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Programme Support and Public Financial Management

Content

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Summary

According to Swedish Government and Sida policy, the number of broad programme based support activities (budget support and sector programme support) which contribute to implementation of the partner countries' poverty reduction strategies, will increase. A precondition is improved functioning of the public financial management systems of the partner countries.

Sida's task team on programme based approaches identified public financial management as a key issue in relation to different forms of programme support[1]. As a result of the team's efforts and with this memorandum as a base, the Director General of Sida decided (October 2003) that public financial management should become a prioritised field of work for Sida, and that Sida should raise its level of activity and competence in the field considerably. A support function with two advisors has been established and placed within the Department for Policy and Methodology. A PFM network within Sida for cooperation and coordination has been created with the support function as a focal point. A training effort targeting Sida headquarters and the embassies will be implemented during a two year period.

Public financial management, as defined in this memorandum, comprises: the budget/the budgeting process, the payment system, procurement, the accounting system, auditing and taxation.

In the memorandum proposals are elaborated concerning Sida's policy approach to, and assessment of the quality of public financial management systems including diagnostic tools, analytical methods and international cooperation within this field. It is suggested that Sida should increase its support for development of financial management capacity and financial management systems in countries receiving budget support and/or sector programme support, or where such support is planned. Recommendations are also given on how such support should be planned and implemented. Close cooperation with other donors is advocated. Considerations are made concerning Sida's own competence in the field, and how this can be enhanced and organised in order to facilitate more thoroughly considered and strategic approaches.

The suggested enhanced effort aims at liberating the synergies of the donor countries' demand for improved financial management and the

[1] Programme support refers to both budget support and sector programme support.

partner countries' response through increased efforts to develop capacity and systems. This is typically done with external support and the development of diagnostic tools and analytical work taken forward by the Bretton Woods institutions. On the part of Sida, this implies a need for more effective coordination between the Department for Policy and Methodology, regional departments and the embassies regarding budget support; between the sector departments and the embassies regarding sector programme support; and between DESO/DESA and embassies regarding development of capacity and systems for PFM. The process of preparing country co-operation strategies will be central in this context.

1. Introduction

Public Financial Management (PFM) as defined in this memorandum includes: the budget and the budgeting process, the payment system, procurement, the accounting system, auditing and taxation.

Well functioning systems for public financial management are prerequisites for improved effectiveness of development cooperation in general, but they have particular importance as a basis for increasing budget- and sector programme support.

The task team, established by Sida in January 2002, led by the Methods Unit and named: "The future of programme support, anchoring of policies and approaches and development of methods", identified financial management as a key issue in relation to different forms of programme support. A group consisting of James Donovan, Hallgerd Dyrssen, Bengt Ekman and Svante Persson was assigned the task of compiling and further developing the results of the discussions held by the task team. This memorandum is the result of that assignment.

As a result of the work by the task team, the Director General of Sida decided in October 2003 that public financial management should become a prioritised field of work for Sida and that Sida should raise its level of activity and competence in the field considerably, targeting in particular, regions and countries that receive programme support, or where such support is being planned.. A support function with two PFM advisors has been established and placed within the Department for Policy and Methodology. A PFM network for cooperation and coordination within Sida has been created, and a training effort targeting Sida headquarters and embassies will be implemented during a two year period.

The memorandum presents policy approaches and methods to assess the quality of financial management systems as well as suggestions for how Sida can best contribute to strengthening capacity and systems for PFM. The role of policy and methods development at international level is considered, especially as regards diagnostic tools. Finally, considerations are made concerning Sida's own competence and how this can be enhanced and organised in order to facilitate a more systematic and strategic approach.

Besides what has been said above there are strong additional reasons to contribute to improved PFM in partner countries:

- A well functioning PFM system is a prerequisite for democratic governance.
- Effective use of public resources enhances the possibilities of positive economic development in general in partner countries.
- The citizens of donor as well as partner countries have the right to demand that development assistance is used effectively.
- Effective use of development assistance can best be secured if all public resources the partner country commands are used for intended purposes and accounted for in a transparent way.

