improved even though this not necessarily represents something positive. There are also improved possibilities to present consolidated accounts for individually defined expenditure areas like a SWAp, irrespective of sources of funding (in this opening up to identification of costed result indicators in sector programmes). Still, many sector ministries at the moment use individually designed applications of budgeting and accounting systems compatible to the main frame system at ministry of finance but also to their own programme and budget follow-up design.
- With the exception of Honduras (for some time to come; heavy resources are designated to reform work), the governments' payment functions are sufficiently reliable for channelling of funds in these countries. This implies that budget support from this point of view could be disbursed without that kind of fiduciary risk, either as general budget support or sector budget support. Definition of the CUT systems (Single Treasury Accounts systems/*Cuenta Unica de*

Tesoro) vary between countries but with the exception of Honduras they now all offer a complete reconciliation of financial flows from all sources of funding at central level, including government depositions on commercial bank accounts (not allowed though as depositions in all countries). The conceptual payment feature of the new SIAFI in Honduras will more than enough fulfil the ambitions of a reliable payment system, if and when realised. Some countries have clear definitions on how to act in situations of liquidity shortage (Guatemala, Bolivia) while at least one country (Nicaragua) could not present this kind of policy earlier this year.

- All IFMS reform programmes are funded through joint World Bank/IDB credits with some external additional funding of individual sub-areas, mainly defined through action plans following CFAA and other analyses. Reform is broad, including a number of consultancy teams in appropriate areas. Actual institutional capacity building in this could be discussed. Participation from sector ministries varies but is not normally considered a priority.
- Reform is still concentrated to central systems/central institutions. One prioritised area is to try to make the IFMS host registration of multiannual budgets.
- In all four countries there are initiatives to try to broaden the information base in the IFMS to include also lower levels of the administration. In all countries this process has signified problems and difficulties. All IFMS, also the newest and best quality system in Guatemala, are technically “heavy” systems with some difficulties to adapt to conditions on decentralised level where information needs and flows are very different from those of the central institutions (ministries). In this the Banks in some cases face a situation of conflict of interest. Through follow-ups of the CFAAs and other analyses the Banks themselves are part of making the assessment whether the systems they have financed, monitored and implemented in reform processes, are successful or not and if they (hence) are the most suitable to utilise in the process of expansion on a nationwide basis. This possibly “biased” position of the Banks calls for a complementary evaluation of the IFMIS-development, irrespective of the existence of internal control functions at the Banks, for instance through second opinion analyses or balancing the assessment teams to represent a more wide range of donors/financiers and viewpoints. The promotion of the PEFA as a diagnostic tool, acknowledged also by the World Bank, should also be able to contribute to a broader assessment. The difficulties to cover lower level administration financial reporting directly through the IFMS also make it difficult to present fully consolidated accounts for government expenditure.
- All four countries are in the process of introducing the MTEF. Planning and even budget processes are weak, much due to the low importance given to the planning functions of the governments’ administration during the influence of neo liberalist policies in the 1980’s. The exception in this is Nicaragua where a strong cross-cutting planning function was introduced during the 1990’s which has managed to improve matching of external funding and the government’s intended expenditure areas in sectors. The status of this cross-cutting planning function is now challenged through the introduction of SWApS and the strengthened policy and planning position of the sector ministries that follows.

- Budget composition today answers in its major part to the result of annual incremental budgeting during a long period of time. In all countries expenditure is to a certain extent predestined by constitutional and other legislative regulations, defining the percentage of financial resources to be allocated to a number of specific expenditure areas (often regressive like in the cases of several universities.). A change of budget composition hence does not only require a more distinct MTEF process but also legislative change, including the constitutions, important especially from a poverty point of view. Budget composition is also evidently heavily influenced by agreements with the IMF (through PRGF facilities) where macro economic targets often contradict with the needs of increased poverty-based allocations, e.g. the necessity to increase the volume of salaries in for instance the education and health sectors. These agreements are also reflected in government reform policies and programmes in different countries stipulating maximum resource allocations to e.g. social expenditure; at least in the case of Guatemala representing very low levels even compared to those of other countries' in the region.
- Poverty reduction support strategies (or National Development Plans, NDPs, sometimes answering to a PRS, sometimes representing a broader instrument) are increasingly being utilised as the guiding instrument for allocation of resources at the stepwise introduction of MTEFs. The "new" IFMS systems under introduction offer technical features that make it possible to programme expenditure profiles according to the priorities of the PRSPs. The problem still is that PRS papers in all countries are too unstructured or unclear in priorities or objectives to be able to utilise as operational instruments in this sense.
- There is a strong need for viable cross-cutting government institutions to support sectors in the introduction of new planning and budgeting features like the MTEF and resultbased management. All four countries suffer from weaknesses in this field for different reasons: split in one ministry of finance/one planning function (Nicaragua, Guatemala); strong MoF/weak cross-cutting policy function (Honduras); weak policy documents as instruments to guide the process and to utilise as the base for formulation of objectives (all four with some exceptions in Nicaragua); investment based planning instead of programme based and result based (Guatemala); weak and incremental budget process in general (Bolivia, Honduras, in some respects all four)
- Almost all central funding of public expenditure in the regular state budgets (apart from resources to state enterprises and other autonomous structures) is registered on-budget, as is almost all expenditure in all countries with the exception of Honduras (rapidly moving in this direction though). This implies that the major problem of off-budget resources at central level, frequently seen in Africa, is much more limited in these countries even though fragile planning instruments still make it possible to avoid on-budget registration in individual cases. A much worse problem is the registration/reporting of all resources at decentralised levels of the administration, both domestic and external. The implications are that planning and follow-up of results at central level should become more or less complete processes at the introduction of proper instruments. At the same time, lower level processes continue to represent limitations in access to information on resources. This opens up to misuse of funds and efficiency losses at the level of service provision.

- With the exception of some of the work in Guatemala, internal audit (government) and external audit (congress/parliament) functions are surprisingly weak (considering the historic focus on control functions). Among the reasons for this you may find a certain political resistance to this kind of control function. Since possibilities to succeed in audit are heavily dependent on the status and quality of accounting systems and information produced earlier in the information “chain”, prior weaknesses in these areas are also likely to have contributed to the current fragile position of both these audit functions. However, simultaneously there is also a great need to improve methods in both areas, to change the conceptual idea of what audit is (a service, not a punishing instrument that starts at the very definition of the individual expenditure) and expand from financial to include also result-oriented audits. Internal control functions are gradually improving through the introduction of new technical support features in the IFMS systems.
- Financial accountability in relation to the legislature is also generally weak. There is no full presentation of the government’s financial transaction during the fiscal year and/or a full balance sheet including assets and liabilities, presented to Congress. In some of the countries there is no presentation even of a comprehensive Annual Accounts report to the parliament. No country has a Public Accounts Committee or a corresponding function at Congress and the possibilities for the Finance Committees to, in practice, function as a scrutinising counterpart to government in the regular budget process, are very slim.

In summary, following the PFM “chain” from planning to audit, you could say that the “middle” of this chain is the strongest in these four countries, i.e. the current reform of budgeting, accounting and payment sub systems; to a high degree reflecting the priorities of creditors. Contrary to Africa, there is no established tradition of planning with the exception of Nicaragua and in combination with the introductions of the MTEF, budget support and SWAp, this area would benefit greatly from some additional external support, where Sida in collaboration with others could play a vital role. Institutional support to audit functions (internal and external) is almost always included in Bank reform packages following especially CFAA analyses. Still, even today limitations in these control functions represent much more serious risks than any of the mentioned subsystems in the IFMS in each country.

A comparison on a number of PFM aspects and additionally some factors relating to the introduction of the SWAp, are presented country wise in an annex to this report.

PFM situation in relation to Sida policy and other international policy

In relation to recommendations in Sida’s position paper on Public Financial Management (February 2005)¹, reform work in concerned countries only in part displays consistency. This comparison only includes system issues. Other issues dealt with in the position paper are not analysed, such as capacity building.

It would be obvious that the “joint”/co-operating aspect – apart from the Banks’ own co-operation, highly commendable in itself – emphasised

¹ Sida Department for Policy and Methodology, www.sida.se: The position paper highlights assessment of PFM systems, PFM reform and the development of international norms

in the position paper in relation to system analyses, is very limited. Since the Banks place a strong focus on PFM reform and have a lot of in-house expertise in various linked areas (including procurement), they tend to dominate the support to PFM reform and have more or less complete control over the whole process from initiation, decision and analysis to implementation. Information to other development partners concerning intended initiatives and especially on achieved results, vary between countries but is improving over all. Sida represents as one partner a responsibility to comment on this restricted information in areas that concern all development partners.

The Banks “monopoly” in this area makes it even more important to uphold the idea of making the PFM analyses/assessments broader through “second opinions” for a number of reasons. The first is that there might be a general need for alternative technical analyses, since quality of the Banks’ analyses varies (even though they are generally of high standard). The second reason is the fact already mentioned that the Banks in many cases have biased interests in the result of analyses, and especially follow-up analyses, of the progress of system implementation and what alternative that should be chosen at the introduction of new features in the reform package, such as roll-out to decentralised levels of the administration. The third reason is that donors like Sida (and other bilateral Europeans) often represent historically alternative “entry points” to the Banks in the formulation of what should be analysed, how technical issues link to other “soft” areas (such as for instance decentralisation and capacity development) and what should be prioritised in technical definitions of e.g. budgeting and accounting systems (such as sector ministry aspects). As a general rule, Sida should seek to carry out these “second opinion” analyses jointly with other (bilateral) likeminded (European) donors in the country (in reality rather few to choose among). The best option would however be – in consistency with the content of Sida’s position paper on PFM – to carry out the first analyses in joint teams representing both the government, the Banks and interested bilaterals. However, no such invitations to participate have been presented to the bilaterals and no such dialogue has started as of yet.

These diverting points of departure in analysis are also linked to what diagnostic instrument that should be used, thoroughly discussed in the position paper from Sida. In the four concerned countries until now not a trace of the application of FMPPFM (Framework for Measurement of Performance in Public Financial Management) has been seen. The CFAA (PER and to some extent ROSC) “mindset” still completely dominates the structure of the diagnostics, which influences more than the technical identifications of weaknesses and strengths. In this Sida could act to promote the FMPPFM, PEFA and other more “platform” related starting points as prioritised instruments in the analysis.

The Banks’ analyses often need to be complemented with the institutional capacity development aspects. These issues are rarely dealt with in any comprehensive way in the Banks’ analyses and subsequent action plans. Some of the bilateral donors have substantial expertise and methods for this kind of analysis and development, which would complement the somewhat “hard” PEFA/CFAA assessments with some more “soft” areas related to human and institutional capacity.

There are very few initiatives to engage the parliament in formulation of PFM reform action plans, the way this is mentioned in Sida’s position paper. In Guatemala the engagement of the Congress in these issues follows from Sida financial support to different projects. A further restriction in this is the absence of sufficient and adequate democratic

and good governance aspects in the formulation of action plans that touch on parliamentary reform.

As mentioned, expansion of the IFMS systems to decentralised levels of the administration is problematic due to e.g. the technical design of the IFMS at the start. In terms of service delivery aspects mentioned in the position paper, this really constitutes a problem.

As can be seen from this presentation, and not very surprisingly, CFAA and other Bank analyses of the PFM area come very close to Sida policy in the “core” areas of PFM such as budgeting, accounting and payment systems. In relation to more “soft” issues like good governance, accountability aspects at the legislature or service delivery as a priority, starting points differ. Further, until now there are few examples of joint analyses missions with the bilaterals and the Banks represented simultaneously (even though there have been some contacts on this issue in Honduras). Sida should act to change this situation.