2. The Quality of Public Financial Management Systems

As development cooperation and assistance at macro-economic level is moving from balance of payments support and debt relief to budget support, and as project support is transformed into sector programme support, an increasing number of donors have recognised the need to systematically review the capacity and functionality of partner countries' PFM systems. In the case of budget support, the assistance has, by definition, to be channelled through the budget of the partner country. Sector programme support can be provided as a form of direct budget support but is in most cases pooled in a donor fund which is, at least partly, administered off-budget. In this context it is necessary to underline that the quality of the PFM systems of partner countries in many cases also has a decisive influence on the outcome of project or programme support administered off-budget.

Sida needs comprehensive policy guidelines and methods to analyse and assess the partner countries´ PFM systems and their capacity, as a basis for decisions on priorities and modalities of support in country strategies, and for decisions to participate in financing both programme and project support. Policy guidelines are also needed in order to clarify Sida's view concerning the roles to be played by the partner country and the donor countries in processes where capacity and systems are assessed and reform programmes are designed.

In this context it is important specifically to draw attention to the issue of corruption. The programme support modality creates the prerequisites for addressing PFM comprehensively, which in turn makes it possible to address corruption that may be facilitated by systemic weaknesses. Sida is currently preparing a plan to fight corruption.

2.1. Current Guidelines

According to the Swedish Government's guidelines for economic reforms a prerequisite for budget support is the implementation of an economic reform programme based on a poverty reduction strategy, an open and transparent budget and budget process, good governance and measures to combat corruption. New guidelines, currently being prepared, will elaborate on how these factors are to be assessed.

In its policy for sector programme support, Sida has established criteria that must be met before Sida decides to contribute to sector programme support (SPS):

- Sida shall never be the sole contributor to a SPS arrangement but can choose to be a silent partner.
- Sida shall have reached an agreement with the partner country regarding objectives and policy framework.
- Sida shall contribute to a joint donor fund when transparency and financial management systems have been assessed and found satisfactory.
- Sida may provide un-tied resources for SPS through the national budget when the parties are satisfied with the PFM systems.

The policy also contains an annex with detailed criteria on which the assessment is to be based. The details are not elaborated further in this memo. The purpose of this memorandum is to provide principles and policy guidelines.

2.2. Suggested Policy Guidelines

A point of departure is that well functioning PFM requires democratic governance or that partner countries are moving in that direction. This implies that the PFM system of a partner country is being developed in such a direction that it meets the demands of citizens in the country as well as in Sweden. Furthermore it requires that financial resources are used for intended purposes and that services that have been decided upon through policy are delivered at acceptable quality. The systems have to meet certain quality standards including internal and external control mechanisms. What these requirements mean in practice has to be assessed for each separate case.

Other basic requirements are:

- that the partner country shall be responsible for planning, budgeting, implementation and follow-up of the Sida-financed activities as this creates better conditions for sustainable development; and
- that the PFM system of the partner country shall always be used to channel budget support based on the policy guidelines below. Sida shall as far as possible channel sector programme support through the PFM system of the partner country.

Sida should take the following positions in its dialogue with partner countries and other donors:

- budget- and sector programme support shall be provided together with other donors;
- the support should be based on systematic assessments of the PFM systems and the capacity for managing it of the partner country;
- assessments should be coordinated between donors and made in close cooperation with the partner country;
- Based on risk assessments by other partners or by its own assessment Sida shall seek to strike a reasonable balance between fiduciary

concerns and expected development outcomes when considering programme support – taking into account the need to promote harmonisation of conditions with other donors, as well as the need to take a long term view and be flexible;

- the assessments made shall serve as a basis for formulating reform programme/action plans for capacity and systems development;
- the reform programme shall be owned by the partner country;
- reform programmes shall focus on basic functions and bring order to these. Advocated solutions have to be realistic in relation to the capacity of the partner country and designed to gradually strengthen basic functions;
- PFM systems should be integrated with systems for monitoring and follow-up of results in such a way that they promote and facilitate transparency and democratic control;
- monitoring and control systems serving Sida and other donors shall be based on the system of the partner country and adjusted to the situation in the partner country - taking into account its strengths, weaknesses and available capacity;
- Sida should focus on relative trends, i.e. if systems are improving or deteriorating, and not on absolute minimum levels;
- Sida shall welcome opportunities to strengthen systems and capacity of partner countries through reform programmes jointly implemented with other donors.