Recommendations

In relation to the valid and quite recent position paper from Sida on PFM policy, it might be worthwhile to reflect on an amendment when it comes to the issue of “second opinions” on finalised international analyses (especially by the World Bank, the IDB and other multilateral institutions). This is a general issue, though more obvious in Central America, and could be applied also in relation to co-operation in other parts of the world. Sida should however in the first place try to improve possibilities to formulate joint teams and ToRs for analyses of this area as has already been stated in Sida’s position paper

General Budget Support

All countries except Guatemala – a non-HIPC country – receive general budget support. The modality is fairly new and includes support that by the provider would not always be classified as budget support (IDB's Policy Based Loans). Main providers are the multilateral IMF and World Bank through the PRGFs and PRSCs (where there is an approved agreement on a PRS: Honduras and Nicaragua), the IDB and the EU. On the bilateral side donors like Sweden, Holland and others. Resources are made available either directly through additional budget support or through HIPC relief.

Following the introduction of the poverty oriented credits from the BWI: s, institutional issues from a poverty perspective are supposed to have a strong position in the conditionality discussion with governments (even though it would be obvious that the IMF in many cases still link structural adjustment policy issues to their PRGF; in many cases representing the main trigger for additional multilateral and bilateral support). In this, credits from both the World Bank linked to the PRSC and from the IDB linked to the PBL represent a bulk of conditionalities reflecting both cross-cutting issues (from legislation to systems) and sectorial (from analysis arrangements to results). In addition the EU presents conditionalities linked to their own project areas (as do the Banks) as well as other issues. The bilaterals in many cases tend to support the PRSC, in this displaying the opinion that the PRSC represents the lead instrument in co-ordination efforts linked to the provision of budget support. From these positions and internationally sanctioned initiatives, there are processes on-going to establish common budget support matrixes (or Performance Assessment Frameworks, so called PAF: s) in all three countries (not in Guatemala) and utilise these as the main policy dialogue occasions with the governments on both cross-cutting and sectorial issues (linked to or even overtaking CG-meetings).

The three countries receiving budget support has obviously reached different "stages" in this process, making it possible to compare experiences at different stages of development. There are also some common experiences from the three countries concerned.

In *Nicaragua* there already is an agreement on a Joint Financial Arrangement (JFA), established through a common MoU signed earlier this year by all concerned budget support financiers, except the IDB. The existence of this document at the same time reflects the IMF's acceptance of the macro economic situation and development in Nicara-

gua even though many indicators represent a worse situation than in e.g. Honduras.

The natural point of departure for the Nicaraguan budget matrix as far as the GoN is concerned has been the National Development Plan (NDP) a reflection of the previously mentioned strong planning tradition and the government's successful intervention during the 1990's with the intention to improve matching between external funding of the state budget and the intended political allocation of public resources. This position of a strong cross-cutting planning institution (the SECEP) is now being challenged by the SWAp and the enforced position – also from a planning perspective – of the sectors that follows.

All parties in the establishment of the joint budget support matrix and the MoU could be considered to look at this as a learning process: Internally between different government actors and institutions, the same thing on the donor side and also in the relation between both “sides”. The process has been considered a bit like trial and error (first attempt in the region) and is continuously viewed that way. Although the NDP has been the guiding document, individual creditor's and donor's agendas are still very much displayed in the final document. There are obviously too many conditionalities (more than 60) and the list is more a reflection of what was included in the individual agreements prior to the common budget support matrix; a very natural point of departure in this kind of work that needs to be approached stepwise. Given the extension of the matrix (and individual donor amendments to the MoU) there is still some distance to cover before the budget support matrix dialogue in Nicaragua could become a strong instrument for an agreement on a *common* view on the general progress of reform

Many of the issues and considerations that formulated the process of the introduction of a common matrix in Nicaragua, could now be viewed in a different way in the first steps to establish a corresponding instrument in *Honduras* that has just started. Possibly with some exception, all budget support providers – including the World Bank – show a clear interest to compromise and adapt to e.g. a conditionality list that reflects the interest of different parties, at least on medium term. In this, there might be good possibilities to agree on a common set of benchmarks that are considered to reflect reform progress and hence trigger disbursement and avoid a continuation of the relation: individual donor conditionalities – individual disbursements (also needed to avoid an on/off situation in disbursements from a macro economic point of view). Many other issues, like the government's institutional base, who should be the co-ordinator on the donor side, the possibilities to formulate conditionalities based on the GoH's (poverty) programmes, the need to identify relevant conditionalities in relation to actual conditions (and not merely in relation to donor policies), the involvement of the sectors in the process and many other questions need to be analysed and approached in the preparation for the common matrix and the MoU. This should be handled as a coherent programme in collaboration between appropriate government institutions and a lead/coordinating representative on the donor side.

Both in Nicaragua and Honduras there is an “established” government – donor relation in this area, reflected in the provision of the BWI's poverty oriented credits (though it is far from decided that these will be disbursed in Honduras this year). In *Bolivia* the situation is different (and was different also prior to the latest outburst of social unrest during the first half of 2005). Here, discussions between the IMF and the GoB (on

some major structural issues) for a longer period of time have prevented the disbursement of the PRGF. Following this, there is no PRSC. A bit surprising, a number of other multilateral and bilateral creditors and donors, including Sweden, still have agreed to provide budget support to facilitate the implementation of the old and the intended new PRS from the government. This decision is strongly supported by the IMF, realising the macro economic consequences of the non-disbursement of these 300 Million US\$, more or less answering to the country's annual interest payments on the national debt. The same attempt to co-ordinate the discussion on conditionalities linked to budget support has therefore been carried out also in Bolivia in spite of the "absence" of the BWI's credits. In 2004 the first budget support matrix, substantially modified in 2005, was presented.

However, without the broad institutional and political base that the BWI's answer to and the co-ordinated view on institutional reform that often could be guided by the introduction of the PRSC, the budget matrix in this case has tended to become a "*Mädchen für alles*" where all issues that have been discussed between individual donors and the GoB for years, are included. The result is a list of conditionalities with weaker sequencing and consistency than normally and at a volume that did not (and does not) correspond to the institutional base intended to carry its implementation. These views were presented as conclusions following a mission under this assignment. Reception amongst donors varied substantially. Some agreed on the weaknesses pointed out and that the proposal to limit the intentions to a consistent budget process reform was relevant and reasonable. Other donors reacted strongly against the idea that their original intentions were questioned in this fundamental way.

In *Guatemala* there is no budget support. Given the low ambition from the GoG (and even more so from the Congress) in relation to social reform and a reasonable programme of social development, the need to discuss these issues with the government is even stronger. The result of the politics so far is reflected in the worst poverty conditions in the region. The IMF strongly supports the very restricted fiscal policy of the GoG, in practice preventing even a moderately higher ambition to formulate a social sector development agenda (based on the modest, but still unachieved, ambition in the peace accords regarding for instance tax rate)

These conditions put donors like Sweden in a special position, including the responsibility to initiate the kinds of discussions that follow from the existence of a common budget support matrix. Hence, in an individual mission as part of this assignment, the recommendation was presented that Sweden should try to initiate a process to formulate a "budget support matrix" without budget support. The initiative was intended to trigger the first step on the road to donor co-ordination on tangible programme issues and to present a common donor opinion on these matters; eventually supporting the government to shift focus and priority in the political agenda.

Recommendations

The conclusions in the handling of budget support in concerned countries would be to ensure a process that includes sufficient administrative resources on both the government and the donor side to be able to handle all the practicalities of a successful introduction, monitoring and review of reforms linked to the provision of budget support. In this institutional, capacity and procedural issues should be integrated and

attended to as the first steps through the elaboration of a “working list”. Discussions and negotiations on the actual conditionalities should not be introduced until the administrative framework has been decided. Topics to include could be picked from this assignment’s report on the introduction of a budget support matrix in Honduras from July 2005. The dialogue needs to cover at least three different dimensions in an integrated manner: A dialogue on the political development and dimension, a dialogue on cross-cutting institutional areas, including legislation, and a dialogue on sector-specific matters.

The Sector Wide Approach (the SWAp)

Learning to work in a programme mode

The concept of SWAp and programme support is still very new in the region. It can bring on many advantages and signifies in most cases somewhat of a break-through in the way of thinking and approaching co-operation between concerned governments and external financiers of public expenditure. Apart from the basic conceptual idea that external parties should submit to and support the governments' intended policies and objectives (not something completely obvious to all actors involved), there are a lot of positive spin-off effects linked to the introduction of the SWAps:

Governments are forced to formulate more clear policies and more importantly, operational plans on both multiannual and annual basis. Cost and financing analyses of much higher standards are gradually being carried out as a direct result of the introduction of the SWAps. Introduction of the MTEF and improvements of the PFM systems are not completely the result of the introduction of programme support, but obviously necessary pre-requisites if the financiers are to consider this modality in co-operation. The issue of functional analysis of the administration and the need for capacity building will be highlighted. The sector administrations will be reinforced, through this enabling the government to present more relevant and accurate planning documents and result reports as part of the SWAps. Cross-cutting planning functions with the governments will regain their position; a very crucial institution in most concerned administrations considering their relative weaknesses. Other cross-cutting reform – such as civil service reform or public sector reform – could be the direct result of the introduction of different kinds of programme support. On the donor side, the SWAp obviously forces established external financiers to rethink their policy position in relation to both the governments and donor colleagues. For both sides the SWAp process tends to raise questions that *should* be of concern to donors/financiers regardless of aid modality chosen, but many times are not, such as for instance the need to analyse the general trends of allocation to and across the sector.

It is worth mentioning that the SWAp also implies risks, especially in cases where political support for the process is weak, where donors/financiers do not show enough flexibility in relation to preconditions, or in other ways substantially deviate from the spirit of the SWAp. Another example is when one aid modality is substituted for another, before the negotiations regarding the new modality (such as a pool fund) are final-

ised. In these cases the process risks getting delayed, workload on ministries increase temporarily, and service delivery may even decrease due to non-disbursement of funds. Another issue mentioned elsewhere in this report is the resistance against the SWAp by project managers in PMUs, who are receiving special project employment conditions. Should this issue not be sufficiently addressed, the ministry runs the risk of losing qualified staff or create new conflicts/tensions that may delay the implementation of the sector plan. Further, the introduction of the SWAp as a planning instrument tends to centralise decision-making, a tendency that contradicts to the common needs of increased decentralised influence on this process.

However, all in all, programme support and not least the SWAp triggers a number of essentially positive processes also in this region that will visualise themselves already on medium term. Bearing in mind the novelty of the SWAp as a concept and at the same time the very established structures on how to co-operate (through projects with the primary objectives to disburse and to achieve results within a limited area without considering the broader perspective of development within the sector), and with whom, there are a number of constraints linked to the process that could be worthwhile to include in this presentation:

Most Government and aid agencies are unfamiliar with the concepts of what the SWAp is and what it means in practice, even though the same agencies in Africa have already come a long way in terms of SWAp work – especially what regards internal coordination among donors and acceptance of the Government as the leader of the process. Many local representatives are also seemingly unfamiliar with, or for other reasons unable to act upon, with their own central policies regarding SWAps, donor harmonisation and budget support. The possibilities for a common departure are hence limited, since the concepts mean such different things for different actors on both sides. As soon as a new external funder (in the respective sector) enters the game there is a tendency that many things have to start from the beginning again. In addition, in many cases PFM systems are unprepared for handling programme support – they are only designed for treasury funds and parallel project funding. Hence there is until now no technical feature for registering the income as budget support or sector budget support. This goes for all countries except Guatemala (who has little use for it at present). The systems are also not prepared to present consolidated accounts in total or for a defined expenditure area – another requirement for giving programme support. As part of the continued work on existing IFMS, these features will gradually be introduced

Another challenge for the SWAps related to the planning process is the inability amongst concerned governments so far to transform the poverty reduction strategies into clear programmes with objectives, results and activities, hence more operative documents where the costs for different interventions can be calculated. This is not different from other regions of the world which have worked with the SWAps during a much longer period. Planning institutions at ministries are naturally unprepared to work with SWAps – also structurally. This restriction is unfortunately further strengthened by a number of misleading concepts linked to the SWAp being introduced by a group of donors, such as mini-SWAps (*SWApitos*), special “SWAp-units” and special financial management manuals (in spite of the fact that most government PFM systems could be used directly to support the SWAp in most countries concerned). Sida has, as part of this assignment, promoted hands-on support

to planning functions in a number of concerned sector ministries in the elaboration of different key documents: a seemingly fruitful process for both sides. This type of support is recommended to continue in some way also in the future. The possibilities to succeed in this work are complicated by the split up of the planning and budgeting functions within ministries. This kind of “hands-on” support should ideally be organised by the ministry and a joint group of the concerned development partners.

In several cases large parts of the identifiable sector are deliberately left outside the definition of the SWAp and the resource allocation to this part of the so called “sector”. This is a serious constraint in relation to programme support, as well as the sector programmes dynamic interrelationship with the MTEF (necessary for a sustainable sector programme). Without possibilities to prioritise within the sector and between sectors, the coherence of the policies is jeopardised, and thereby the long-term results. Accountability is also reduced by these “partial” SWAps.

There are also clear signs of a continued project mindset from the governments and from individual donors in SWAp work. This is most clearly reflected in the fact that a number of donors still arrive to the negotiation table with a number of their own (policy-based or locally introduced) technical and content prerequisites, which can deal with anything from the structure of the sector plan and the reporting documents, to defined eligible expenditure and the frequency of reports or cross-cutting safeguards. Some donors are still more interested in controlling their own “hub” of investment, rather than accepting the fundamental idea of the SWAp, to safeguard progress in sector development. As a result, in one example, the implementation process of the multiannual plan came to a complete halt for many months. Whether this is a reflection of contradicting policies among these donors, or whether it is a sign that headquarter policies are not known/being followed in the field, is not fully clear. Another evidence of the prevailing project mindset is the desire to set up separate management units for the SWAp in concerned ministries – as were it something different (a project) from the sector and its plan. Difficulties to – in reality – move from “project thinking” applied on the SWAp, to the fundamentals of programme support are also reflected in grave control instincts with some donors. Even though the SWAp distinctly represents a planning instrument, these actors continuously concentrate on each and every perceived weakness of the PFM systems, i.e. controlling the financial resources tends to be more in focus than systems for planning and follow-up of objectives and results achieved

The very established project mindset is also seen at the ministry side. One example is that the MoF in some of these countries continue to present separate reports to each donor – although this is no longer requested. Another is the inclusion of features in the new IFMS systems which allow for pooled fund donors to see exactly what their individual funds have been used for – although this contradicts the whole idea of having a pooled fund agreement in the first place.

Another problem with the SWAps is caused by the fact that certain important external financiers with a strong presence in general in these countries, often do not participate in the preparation, implementation and follow-up process of the sector plan in the same way as the others. This is for instance true in the case of the IDB in EFA in Honduras, and in health in Nicaragua. Although the organisation tends to sign the harmonisation documents, in practice it continues to work in parallel

with its own programmes/projects outside (many times as a result even in direct contradiction with) the spirit of the joint agreements. This may be due to several reasons, among which the combination of unofficial disbursement targets and slow processes in agreeing on a pool fund mechanism for transfer of funds to the sector programme, makes it difficult for the Bank to follow its own policy intentions. Another reason could be the fact that they run the risk of criticism for certain failures in service production/delivery if programmes they have been supporting for a long time suddenly do not receive funds during a transition period of negotiating the conditions of a joint financial arrangement. No matter the reasons, this is something that needs to be brought up in the dialogue with the concerned actors, should this “parallel” approach to programme support continue. In this it would be important to understand that a continued support to projects will continue to undermine the necessary base for the full introduction of the SWAp some external financiers themselves are seeking as a pre-requisite to participate. Further, it would also be important to recognise the possibilities to always participate in some procedures such as planning and budgeting, even if agreements on funding mechanisms have not been made

The administrative HR capacity is high in most of the planning institutions in the four countries. The persons in charge are normally well educated, driven and highly motivated to make the sector work adequately, and ensure that results are achieved. This is the case, in spite of the lack of visible *political* leadership and ownership of the process in some countries. Planning and financial administration staff (budgeting, planning, accounting etc) is often very much involved and has a good understanding of the dynamics in the sector. In terms of systems support, the finance administration departments tend to be very advanced in comparison with the planning and monitoring departments since PFM reform, as already explained, has been given the main priority by the main external financial contributors to sector expenditure.

However, many of the persons in charge of key functions in these departments (both financial management and planning), are consultants funded by either of the Banks. Many of these persons have been on project-linked contracts for many years, perform a line-duty position and are very competent and dynamic. At the same time they are naturally often loyal to the projects (and financiers) that pay their salaries. This creates a difficult situation of conflicting interests for these individuals. How many of these persons would be able to keep their job – or their project salary – in a SWAp environment where specific project coordination units are no longer needed? On the positive side this situation means that ministries have been able to keep a lot of qualified staff that might otherwise have gone to the private sector, had the remuneration been different. Nevertheless this is an issue that needs to be dealt with and discussed seriously when introducing a SWAp. Another discussion linked to this is the long term donor-funded technical assistance provided to ministries, that many times has been providing backstopping functions rather than knowledge transfer. These aspects are essential to include when making capacity assessments as part of the SWAp-preparation. Only focussing on what training is needed for each department will far from solve the capacity challenges of most ministries.

The confusion regarding the concepts of the SWAp, the CoC and the MoU respectively is brought up elsewhere in this report. However, the severe lack of understanding of these concepts and the subsequent possibility for certain actors to hijack some of the SWAp concepts for

their new project funding (with a contradictory result from those aimed at through a SWAp), is a serious threat to the process and may risk its backlash.

Recommendations

Sida should take initiatives among the donors and the creditors that can ensure more of a common understanding/platform between the different actors that currently use the SWAp concept in substantially differing ways. Some of the messages currently being spread contribute to creating the image of SWAp as yet another project that needs its special management unit, special financial management manual etc needs to be contradicted through different kinds of seminars and training occasions. One way of creating this kind of platform is to invite governments/administrations and donors from the region to seminars to discuss the concept and approaches of different countries in relation to programme support. In each country there is a distinct need for continued presentations to both donors and government institutions and hands-on work in collaboration with government agencies, first and foremost the planning entities of the sector ministries.

Sida should also take initiative to more of training for all the actors involved regarding budget support, sector programme support and their linkage with PFM and cross-cutting reforms. The PFM course organised by Sida in Nicaragua in May constitute an important contribution in this, especially when complemented with more real life cases and practical discussion on the modalities of programme support under individual conditions. Training also needs to include the legal department and other departments directly involved in the process of giving advice or making decisions at Sida Stockholm, and ideally also include their counterparts in other development agencies.

The WB in its SWAp policy recognizes the additional workload it means from the donor/creditor side to work in a SWAp in comparison to a normal project setup. This fact seems to not have been sufficiently acknowledged by other donors, neither Sida nor some of the other bilaterals in terms of necessary resources in the field and/or in terms of necessary training of field staff. Another issue to raise both at the embassies and from Sida headquarters is the importance of maintaining a close dialogue and mutual support and advice between the sector programme officers and the economists at the embassies, as well as a strong methodological and practical (constructive) support from headquarters to the field staff regarding all these matters. The headquarter staff has up until now not sufficiently understood how critical the situation is and how much more support both in terms of manpower and methods that is needed to ensure success in the field. This is especially valid for a donor like Sida who has taken on a leading/coordinating role in many of these processes in the region.

More detailed views on the on-going introduction of the SWAp in the four concerned countries could first and foremost be found in the reports *“The SWAp in the health sector in Nicaragua: Some comments to the elaboration of a MoU for pool fund donors, to the Annual Work Plan and to cost and financing analyses in the Five Year Plan”*, June 2005 and *“The SWAp in the rural sector in Nicaragua: What is missing”*, June 2005 and *The SWAp process in Honduras: Development and what is continuously needed*, September 2004.

Instruments

The Code of Conduct and the Memorandum of Understanding

The two key documents in the SWAp are the CoC and the MoU. The general intention of these agreement documents is to co-ordinate, streamline and/or align parties concerned into a *common* structure of institutionalised procedures, recognition of a common legislative framework, recognition of the government's sector plans and programmes as the common base for engagement in the sector and the use of common planning, budgeting and financial management procedures and systems. An ambition to gradually move towards following governmental procedures and utilising governmental systems only, is normally expressed in these documents.

The CoC concentrates on the *institutional* and *procedural* basis of engagement in the SWAp and its implementation instrument: the operational sector plan. External financiers to the plan are obliged to submit to the plan and its priorities (following this also to the agreed and decided policies and objectives of the government in the sector) if they want to engage in the development of the sector. The ministry is defined as the leading and responsible body for the implementation of the sector plan. Often principles of alignment are also expressed in the CoC. Implications of this could be the halt to continued bilateral arrangements between the sector ministry/the government and an individual external financier who has signed the CoC. This could touch on issues such as individual missions (no longer possible without consultation), individual TA (same thing), individually agreed funding or individually agreed priorities and sequencing of activities (that do not coincide with the sector plan and joint agreements on the annual work plan).

The MoU is normally a document concentrating on *fiduciary issues* and in most cases in reality all steps of *public finance management*. In (too) many cases you also find that the MoU regulates issues of concern to all actors in the sector; issues that hence should be regulated in the CoC (since the signatories of the MoU always represent a smaller group of external financiers than those that sign the compulsory CoC). This is unfortunate and in most cases due to the fact that external financiers signing the MoU together represent the major bulk of external money to the sector plan. This financial upper hand gives leverage to the (unfortunate) idea that issues that in reality concern everyone in the sector, all the same should be regulated in the MoU (not seldom indicating a duplication of these regulations and the work for the government).

The work with the MoUs in the SWApS has been greatly helped by the existing Nordic+ JFA template, since it provides a joint internationally accepted platform for this kind of agreements. Although this instrument has a tendency to be over-regulating in relation to what is reasonably needed, it provides an adequate structure and transparency to the process that is of vital importance to all parties.

PFM situation in concerned countries and Africa respectively

Since PFM systems generally are relatively much better in the four countries concerned in comparison with most countries in southern and eastern Africa, from an administrative point of view the possibilities to make programme support work are substantially higher. This for instance means that the CoC in general, and the MoU in particular, are able to, to a much greater extent, refer to already existing PFM systems as the ones to be used in the provision of programme support, than is the case in many African countries. Hence the prerequisite lists presented by some donors regarding what kind of special reporting and features that are expected to be at hand for them to be able to disburse funds through government systems, are in some cases very difficult to understand, since sufficient safeguarding of the resources already is at hand or is being installed. Great efficiency losses are in these cases instead caused by over-cautious behaviour from the donor side, rather than through shortcomings in the PFM systems. As a comparison it is interesting to observe that several donors that hesitate to disburse programme support money into relatively stable and feasible PFM systems in the concerned countries, without hesitation have done the same thing through PFM systems in different African countries, i.e. given support through systems that are much worse off.