2.3. Assesment of Partner Country Capacity and Systems for PFM

The policy guidelines necessitate a systematic assessment of the PFM system of the partner country. The purpose of this assessment is to serve as a basis for Sida's decision to provide financial support and for designing activities to strengthen the PFM systems of the partner country. An analysis of the risks of corruption shall form part of the assessment.

The assessment shall mainly focus on the following components of the PFM system:

- *Budget* – how the budget process is carried out, how resource mobilisation (revenue) is secured, the link between long term strategies and the budget cycle, how the development co-operation assistance is incorporated in the state budget, how responsibility for and authority to use the budget are distributed, etc.
- *Payment system* – how cash is flowing, how reconciliation is done etc.
- *Procurement* – legal framework, transparency, capacity etc.
- *Accounting* – choice of accounting standard, system, organisation, competence and capacity, financial reporting and its basis in standards and systems etc.
- *Auditing* – audit organisation and reporting, responsibility for auditing, measures taken as a result of audit, reporting to parliament etc.

Sida must have knowledge in order to be able to analyse and assess PFM systems. Sida can acquire this knowledge itself, agree with other donors to acquire the knowledge needed, or base its assessment on what is already known and documented. Analysis can be done by others, but the final assessment – which may imply that Sida shares the assessment of another donor – must, however, always be done by Sida.

2.3.1. Diagnostic Tools

Analysis and assessment have to be based on a systematic approach. Different diagnostic tools are available and are being developed for studies at macro as well as programme and project levels. When budget support is considered, national capacity and national PFM systems are addressed. When sector support programmes are considered, the national systems constitute the basis for the analysis. At sector level the actual application, capacity and competence are focused at central and regional as well as at local level.

Sida has commissioned a study of the various diagnostic tools available, their applicability and utilisation. (Crown Agent's Financial Management Issues for Program Support Methodologies - Working paper no 3).

Sida's rules for procurement stipulate that an assessment has to be made of the capability of a partner country to manage and apply internationally accepted procurement procedures. Assessment tools are currently being developed by Sida in a separate process, but based on the World Bank's CPAR – Country Procurement Assessment Review and similar tools. Therefore, the subject of procurement is not considered further in this memorandum. The assessment of the capability of a partner country to manage procurement is, however, essential in preparing country strategies as well as in preparing budget support and sector support programmes.

As regards the assessment process and the use of diagnostic tools, Sida should adopt the following guidelines:

- the partner country should own and lead the process;
- the assessment process should include representatives of all major donors and the partner country Government to ensure that a consensus can be reached taking into account the different experiences and perspectives of all parties;
- the analysis and assessment should include all relevant components of the PFM system;
- the process and the documentation should be characterised by openness;
- the process shall result in a diagnosis of the systems that includes a description of how the systems have developed over time, as well as a proposal on how the systems can be strengthened and development activities be monitored in a coordinated way. The *DAC Task Force on Donor Practices* has developed a joint view on follow-up of PFM systems development published as a *Good Practice Paper (GPP) on Measuring Performance in Financial Management;*

– the choice of diagnostic tool depends on how broad the analysis has to be in a specific case. The CFAA (Country Financial Accountability Assessment) is likely to be the right choice, especially for assessment at the national level. Within the DAC Task Force on Donor Practices a joint view on the diagnostic tools has been developed and published in the above mentioned GPP. The tools that are mentioned in this document should also guide Sida.

2.3.2. Summary Assessment

Based on the diagnosis, an assessment shall be made concerning whether the financial arrangements are satisfactory or not, and what measures may need to be taken in order to improve and strengthen the systems and the capacity for PFM. An assessment of corruption and other risks should be included. This work should be done through a dialogue with the partner country and other donors.