Legality of documents

Neither the CoC nor the MoU are legal documents in the same way as for instance the bilateral agreements between one individual government and one external donor/creditor concerning co-operation in general or in a specific area. This, in the eyes of some donors/financiers, makes them easy documents to sign, since it still is possible to refer to the bilateral agreement as taking precedence in the case of a conflict between agreements. On the other hand experience shows from different regions of the world that both the CoC and the MoU put a strong pressure on donors and constitute a good support to the Ministries/Government in terms of pushing the harmonisation and SWAp/budget support agenda forward (seemingly with the exception of the IDB in several cases). The legality issue of the MoU has been brought up recently since, among others, Sweden in some cases no longer includes all detailed information in its bilateral agreement, but instead refers to the MoU as the document regulating the programme support. This reference then gives the document a legal status.

In the process of elaborating the MoUs and CoCs, the comments both directly from bilaterals in the field, as well as that of legal departments and other experts at the central office, often clash with the intentions behind a document such as a MoU. While official policy speaks of donor harmonisation and coordination, comments from donor representatives and their legal departments in many cases seem to be based on a *project* vision of things, where there are still only two parties at the negotiation table – the donor and the ministry, i.e. the old project set-up. There is further a tendency (as described above) of wanting to include all

aspects covered in all other agreements in the MoU as well. The comments coming from these entities do not seem to take into consideration the exact role of a MoU as regulating *only* the joint financing mechanism as long as there is a CoC as well. Further, they aspire to go into a very high level of detail.

IFMS reforms in concerned countries are, as mentioned, moving ahead rapidly. This implies that pooled fund donors of different sector programmes (and preferably other external funders of sector support as well) gradually should be able to move to using national systems and that agreements regulating parallel systems for issues like payments, accounting, procurement and other related PFM issues are subsequently terminated. However this requires understanding, as well as close monitoring, of these systems which calls for regular presentation of reform progress from involved parties (the governments and its financing partners) to all other involved parties.

In this context, the issue of so called basket funds or pooled funds should be mentioned. These concepts have different meanings in different parts of the world in development assistance. While a pooled fund arrangement in Nicaragua for instance, indicates a resource designated specifically for a sector (or even a number of eligible expenditure in that sector) that very well could be channelled through the government's treasury system, a pooled fund in most African countries would indicate a by pass of cash flow outside the government's systems (this could also be the case in Central America at the example of the EFA-FTI in Honduras). Basket funding however would normally indicate some sort of joint funding arrangement with the intention to merge cash flow, inside or outside government systems. Due to the higher standard of PFM systems in concerned Latin American countries, there are good opportunities to utilise government systems (in most cases), thereby in fact putting more recognition to the registration of individual funds (as designated for a specific purpose) than the fiduciary risk of the cash flow. This signifies a different situation compared to Africa.

A country wise presentation of Swedish involvement in SWAp and comments in relation to that can be found as an annex to this report.

Recommendations

The sector ministries when working on a Code of Conduct or a MoU for a joint financial agreement need some neutral/independent (not linked to any specific donor agenda) advisory/TA support in the process, that concerns itself with the ministry's/government's perspective. This support should be able to work also with the nitty-gritty of elaborating the guiding documents for the SWAp from the *sector's* perspective, and ensure that the sector in the MoU commits only to those things that are possible for it to accomplish, i.e. that agreements made are consistent with existing resources and capacity.

For the drafting of the MoU exists a good, although somewhat over-regulating, template from Nordic+, officially adopted by a number of bilaterals, that can be used. Its structure provides for much more transparent and understandable MoU documents, than the ones elaborated without considering the template. However, donors should not feel bound to use its every paragraph, but try to make the document as simple as possible. For the CoC no template currently exists, although this could be a useful tool in the process as well.

It might be worthwhile sacrificing some of the simplicity to ensure that also the Banks are able to participate in a MoU. However, if their

comments/proposals prove to be in substantial contradiction with the original purpose of the document (as in several cases during this assignment) it is better for the bilateral group to move on with the signing, and then hopefully (and most probably) the Banks will eventually want to join as well. It is important that the negotiation time for the MoU is not underestimated (considering HQ comments etc), and that transitional mechanisms for funding to the sector are ensured while it is being negotiated. There is no point in rushing into an agreement, jeopardising important principles of the SWAp, just because of time pressure regarding disbursements.

One important lesson learned is that the Code of Conduct needs to be signed as first document, in order to have a basis for the further work with the SWAp. The CoC provides the necessary regulative framework for the future harmonisation and dialogue within the sector for *all* actors.

Ideally the process starts with training for all actors involved, so that all are able to separate the CoC and the MoU, and refrain from over- and double-regulating certain issues in the process. Training is just as important for donors as for the sector ministry, and for the headquarters as well as the field offices.

For the donors/creditors not able (or not willing) to sign these documents, mechanisms for dialogue must be ensured where they are included. An open discussion around the future for some of the multilaterals, whose participation in the sectors is threatened with the SWAp, needs to be held both within Sida and in relation to other donors and governments.

It would also be important to ensure that the sector ministries designate sufficient (HR) resources for the government's planning process. This should normally be a pre-requisite from the donors at the occasion of the SWAp agreement (additional to all other basic requests to make the SWAp work, from institutional set-up of decision-making bodies to annual review occasions).

General bottlenecks and challenges

The four countries also represent some common structural limitations that might be valid for other parts of Latin America as well (and in some cases for other regions of the world) that influence the process of introducing and working with programme support. In this chapter some of these issues are presented.

Government-Congress relationship and budget process

One challenge in the provision of programme support to these countries is the relationship between the Government and the Congress. Whereas several countries in Africa have governments with a strong support in the national parliament, the four main interest countries for Sida in Latin America have a much weaker position in relation to their respective congresses. The same conditions are valid in relation to certain interest groups such as for instance the national trade unions and other groups, reflecting a much more articulated civil society than in Africa. Especially the very odd relationship between the executive and the legislative branches of the state, makes it much harder to drive a coherent and necessary reform agenda forward, since initiatives are often blocked on political grounds only, budgets changed by congress without previous dialogue with the Government and without even political logic. The whole budget process is also far from ideal in several of these countries, since e.g. additional allocations to sectors could be approved during the budget exercise directly by congress, without any necessary coherence with overall existing resource restrictions. The non-inclusion of some donor funds in the overall budget is also contributing to complicating the overall resource allocation between and within sectors although this is becoming a diminishing problem at the introduction of improved IFMS systems. The congresses in several cases also have limited capacity to seriously analyse for instance the budget proposals presented by the government: a severely limiting circumstance in this relationship.

Legislative restrictions on the budget process

The possibility to allocate state budget resources in a relevant way is fundamentally hampered by the fact that a substantial part of available state budget financial resources already are defined as predestined to certain expenditure areas in the constitution, or in regular laws.. This in itself contributes strongly to a regressive allocation of limited resources (due to the low tax ratios) to be distributed in a far from efficient or adequate

way in relation to the poverty reduction agenda and in relation to international social commitments all of these countries have signed up to.

Government changes/political instability

The uncertainty in terms of frequent changes of government (or parts of government as ministers in some sectors are changed several times per year) is another aspect which makes donor representatives sceptical regarding what can actually be achieved. The tendency to have spoils systems, i.e. that the administrative functions are also politically controlled and key persons on this level also exchanged as administrations change after elections, is a factor that contributes to this scepticism. However, both the initiatives to provide sector programme support and budget support, as well as the introduction of MTEFs in several of the countries, should be able to contribute to an improved continuity in “institutional memory” at ministries. The same goes for the IFMS systems being introduced. They should also encourage stability, since their built in control mechanisms and ways of organising work should maintain a certain way of working that does not change much as instruments, no matter under what political leadership they serve. Also, the fact that these countries have signed certain international agreements (such as the Paris declaration and the MDGs) should be ways of ensuring certain stability. In at least one of these countries the importance of changing the civil service act to ensure continuity in the administration, has been included in the priority benchmarks discussed in connection with the provision of budget support. All in all, these different factors together should contribute to increased stability in the political environment, even if this process most likely also in the future will include volatile decision-making procedures.

In this context it is also important that (bilateral) donors support cross cutting reform initiatives, which the sectors and any programme support are dependent upon, such as civil service and IFMS reforms, in the cases where these reforms do not have sufficient funding from the Banks.

Importance of political leadership

The substantial volatility on the political scene is also important to keep in mind in relation to for instance a SWAp process. It is easy to get carried away with a technical process where the technical staff of the ministry moves ahead but where the political level is not sufficiently involved. It is therefore important to ensure the introduction of mechanisms where the political leadership is encouraged to become engaged and regularly updated on the development of the SWAp. This can happen both through the politicians involvement in the institutionalised decision making groups of the SWAp (and the ensured regularity of these meetings), and through complementary briefings by the technical staff, where the procedures in the health sector in Nicaragua is an excellent example of this.

Limited social agenda and focus on international development commitments

The social development (poverty reduction) agenda of the governments of these countries is based both on international commitments like the millennium development goals and self-imposed social ambitions. From this follows a tendency from governments to in some cases prioritise the objectives set in these international declarations, with the intention to meet only these specific targets. This is for instance reflected through

decisions to prioritise limited areas of intervention that are likely to have an impact on the outcome of these specific indicators, rather than influencing a more broad social development based on several parameters that interact. This approach obviously risks undermining the development as a whole within these sectors.

Less external aid in the budgets – but with relative importance

A positive difference from Africa in countries concerned is the much lower aid dependency in general (also unfortunately linked to the lower social ambitions and the very low tax ratios). This is very positive in the sense that these governments are less dependent and take a stronger stand in relation to the donor community than is the case in many African countries. At the same time, this small part representing the external funding is important to any reform-interested government, since much – almost all – of government funds already are tied up in salaries and other non-flexible expenditure (see section on constitutionally regulated expenditure). Hence the external funding is important for other things like investment, other recurrent expenditure (besides salaries) and not least additional poverty related spending. This means that donors/creditors thanks to these marginal additional resources can have a good negotiation position, provided that the availability of these funds is related to a coordinated poverty reduction agenda. The importance of donor financial contribution should hence not be underestimated, irrespective of its limited part of total expenditure.

Positioning of the World Bank & IDB

The World Bank, much due to the relatively stronger policy position of the IDB in the region, plays a rather different role and has relatively less influence over the policy making processes than is the case in for instance Africa. This is another factor that influences the SWAp process and the process to co-ordinate the provision of budget support. Without the support to these processes from the IDB, not only on paper but also in practice, the process of SWAp implementation will be more difficult, for instance in cases where parallel processes of planning, reporting and evaluation missions are upheld alongside the SWAp ambitions. This is much due to the fact, as mentioned earlier, that the dialogue attention from the government is (unfortunately) normally focussed where the major amounts of funds are placed. Further, as a result of the existence of both Banks on the scene, the WB's PRSC does not play as dominant a role as the same instrument does in other parts of the world. This somewhat less important position is also emphasised by the fact that the IDB allocates as much, or sometimes more, funds than then WB to these countries. The collaboration between the two Banks is however very strong in many aspects and they do tend to either co-finance reform projects, or "divide" areas of financing.

Both Washington-based banks have elaborated central policies on programme support, SWAp, donor harmonisation and other issues that in many cases not are applied fully in the field. The Banks' policy documents recognise the need for government ownership and leadership, the use of national systems as far as possible, the need to adapt the internal bank systems/procedures to support the harmonisation process with the rest of the donor community, in terms for instance using the same planning and follow-up instruments, as well as financial management and procurement regulations. However, in some aspects it would seem as if

the Banks have not yet “landed” regarding the implementation of these policies at their local representation, since they on an individual country base could be found to operate quite differently from their own policies. One example of this challenge is the procurement procedures model developed by the Banks themselves. Another is the WB template outline for a financial procedures manual for any pooled fund, which although stated in its introduction should only be used in the cases where no such manual exists for the Government's own system, still is being treated as compulsory in several sectors where the Bank is involved. In practice this creates a substantial overload of procedures instead of the intended simplification of the same.

It is hard to say what the main reason is why there in some cases is a difference between the Banks policies and practice in these respective countries in Latin America. One explanation could be that these policies still are new, hence they might still be unknown locally. Another historic reason could be the difficulty of breaking the habit of utilising the bilaterally very privileged position in relation to the government and administration (due to the amounts of funds represented) prior to the “arrival” of the bilaterals. Some problems seem to include a certain lack of coherency between current policies and factual agreements. Incoherency between policy and current action may be due to current loan agreements having been signed several years ago. These may not follow the new SWAp policy, but will with time be substituted for new ones more in line with new policy documents.

The lack of an MTEF – an important general bottleneck in all the countries

One major bottleneck in all the countries below is the lack of an effective MTEF, with a transparent and dynamic interaction between the plan (and its expected results) and the budget, as well as clear and predictable criteria for allocation of resources between and within sectors. In all of the countries, there is still a limitation as to what extent it is possible to reallocate funds based on new priorities, there is a weak (or not existing) legal base for multi-annual budgets, the link between the MTEF and the results-based management reforms is also weak. This is a vital issue to be raising in existing dialogue fora with the government, to ensure that the operative multi-annual sector plans are actually based on solid figures and that there exists some kind of guarantee regarding the government's financial commitment in relation to the sector, and that this commitment is based on relevant policy decisions and accurate calculations. Just as important for a well-functioning MTEF are the timely and predictable pledges from the external financiers of the Government expenditure programme.

Recommendations

Many of the above mentioned issues are important challenges for the donors since each and every one of them constitutes a risk factor in relation to programme support. They must all be carefully considered when assessing budget and sector programme support. Solutions for Sida include the inclusion of vital reform on the common dialogue agenda, and defining minimum levels of government financial contribution for it to be worthwhile for Sida and other donors to participate in a sector development. The mere substitution of internal funds by external ones for achieving good figures on the MDG indicators, is perhaps not the best way to spend donor funds. However, as described in the annex to

this report, exceptions exist and in some cases these investments might be justifiable provided that they “buy influence” at the dialogue table and thereby a chance to affect overall social allocations in the future.

What is needed at the local Sida offices (and at Sida HQ)?

Support/help required for practical work and dialogue

In general, there is still too little awareness at Sida HQ of the workload, or the difficult process management and dialogue in relation to primarily other donors but also in relation to the ministries, which the programme officers and other embassy staff are facing as a result of the introduction of programme support. Additionally, there is a lack of understanding of what the process means in practice, as well as what it means for Sida's way of working at home and in the field. Based on experiences from this and previous assignments we would recommend the following:

- Initiatives regarding training in PFM and programme support, could possibly be made even more relevant by adding examples and regional case studies, and make a link to the daily work situation at the embassies, where the PFM related issues come up in relation to assessments for programme support, for instance when deciding upon to what extent national PFM systems can be used or not.
- There is a need to substantially enhance the knowledge of the concepts of programme support, budget support and PFM with many of the Sida HQ programme officers (as well as to a lesser extent in the field), as well as key advisors and decision makers such as the legal departments (who give inputs to documents such as CoC & MoU) and decision-making bodies, both conceptually and practically. This is an ongoing process that should be strengthened. The current capacity at Sida HQ in these areas is also linked to more fundamental structural issues in the resource relation between the HQ and the field that are not part of the ToRs for this assignment. Still, the issue of division of HR resources between the HQ and the field deserves to be mentioned.
- It would be important to ensure that sufficient time is allowed for the HQ programme officers to participate in annual reviews of programme support implementation and other key occasions. This in order to both be able to give methodological support, but also to be able to discuss the implementation issues with other bilateral and multilateral donors internationally (see below).
- Sida HQ needs to continue to support these processes through international dialogue with other bilaterals and multilaterals regarding the development of PFM systems and programme support in several of these countries. The cases of obstruction/incoherency in relation to the SWAp processes by some donors/creditors, need to be raised not only

in the recipient country, but also on a more general level with each agency, as well as in international fora where harmonisation is being discussed. This is for instance the case with the donors/creditors that are currently not following their own policies regarding SWAp.

- The option of bringing in consultants (or other relevant external parties) to the Project Committee meetings to make briefings, or respond to specific questions of technical nature, (for instance state of PFM systems, cross-cutting reform programmes of relevance to the decisions on Sida programme support etc) should be considered/ discussed. This could be a way of complementing the information the committee has regarding these matters before making a decision. Additional training of the members of the project committee should also be considered for it to be updated on the development of conceptual issues linked to programme support.
- Sida objectives could also be enhanced by joint efforts between HQ and the field offices to organise further training/dialogue events and discussion forums regarding SWAp, budget support and related PFM issues in these countries as international seminars where other donors as well are invited. The issue of institutional capacity development in relation to these issues should also be highlighted in such events.
- The PFM manual for the field staff about to be elaborated during 2005 should further ensure that the embassy staff in these countries is better prepared regarding the things to be included in a PFM assessment in relation to programme support.
- HQ (not only Sida but all donors) further needs to discuss the priorities when introducing a SWAp. Certain issues are more important in the beginning of the introduction of a SWAp than others. These include ensuring that the multi-annual plan is coherent and comprehensive, initiating a process of donor coordination through the introduction of the CoC and formulation of the institutional set up (the SWAp working group etc). Other issues of more content and cross-cutting nature, cannot be emphasised in the same way initially and not in the context of the relevant documents in the first phase. Sida HQ staff can help by ensuring that priorities are discussed, that adequate solutions to this conflict are found and that Sida can be a good example in the field by not demanding an overload of prerequisites in relation to these issues.
- Sida HQ also needs to ensure that in its methodology work and in other ways of communicating with the field (for example job descriptions and preparations for field postings), the collaboration between the embassy economists and the programme officers of the sectors (health, education, agriculture, water etc.) is structurally emphasised. Cross-cutting and sectorial issues are getting increasingly interdependent in a programme support mode and it is vital that the two positions support each other in terms of specific knowledge in their respective areas, in order to ensure a coherent and constructive dialogue with the government and other donors.
- Finally, the support regarding capacity assessment issues should be strengthened. A lot of the issues related to SWAp, budget support and PFM enhancement, cannot be analysed in isolation but needs to be dealt with together with the institutional capacity development. This part is often neglected in the analyses made by other actors and there is need for this to be brought forward as one of the main issues together with PFM systems to make a SWAp work. Sida needs to

ensure that this capacity development expertise exists within the organisation, as well as externally.

What internal/external capacity/support functions would be helpful?

First and foremost there is a need for additional (sent out and local) manpower at the embassies to handle programme support engagement. In some embassies there has until now been one programme officer dealing with several sector programmes at the same time plus some projects. This does not represent a sustainable situation, especially considering the leading role Sida is often playing in pushing the SWAp processes and the joint financing mechanisms forward (getting the CoCs and the MoUs signed, agreeing on the plan etc). A minimum indicative figure would be to have one programme officer per sector, in some situations more, depending on the context. Taking on the responsibility to co-ordinate a budget support group amongst donors, is also likely to require both programme officer and economist staff, but also substantial additional administrative resources.

Just as the PFM initiative at Sida has included the introduction of an external consultants' network, perhaps something similar could be done for the area of programme support, where experiences can be shared and thematic discussions on methods development and other issues can be ensured. In this, it should be recognised that there already is an internal programme support group at Sida.

A regular, more in-depth, training course relating to all the three issues: PFM, sector programme support and budget support, for programme officers and economists should be introduced linked to the manual on PFM and PFM related issues to be elaborated and previously mentioned. The course should deal with programme support (responsibilities at HQ and in the field), project support and regional/thematic support through multilaterals.

Sida could also encourage new solutions to long term TA in relation to the ministries that need this support at the introduction of different kinds of programme support. Ensuring TA not linked to the biased agenda of any specific donor would be a way for the ministries to strengthen their ownership and thereby the process to move forward on their conditions. One possible set-up for this could be the longer-term placement of less senior consultants/experts in the ministries supporting the processes full time, combined with a more experienced consultant coming in for monitoring visits regularly.

The management of the assignment

The assignment to support the analyses of PFM systems and the introduction of programme support in these four countries, has been carried out as a co-ordinated initiative from Sida's Regional Department on Latin America instead of individual assignments initiated and contracted by the individual embassies/Sida offices in each country or individual programme officers at Sida HQ. Moreover, the assignment has also included a one year on-the-job training course of a junior consultant. In the following some advantages and disadvantages of this arrangement are presented.

Advantages

The assignment of working in parallel in several countries has been very useful for seeing patterns and being able to compare the political and economic situation, the actual reform processes dealing with PFM, and the challenges regarding implementation of different programme supports.

The fact that all countries have IFMS reform processes underway and represent different stages of introducing SWAp and budget support (with the exception of Guatemala), has provided a great opportunity for learning by different actors: Sida HQ, Sida local offices, the consultants and ministry representatives. The knowledge/experience from one country in relation to others in the region is to some extent more applicable, since the contexts and problems faced in many aspects are similar (again to some extent with the exception of Guatemala). This knowledge should now be transferred into tangible methodology improvements by Sida HQ responsible entities.

Additionally, the possibility offered through this set-up of simultaneous analyses of macro conditions, assessments of government cross-cutting functions (MoF, planning institutions, and reform secretariats), analyses of the PFM systems, the budget support processes and sector programme support; down to the nitty-gritty of sector issues (planning documents and processes, IFMS applications and donor harmonisation), has defined a unique opportunity to provide support, information and relevant analyses in relation to both governments and embassies regarding these processes that would probably not have been possible to achieve through an individual country by country approach.

The fact that both the budget support and SWAp processes are rather new in the countries, and that donor and ministry coordination mechanisms are substantially less developed than in many African countries,

has also provided an opportunity to influence these processes at an early stage. Several of the individual missions have therefore represented a relatively big impact in relation to the time and resources invested in each mission.

The additional activities linked to the overall assignment, such as writing this final comparative thematic report, seminars and presentations based on the experience in the region, should be considered a great advantage, and something worthwhile doing also in other similar contracts/assignments, as a follow-up for this region and for other parts of the world as well.

Another part that has been satisfactory (for all parties involved as far as we have understood) has been the close collaboration with various ministries in the SWAp process, where the needs defined by the ministry representatives have been met to a high degree in a very tangible day-to-day cooperation between the ministry and external expertise. Work has been identified and defined based on these ministries' needs rather than on a specific donor's agenda. This means a very important shift in mindset for the future organisation of work at the introduction of successful SWAp.

Part of the assignment has also included the participation in a SWAp seminar at IDB headquarters in Washington as part of the institutionalised collaboration between the IDB and Sida. Participation not only managed to influence even the IDB's policy on SWAp, but also represented an important contribution in the understanding of the behaviour of this vital actor on country level. Sida should consider moving further with this kind of initiative in the region.

Disadvantages

The difficulty of finding time to perform short term missions and the somewhat split agenda (dividing the time between the countries) has to some extent created frustration in the ministries supported, that would have wanted more support, especially since it was offered on their conditions. The full assignment have through most individual missions created a great demand for more direct support to the ministries involved, that has not been possible to respond to. On the other hand, since the consultants were assigned for a certain number of days specifically for the region, there has been a certain guarantee of continuity in the institutions where the embassies have been involved. In the return visits it has been useful to be able to deal with new specific issues/assignments, at the same time as we have had a "fresh base" of knowledge regarding the state of government PFM and other reforms.

Having one joint contract has meant quite some "bargaining" and prioritising between the sectors and the countries, that has in some cases perhaps been unfortunate. It is uncertain whether this approach has promoted an efficient time distribution between the countries. There has been a tendency to "fight for the days given" whether these were actually needed right now, in comparison with what would have been the case had the embassies contracted the consultants directly and individually themselves. It would be obvious that a concentration on fewer countries would have opened a possibility to a more profound support to individual sectors or cross-cutting processes.

Perhaps another disadvantage has been the workload placed on one person at Sida HQ that has had the responsibility to co-ordinate the whole assignment.

However, recognizing the major advantages of working this way, it might be worthwhile considering this kind of comparative learning

approach also in relation to other topics (although some naturally already happens through regional advisors and offices) as well as in other regions of the world. The part of the assignment ensuring that Sida takes a systematic and comparative approach to the regional learning around PFM and programme support, through seminars and presentations, has so far had a positive value in itself. This kind of regional approach perhaps has also made it more interesting for the Sida representatives involved, since the regional comparison has been viewed as of greater value than merely a general international comparison.

Integrated training of one of the consultants

The concept of integrating training (in the areas of PFM and programme support) for one “junior” consultant throughout the assignment has proven very fruitful. The learning process “on the job” by participation in missions in the region has by the consultants involved been perceived as a very efficient way of learning the concepts and the everyday dynamics in the field, both in relation to the government administration and in relation to the donors. Further, the full participation in most of the missions as well as all parts of the work (preparations & readings, field missions, report writing and presentations) has added substantial value. The combination and actual performance of all these parts is believed to have made the learning more solid than had been the case of merely accompanying the senior consultant on the field visits.

This kind of model could also be strongly recommended in the future, provided that the more senior consultant has both the interest and ability to provide the mentorship needed. Another important factor is that the missions are of such nature that they expose the consultant to a variety of actors and situations and also represent a possibility to work practically with the issues faced. The consideration of this set-up as being expensive should perhaps be compared to other similar field experiences, such as the BBE/JPO programmes, and not merely with the cost of sending someone to a theoretical course on the same topics. Much of the dynamics faced in the field are likely to be difficult to learn in a course environment only.

Finally, including the language training part in the beginning of the assignment, and in combination with frequent work visits to the region, has proven fruitful. This must be considered a good investment acknowledging the limited resource base speaking the language, combined with the fact that working in English or through a translator is not really even at medium term possible, and definitely not effective in terms of ensuring a fruitful and trusting working relationship with the government institutions (mainly sector ministries).

Annex 1

Country by country presentation of instruments used in the provision of programme support in known areas to this report

Bolivia

In the Education sector a joint financing agreement (as a MoU) has been signed including three bilateral donors (Holland, Denmark and Sweden). This JFA is based on the Nordic + group JFA template, but adapted to local conditions.

Through Swedish intervention, the fundamental concept of a CoC in the same sector has been introduced and processed. The idea has been to utilise existing structures at the ministry to fulfil the tasks stipulated in the CoC. No document has so far been signed.

This process of first promoting and signing the MoU for the financial arrangement and after that trying to introduce the CoC to regulate the conceptual and institutional issues, is a classic example of imbalances that follows from this order of events. As a result the MoU includes several important paragraphs that should be discussed by *all* stakeholders in the sector, the major part of them not signatories of the MoU.

Partly through the engagement of the IMF a number of bilateral and multilateral donors and creditors are providing budget support to Bolivia, in spite of the fact that there is no PRGF from the Fund and (hence) no PRSC from the World Bank. The result is a list of conditionalities covering a very broad range of issues where it could be questioned whether there is a sufficiently strong institutional base on the government's side to fulfil these conditionalities. See further the report *"Public Finance Management and Public Sector Reform in Bolivia: How could the International Community act to support the process?"* December 2004.

Due to extensive social unrest in Bolivia during the first half of 2005 the processes of stabilising conditions linked to the provision of programme support have halted.

Guatemala

Guatemala is the exception in every aspect in the region, including the use of harmonisation instruments. Virtually, to our knowledge none of the instruments described in this annex are being applied there, neither in cross-cutting, nor in sectorial reform.

This is possibly a result of the relative less aid dependency and the less important role played by aid agencies in the country (Guatemala is not a HIPC country), in combination with the possibly low interest of the country's government to have a joint dialogue around the reform programmes and the achievement of the targets in the peace accords. Since

social reform ambitions are limited in comparison, and the government has indicated a certain fear of donors “ganging up” against this policy, no jointly defined dialogue agenda (corresponding to the PAF in HIPC countries) has yet been introduced. However, this does not make the idea of having one, less interesting. On the contrary, this kind of instrument could be extremely useful both for finding joint solutions to the need for reform (that the Government seems to want to push a bit further than it has been able to until now due to several special interest groups, as well as the congress’ capacity to deal with legal proposals), as well as to ensure coherence of donor/credit funds with national policy, and poverty focus in the actual national budget allocation. Hence the proposal of having a joint budget support dialogue (around a Government reform matrix) without any provision of budget support, is an idea worth considering.

Additionally, in the health sector (and possibly in education), although perhaps no full SWAp framework is needed/desirable at the moment, introducing a basic document like the CoC would help the harmonisation of the active donors in the sector, and secure that these adhere to the sector strategy and plan, rather than running their own parallel agenda.

See further the report “*Guatemala – at the worst poverty conditions in Central America*”, May 2005

Honduras

In the education sector in Honduras, the tendency for the sector dialogue to shift to the pooled fund donors group supporting the EFA programme, once the MoU for this financing mechanism was signed, has been obvious. This especially since the dialogue forum for the whole sector was not (and still is not) operating in an adequate manner from a SWAp perspective. This has however created annoyance among some of the other donors supporting the EFA programme, who feel left behind in the process. This is an example of why it is important to ensure that the pool fund donors have a dialogue with the ministry related to the pooled fund mechanism only.

In the education sector the EFA-FTI (education for all – fast track initiative) actors have signed a general framework MoU (called MoU-Marco or just MoU-M) which, in the general concept world presented in this report, answers to a CoC, i.e. outlining the common regulative framework mainly focussed on harmonisation and alignment towards national procedures, that apply to the signatories. Another document, the so called fiduciary MoU (MoU-F) for the pooled fund was also signed in 2004. The compliance with both documents was analysed during the joint sector review in October 2004, where it became obvious that in some aspects some donors still had difficulties to comply with what was actually included in the document they had signed. This was reflected both through the introduction of very ambitious lists of pre-requisites for the ministry to fulfil for these donors even to consider disbursement of funds, and through the continuation of individual missions and other initiatives in violation with the CoC (MoU – Marco).

The MoU-F in education in Honduras is more or less completely based on the World Bank’s traditional project loan agreements and not on the Nordic + JFA template. This can be noticed in many ways, e.g. that the document is less transparent and more over-regulating than those agreed for the education sector in Bolivia and health sector in Nicaragua. One example of this is the inclusion of paragraphs in the MoU-F regarding protection of the environment and indigenous people. Although certainly relevant issues in the development context, these

issues should hardly be included in this kind of document, but rather in the multi-annual plan of the sector. The MoU-F additionally, apart from its over-regulating nature, has a related pooled fund financial management manual of about 200 pages (also based on a WB standard, not considered a compulsory element in the Bank's SWAp participation) regulating in detail the management of funds and including a number of standardised forms for different procedures, not always based on national legislation. For bilaterals like Sweden, following the Nordic + template on JFA in the future would answer more clearly to the intentions of Sida policies in this field, than the acceptance of the WB framework for this kind of joint programmes.

The main lesson learned from the Honduran cases of SWAp introduction is the importance of ensuring that the field representatives from all donors and creditors are fully aware of their central policies, as well as the limitations that occur when too much emphasis is put on details. Another lesson learned is that there is a need for the donors to better understand the concepts of the different documents as well as the PFM systems in the country, and try to avoid signing thick regulatory external documents regulating a number of PFM aspects as long as many of these issues are already regulated through national systems/legislation, or simply not achievable at present. Bilateral and other donors should also stick to the principles of international agreements such as the Nordic+ JFA template in this work and try to avoid the introduction of the regulatory framework of one external development partner. Yet another lesson is that at a certain point in the process, an assessment has to be made by individual donors like Sida whether it is of any use to continue to participate. This goes for the procedures surrounding both the EFA-FTI programme and the "hijacking" of the SWAp process in the health sector not dealt with in this report.

See further the report *"The EFA programme in Honduras – Issues from the review in October 2004", November 2004* and *"The SIAFI system in Honduras and its relevance to the Common Fund of the EFA programme in the education sector and the Acceso programme in the health sector."*

In Honduras, first attempts to formulate a common framework answering to a dialogue on a common reform agenda through a common list of conditionalities linked to the provision of budget support, has started. The current situation represents very good possibilities to succeed in presenting a feasible document and dialogue fora, considering the knowledge at hand through the same procedure already introduced in Nicaragua, the analyses already carried out in relation to necessary processes and administrative work surrounding this introduction, and through the positive attitude from all external actors (with the possible exception of one) to this process. Sweden has been asked to play a co-ordinating role in this. If Sweden accepts the whole process would benefit, under the condition that sufficient resources to manage the process could be identified and the planning process could start early. See further the report *"The introduction of a co-ordinated and unified budget support matrix in Honduras", July 2005*

Nicaragua

In Nicaragua, the CoC for the health sector was signed by a number of bilaterals and multilaterals in January 2005. Since then the ministry has developed several versions of the MoU for a joint financial arrangement that was signed in July 2005 by four bilaterals and the WB (BID in the end decided not to sign). The road leading up to the signing of the MoU

has been full of misconceptions and side steps, where again the role of the MoU in relation to other orienting documents (such as the CoC and the multi-annual plan) has been mixed up and where primarily the multilaterals have tried to enforce their own project agendas on to these supposedly *joint* financial arrangements (thereby undermining the very purpose of introducing them in the first place). Some examples of misconceptions have been the urge to want to regulate issues in the MoU that do not belong in a document regulating the financing mechanism, but rather in the CoC dealing with the issues of the *whole* sector where the *entire* donor community participates, such as activity reporting, dialogue around the plan and its impact indicators, and the future allocation of funds to the sector from the MoF. Further, in the process the aggregated demand on the ministry in terms of reporting requirements and parallel systems, listing all the demands of all the donors, was at one point completely devastating. However, thanks to the Nordic + template on a JFA, a very good base from which to start to write a new MoU in a more coherent, logical and transparent manner was provided, still based on sector specific conditions. After signing this agreement, as mentioned elsewhere in this report, the main challenge is to ensure that the CoC and the MoU are respected, although they are not legally binding documents (if not referred to as such in the bilateral agreements. See further the report *“The SWAp in the health sector in Nicaragua: Some comments to the elaboration of a MoU for pool fund donors, to the Annual Work Plan and to cost and financing analyses in the Five Year Plan”*, June 2005

A challenge in health in Nicaragua, as in some other sectors in the region, is the future role of the UN organisations in relation to the SWAp, through which Sida traditionally has channelled substantial amounts of funds. Once Sida moves towards supporting a sector plan directly, the role of these agencies which have traditionally provided a lot of advisory/TA support directly to concerned SWAp ministries, is all of a sudden more unclear. This since it is not certain that they in the new SWAp context are the preferred partner for providing this kind of support, for instance from a cost-effectiveness point of view.

In the agriculture sector in Nicaragua, the position of the SWAp is in almost all respects much weaker. In summary it could be stated that there is no real operational plans, limited analyses of the pre-requisites for a SWAp, no CoC and a confusing number of MoU: s without co-ordination and an optional financial management manual in some of the existing alternatives. Confusion is the result of lack of understanding among partners of the role of each respective document (CoC and MoU) in combination with the parallel elaboration of the two documents and poor (political) management and engagement from the ministry. This process created a lot of confusion among donors, and it is therefore important to currently take one step back and ensure collaboration in the sector by first getting the CoC right; not only to protect the conceptual idea of the SWAp but also to safeguard the financing (the major part of the intended SWAp is financed through individual project money) of the SWAp. In this it would be crucial to achieve the commitment to a common approach from the World Bank, previously operating more independently/bilaterally in a rather influential position in relation to the ministry. See further the report *“The SWAp in the rural sector in Nicaragua: What is missing?”* June 2005

The assignment reflected in this report has not included missions linked to the introduction of the common budget support matrix in Nicaragua. Still, some conclusions from the process could be presented:

The process of arriving to a budget support agreement through a JFA in Nicaragua has taken about two years. One of these years has been spent on negotiating the JFA based on the internationally accepted JFA template. The conclusion from this is to try to agree on the conceptual and institutional framework of a common budget support matrix before introducing and trying to agree on a common set of conditionalities. Another experience points to the importance of allowing also the sector ministries to participate and to strive towards a balance between cross-cutting and sectorial issues in the matrix. Another is not to underestimate the administrative workload linked to this kind of process. Yet another learning point is the importance of supporting the government in the identification and formulation of a government programme that could define the point of departure in the process of formulating conditionalities.

Annex 2

Main bottlenecks in the process of introducing programme support in countries concerned on a country by country level

Bolivia

The main challenges regarding the education sector SWAp in Bolivia, apart from the political instability per se, include the need for a budget reform (including the introduction of an MTEF, clear poverty-linked budget allocation criteria, the removal of pre-determined expenditure levels defined by the constitution, and the possibilities for the congress to make ad hoc changes in-year), as well as the current teachers' salary, bonus and posting criteria which substantially contribute to high inefficiency in the delivery of education services and (unnecessary) escalating salary costs in the sector, leading to a crowding out of resources to most other necessary expenditure. The strong (and not completely logically justified) influence from the teachers' union regarding these matters constitutes a major risk for the education sector, with or without a SWAp.

Some other challenges include the lack of a programme based setting at the ministry of education for managing the implementation of the sector plan and the use of resources, the lack of institutional capacity outside of the financial management area (e.g. planning and monitoring/evaluation), the lack of effective linkage to decentralised levels regarding the implementation of the sector plan, and the uncertainty of the financial sustainability of the sector plan (not only in relation to the lack of a MTEF but also due to non-dynamic financing and costing analyses).

Sweden's role in the near future should be focussed on ensuring that the institutional capacity, as well as the financial sustainability are discussed and adequate decisions made, mainly in relation to the strengthening of the planning and monitoring functions. Further, the effective decentralisation of the administration needs to take some steps forward, in order to ensure service delivery outside the urban centres. Sweden should make efforts to bring up the importance of cross-cutting reforms, especially reform of the government's planning and budget process. Given the experiences from the Swedish-Danish common appraisal of the education sector SWAp, Sweden should in the future also be more observant on what kind of pre-requisite in this kind of analyses that could be accepted from the position and content of Swedish policies.

Guatemala

In Guatemala the donor community is very fragmented, both in the sectors and on overall level, hence there is a need for enhanced donor coordination. However, as a contradiction to this the health sector (no

other sector has been assessed) on central level is very advanced in its planning system and could with some help ensure an effective coordination with the donors without introducing the full SWAp framework. Guatemala further, with its very special situation as a non-HIPC country (although with among the biggest and most marginalised poor population in the region), with a soon world class IFMS system up and running, combined with an extremely low social (not to speak of pro-poor) spending, is not a likely candidate for budget support in the near future.

However, for the general development and poverty reduction of the country, there is a need for Sida together with other donors to initiate and strengthen the joint donor dialogue with the government regarding the need for a tax reform, additional borrowing (possible thanks to the very stable macroeconomic situation) and additional allocations to social sectors (implying legal reform). This could be done through improved donor coordination in relation to the government, to ensure that their joint support to the GoG is triggered by certain crucial reform initiatives – something similar to a budget support dialogue matrix, but without actual budget support. It should be remembered that the IMF strongly supports the restrictive fiscal policy of the GoG. Since reform has proven difficult it is important to combine this increased “pressure” on the government for fiscal and social reform, with the support to other institutions that influence the possibility of such reform, such as the congress.

Sida should therefore (in a coordinated manner with other donors) provide support to the congress, to ensure its administrative and professional capacity to analyse the budget bill and other important reform proposals. On the sector level, elements of the SWAp – especially those related to donor coordination like the Code of Conduct – should be introduced as a way of enhancing the ministry effectiveness, since it would force all actors in the sector to submit to the sector plan. Finally, depending on the willingness and possibilities to enhance reforms mentioned above, support to other cross-cutting institutions could be considered, such as the MoF and the SEGEPLAN, aiming at the introduction of an MTEF (a reform in practice limited by various pieces of legislation regarding 1-year budgets and the predefined resources to certain expenditure areas/institutions) and results-based budgeting. All support measures need to be evaluated based on the perceived willingness to push forward regarding the fiscal and social reform.

Honduras

The main challenge in the Honduras health sector is the hijacking of the original SWAp process and turning it into a “SWApito”, i.e. a multi-donor project with a traditional project coordination unit, providing little of the real elements of a SWAp (like government ownership, using government systems etc). However, the future of the real SWAp is still open since the Ministry maintains its ambition to present a genuine multi-annual sector-wide operational plan already during this year. This would open the door of opportunity also for actors like Sweden to intervene and try to reverse the “hijacking process”. Sida needs to keep the door open until the new health sector plan is about to be introduced, and at that point assess what kind of role it should/can play under these new circumstances. If deemed that there is still a way to establish a real sector wide and government owned process based on this plan, it might be worthwhile to take up the process where it was left off some months ago, provided there is also flexibility regarding the critical issues mentioned above among the key actors having initiated the SWApito in the first place.

Regarding the education sector, all documents have already been signed for the EFA-FTI programme. The problem here is lack of action, mainly relating to donor behaviour – especially in relation to some of the pool fund donors. Some of the major challenges are due to donor community and ministry disagreements regarding certain items of funding of the EFA plan, and therefore non-disbursements to the common fund by some actors; doubts about the so called interim system of financial management, and also on a more strategic level – the enlargement of the sector to include all major areas of education and not merely pre-primary and primary education. Another challenge in the longer term will be the overload PFM manual elaborated for the common fund only, which contains a complete massive amount of separate rules, with very limited ambition to work in the spirit of harmonisation and alignment. Also, the desire from some donors to continue controlling inputs at the same time as an output/results-based model is being introduced, has been very difficult for the ministry of education to handle. Finally, due to the prevailing mindset in education in Honduras, the EFA management was originally set up as a parallel structure. A special department was introduced for managing the planning and accounting for the EFA funds, instead of ensuring integration with the normal structures of the Ministry. This is however about to change and the so called EFA unit will soon be dissolved and its functions integrated with the permanent structures of the ministry. A similar organisation was requested to be introduced also at the ministry of health in Nicaragua, but the institution has now, after careful consideration, realised that these kind of parallel structures are completely incoherent with the basic idea of a SWAp.

Initiatives on short term should focus on the other pool fund donors to get on track in terms of actually disbursing their pledged amounts. In the short-medium term it is vital to ensure a gradual transition to the usage of SIAFI (the Honduran IFMS) in the sector for all the functions that this system provides, and at the same time a gradual phase-out of the parallel procedures manual for the EFA common fund. A basis for moving from a sub-sector SWAp to more of an entire sector programme should be taken through the elaboration of the three-year plan (POT) linked to the MTEF for the whole (or rather most of it) sector, and not merely the pre-primary and primary education covered by EFA. This approach should ensure that education funding in the future is somewhat more coherent and balanced (not for instance merely focussing on isolated MDG indicators).

In the foreseeable future Sida will also have to push several of the other donors in the direction of the harmonisation and alignment agenda, as well as the results and process orientation. This will most probably have to include dialogue with the headquarters of certain agencies that currently complicate the SWAp processes by overloading it with prerequisites and safeguards, to such an extent that it severely hampers the ministry's possibility to produce results. A continuation of the same behaviour from some special donors financially supporting the EFA programme on the same level as previously during the process, should trigger a move from Sweden out from the EFA programme to the support of a complete sector SWAp only.

Regarding the budget support, there is a long way to go but a good window of opportunity exists right now to get the donors together and start formulating a budget support dialogue matrix based at least partly on the governments own reform programme, and ensure the understanding of the undertaking this means for the different actors, while waiting

for a new government to be installed following the upcoming elections (prior to which nothing can be expected to advance substantially). If the leadership invitation stands, and Sweden deems it can summon sufficient resources for performing this role, Sweden should take on the coordination role of the budget support group.

Eventually with a budget support mechanism in place, a transparent and secure IFMS system up and running, and a general agreement with the new government regarding the PRS and education sector funding secured, there should be no reason to give funds separately to education but rather directly through budget support, at the same time maintaining the dialogue position in the sector regarding the sector plan and its accomplishments. The same line of reasoning should eventually be valid also for pool funds in other sectors/countries once the IFMS are functioning sufficiently in each concerned country.

Nicaragua

In the agriculture sector the process regarding the SWAp is still very new, and several contextual factors create challenges beyond the usual in relation to the introduction of a SWAp. These challenges include the unclear definition of the sector as such, and the seemingly only lukewarm political interest for the sector program of PRORURAL (in comparison with the other cross-cutting rural development programme which is more focussed on local economic development). Further, the so called sector plan for the PRORURAL programme is a mere compilation of all the 80 something projects related to MAGFOR (the Ministry of Agriculture) and other autonomous institutions in the sector, far from the prioritised and coherent multi-annual plan needed in a SWAp. Another issue of concern is the great confusion through the circulation of completely mixed-up CoC and MoUs among the donors, and the creation of a parallel “common fund” (common fund # 2) for the joint financing of parts of the sector plan by some donors, even trying to “win over” some of the potential financiers of the original common fund by abandoning the original SWAp idea for the benefit of this new multi-donor project (similar to the SWApito in health in Honduras). The reason why some actors have moved ahead and indeed complicated the SWAp concepts in this way has been the urgency felt by them to – on the government’s request – finance salaries for an agriculture institute, due to the fear of facing criticism for not taking their responsibility for this situation. The acceptance to solve these kinds of short term financial needs by individual creditors, not only undermines the trust from other external financiers in relation to the possibilities to establish a common point of departure in a long term approach to the problems of the sector, but also encourages the ministry to continue to seek individual project oriented agreements to solve immediate problems.

Although the road map towards a SWAp in the rural sector indicates that the CoC and the MoU should both be ready to sign by July (2005), there is no factual need to rush things. Experience shows that the elaboration of a MoU for a JFA takes its time, and financing for the intended sector plan (apart from that of the WB and its partners in the SWApito) is already secured through the different projects for the time being. Hence Sida should in dialogue with the ministry and other donors, communicate the importance of correct sequencing of activities, taking the time necessary for getting the basics right (CoC, sector plan based on the strategy, institutional set-up etc.) before moving on with the more advanced features (MoU for common financing mechanism etc.). Sida

should also facilitate, preferably through joint mechanisms with other donors, the possibility of providing independent (from any particular donor) advisory support to the ministry regarding the elaboration of the multi-annual operational plan and the other issues of importance when introducing a real SWAp in the sector, not least relating to institutional capacity issues.

In the health sector in Nicaragua things have advanced quickly. The CoC was signed in January and the MoU was signed in July by four bilaterals and the World Bank. However, the next step is to ensure that the signing actually means something in practice, that the document is viewed as valid and is respected in the same way as other agreements, even though it is not a legally binding document (this can be achieved through referring to the document in a legally binding bilateral agreement). Judging from the comments and attitudes of some donors along the way, there has up until now been a tendency to view the CoC and the MoU in sector agreements as documents you can sign but not adhere to (unfortunately as an attitude not only in this sector and not only in this country from the same creditor), since it does not hold the same legal status as for instance the bilateral agreements. The position of the ministry of health has been strengthened in the process, although there is still, as in many other sectors in the region, a need for further (independent) advisory support regarding the process, strengthening of the planning and monitoring functions, as well as ensuring that the institutional set-up of the SWAp is established, including the different working groups. Further there is a need for the relationship to SECEP (the cross-cutting planning institution of the government) and the MoF to be clarified with the aim to ensure that the ministry is able to negotiate its allocated resources, for instance based on commitments such as the MDGs (“we need x amount of funds to be able to live up to the commitments made”), although focus should not merely be on these indicators).

Having not included the process of the introduction of the common budget support matrix in Nicaragua in any individual mission linked to this assignment, it would be difficult to present views on the near road to follow. However, one parameter that could be looked after by Sida is the gradual substitution of individual conditionalities formulated by external financiers to a set of conditionalities that in a coherent way answers to the intentions and content of the government’s development agenda.

Appendix 3

The status of public finance management systems in four Latin American countries and some other factors influencing the introduction of SWAps

Introduction

Sida is engaged in the on-going introduction of so called SWAps (sector wide approaches) in different countries in Latin America. Decisions on how to act in this process are dependent on a number of factors concerning the macro economic development, the legal framework, public finance management systems, human resource capacity, on-going and planned reform work including public sector reform, donor co-ordination and way of acting and political commitment to the process. An assessment of the status of a number of these factors is presented in the table below for four countries. It should be noticed that even though all these countries now move rapidly towards well functioning financial control systems (like payment, accounting and budgeting) there are still a number of other factors, displayed below, that need attention for the SWAp to work well.

Assessment of some important factors in relation to the status of public finance management systems and the introduction of SWApS in four countries in Latin America, second half of 2004 – first half of 2005 (very weak – very strong)

Factor	Nicaragua	Honduras	Bolivia	Guatemala
<i>Macroeconomic framework</i>	Very weak – Weak. In spite of IMF on-track assessment. High debt internal and external. Significant deficit in terms of trade and the State Budget. Low growth. Improvement in 2005. High external funding share of the public sector. Very low tax ratio. Can the government sustain counterpart funding in a SWAp?	Fair. In spite of previous IMF off-track assessment. Relative low debt, external and internal. Reasonable budget deficit. Low growth and unfavourable terms of trade. Reasonable external funding share of the public sector. Very low tax ratio. Increase of tax ratio prior to any external funding of SWApS.	Fair but structurally unsound. Reasonable/High revenue (different from the other three Central American countries included). Balanced budget composition. Non-balanced increase of the debt threatening HIPC debt relief. Non-sustainable budget deficit. Regressive targeting of expenditure resources in the State Budget.	Very strong. Very small debt and budget deficit. Extremely low tax ratio and social ambition through the State Budget. Very limited ambition of utilising the macro economic framework as a supporting tool for economic development through social welfare to all citizens No HIPC
<i>Legal framework for PFM</i>	Fair but scattered due to the polarisation in Parliament. Need for a comprehensive PFM-law and legalisation of both the MTEF and the SIGFA (The IFMS in Nicaragua; on-going process)	Currently weak with major areas uncovered. On-going introduction of a comprehensive SIAFI law (The IFMS in Honduras)).	Fair but in need of modernization	Fair but incompatible with the GoG's ambition to modernize the budget process (MTEF and resultbased management) and in relation to the introduction of the SIAF system
<i>Planning capacity</i>	Strong – Very Strong at cross cutting institutions (Presidency, Foreign Affairs, Finance). Fair at Health and improving.	Very weak – Weak, both at cross-cutting institutions and sectors concerned. All “major” planning initiatives outsourced to external groups of consultants. Inconsistent set of planning instruments.	Limited in relation to ambition. Few instruments available in relation to objectives in action plans.	Long tradition of investment based budgeting with limited resources and knowledge in the shift to result-based planning. Very strong at the Ministry of Health
<i>Budget composition, comprehensiveness and consistency</i>	Weak. Unclear coverage of individual external grants. No consolidated budget for all levels of the Government. Weak link between investment and recurrent budgeting.	Weak. Unclear coverage of individual external grants. No consolidated budget. Weak link between investment and recurrent budgeting. Clear improvement recent years	Weak comprehensiveness. Poor reporting from decentralised levels. No consolidated budget. Fair composition but structurally unsound as a trend.	Coverage and composition as in social ambition very weak. The budget mainly an instrument for administrative services

Factor	Nicaragua	Honduras	Bolivia	Guatemala
<i>Programme classification in the budget</i>	Fair. Exists but relates to administrative function instead of political objectives. System improvements under way	Fair. System improvements under way	Still heavily dependent on sector applications	Very strong technical possibilities through the SIAF but still implemented through individual sector application and ambition
<i>Application of the MTEF</i>	There is no MTEF. Introduction work on-going	Very weak. The MTEF is not a living instrument integrated in the budget formulation process. Too high ambition in the intended introduction	Weak. MTEF under introduction to 2007. Time schedule unlikely to be realistic	Very weak. MTEF under introduction with too high ambition.
<i>IFMS (Integrated Financial Management System)</i>	Fair – Strong. Growing coverage and integration on central level. No introduction of execution reporting, accounts or treasury functions at lower levels.	Weak. Limited coverage. Almost no integration between subsystems or non-existence of sub-systems. Conceptually very strong “new” system under introduction. Treasury functions currently still weak.	Reasonable at central level but functions in reality only as a payment system. Technically old-fashioned implying big problems in application on local levels	State of the art system with big overkill in relation to actual social agenda.
<i>Government Financial Statements</i>	There are no Government full accounts. At least fixed assets, pension schemes, commitments and contingent liabilities are missing as well as lower levels’ accounts.	There are no Government full financial accounts. No fixed assets, commitment registration or contingent liabilities. No consolidation of different level accounts. Weak debt information.	There are no Government full financial accounts. No fixed assets commitment registration or contingent liabilities. Uneven reporting from lower level accounts	The features of the system severely underutilised. No full system of commitment registration or depreciation of fixed assets. The SIAF could be used for accrual accounting
<i>Budget execution reporting</i>	Fair for on-accounts in the SIGFA. Needs to be linked to programmes	Fair for on-accounts money in the SIAFI. Needs to be linked to programmes.	Weak even for on-accounts money in the SIGMA. Needs to be linked to programmes	Very strong in the SIAF but not fully utilised
<i>Treasury function in general</i>	Fair. Some remaining weaknesses. No audit of the Single Treasury Account though.	Weak. Bank account structure not transparent. No audit of the system so far. Conceptually strong system under introduction	Strong on central level payments. Unclear on lower levels	Very strong on central level
<i>Treasury function for sector expenditure</i>	Fair. Delays in payments but technically viable	Weak – Fair. Heavy delays in payment but reasonable technical viability.	Strong. Technically viable but with liquidity risks	Very strong but with limited request outside administrative expenditure

Factor	Nicaragua	Honduras	Bolivia	Guatemala
<i>Financial reporting to and scrutiny in Parliament</i>	Reporting of “partial” financial accounts but no scrutiny process (there is no Public Accounts Standing Committee or corresponding institution) or parliamentary debate	Reporting of “partial” financial accounts for the first time this year (at least 2002’s accounts). No Public Accounts Committee or corresponding institution.	No organised reporting of financial accounts to Parliament. No Public Accounts Committee or corresponding institution	Unknown
<i>PRS reporting and management mechanisms</i>	Strong – Very Strong. Not full co-ordination between existing poverty related documents at central level. On-going revision of the PRSP.	Weak. Limitations in the existing management mechanism. Weak technical support through the SIAFI.	Intended to become applicable through a new National Development Plan but social unrest has delayed the process	Not a HICP country and the current PRS does not function as a management tool. High ambitions from the GoG to improve the situation
<i>Internal control and audit</i>	Very weak – Weak. Transfers to lower levels not included in the Single Treasury Account System. Incomplete financial statement reports also at executing entities	Very weak – Weak. Transfers to lower levels not included in the Single Treasury Account System. Incomplete financial statement reports also at executing entities. Inadequate legal framework.	Weak. Lower level transfers not included in the Single Treasury Account System (Cuenta Unica). Incomplete financial statement reports	Weak but with very strong technical support through the SIAF. No or limited procedural training of concerned staff
<i>External audit</i>	Weak. No audit of the Government’s financial reporting.	Very weak. No ability to even formally audit a full financial statement at the moment.	Weak in general	Fairly well organised national audit office, annually performing audits of Government agencies and municipalities, including performance audits.
<i>Donor coordination</i>	Fair. Strong co-ordination between the two Banks and between individual bilaterals in institutional reform work.	Very weak in SWAp sectors. Unorthodox setting of “like-minded” donors. Strong co-ordination between the two Banks and between individual bilaterals in institutional reform work. Potentially high in budget support matrix work.	Fair/Reasonable in the education sector but with conceptually very different points of departure even between like-minded bilaterals. An absent IDB in all meanings of the word.	No co-ordination outside high level group meetings, i.e. no co-ordination in tangible objective formulation or programme implementation. Great need of initiatives in this field. Dis-tance to the Banks.
<i>SWAp conceptual awareness</i>	Weak but improving. Misinterpretation between the concept as a funding arrangement or donor co-ordination model. Partial sector programmes are considered SWAps (“SWApitos”)	Very weak – Weak. Misinterpretation of the concept as a funding arrangement or donor co-ordination model. Partial sector programmes are considered SWAps (“SWApitos”)	Reasonable. Comprehensive SWAps but with too much focus on the funding arrangement and neglect of the need for institutional arrangements to support the process	Conceptual introduction very new. No real knowledge at cross-cutting institutions but high at individual sectors, primarily the health sector

Factor	Nicaragua	Honduras	Bolivia	Guatemala
<i>Political viability</i>	Official commitment to SWAps based on e.g. international recognition. Low political awareness. Extremely strong project tradition.	Strong official commitment to SWAps based on e.g. international recognition. Confused political definition of the concept. Extremely strong project tradition.	High at individual sectors but to a high degree based on the possibility of additional funding, not the conceptual advantages of new ways of co-operating	Very limited ambition especially from Congress. Government reluctant to define commitment to higher ambition in social sectors

Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.



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