The scrutiny may conclude that the risks are too big in relation to the development potential. The financial arrangements may, for example, be too weak and the prospects for improvement through the suggested measures not sufficient to address the fiduciary concerns. In this situation Sida would have to draw the conclusion that it would be inappropriate to channel funds through the treasury system of the partner country. The prerequisites for budget support would not be in place in such a situation. In the case of a sector programme support the consequence of a similar situation would be that the sector programme support would need to be administered partly outside the government PFM system. In such a situation, a careful assessment should be made whether or not such sector programme support can be provided.

Based on the diagnosis, Sida's assessment should be guided by the following:

– During the preparatory process an agreement should be reached regarding auditing. Audit responsibilities and organisation of audits have to be agreed before Sida can decide on support and enter into an agreement. The question of who will be responsible for auditing has to be made clear in the agreement. The *Good Practice Paper on Financial Reporting and Audit* agreed by the DAC Task Force on Donor Practices should guide Sida.
– Similarly as far as accounting is concerned, an agreement should be reached before Sida decides to provide support. The agreement may include what accounting standards and systems should be used and how responsibilities for accounting are distributed. Work is in progress to develop international standards but it will take time before such standards are agreed and generally accepted. This may imply that, given that there are components of a reform programme that specifically address both the accounting system and the capacity to administer the system, agreement on who is responsible for what has to be in place before Sida can decide to enter an agreement of support. Such an agreement has to show clearly what type of financial reporting has to be made. Budget support, by definition, utilises the national system. The DAC Task Force on Donor Practices has published a *Good Practice Paper on Financial Reporting and Audit* which should guide Sida.

- As regards the budget and its execution, it is necessary to clarify how aid is budgeted, whether the payment system is robust enough for funds to be channelled through it, and whether or not there is a clear description of the cash flow and other responsibilities before Sida enters into an agreement on programme support. Sida may also target improvement of the budget formulation and execution process as well as improvements of payment systems and cash flow management through the sector programme support. Only in sector programme support with pooled funding may other channels than the state system be used.
- Procedures for follow-up have to be specified and agreed, as part of the preparatory process, before Sida decides and concludes an agreement for support. This applies to results indicators as well as to financial information. The DAC Task Force on Donor Practices has published guidelines for follow-up in a *Good Practice Paper on Monitoring and Reporting on Non-Financial Aspects*. Work is on-going within current PRS-processes to design monitoring systems. It is also important that Sida monitors the processes for fiscal discipline, including resource mobilisation (revenues) in order to counteract aid dependence. This assessment should include an analysis of the trend in revenue collection, the incidence of taxes on the poor and effects on economic growth.

2.4. Conclusions

- Sida should adopt a systematic approach to its assessment of requirements for, and the level of perceived commitment to strengthening the PFM systems of its partner countries along the lines discussed above. Fiduciary risk concerns should always be balanced against development perspectives.
- An approach should be chosen where basic functions are strengthened gradually in relation to the capacity of the partner country.
- In its assessment, Sida should focus on relative trends in development of the PFM systems rather than on absolute minimum levels.
- The process, from diagnosis to implementation of systems and capacity development measures, should be led by the partner country.
- Sida should promote harmonisation.
- Sida should be guided by the above mentioned diagnostic tools, including DAC's *Good Practice Papers*.

3. Strengthening Capacity of the Partner Country

As discussed above, programme support considerations require that the capacity and the quality of the PFM systems of the partner country should be key factors in determining whether or not to use the programme support modality. An increasing number of partner countries are requesting support in this field and a growing number of donors, including the World Bank and IMF, are assisting the partner countries in this respect. Such interventions will increasingly constitute components of budget- and sector programme support.

Development of systems and building capacity for the establishment and maintenance of good standards will in most cases require several years as well as a long term and coordinated commitment on behalf of the donors. During this process it will therefore be necessary to find intermediate solutions before final solutions can be implemented. There will also be a need for assessment systems to determine when the systems of the partner country can be used to channel donor funds; when they can not be used, and how to handle the latter situation. There are many different opinions among the donors concerning when, and under what circumstances, funds should be channelled through the systems of a partner country. Sida will have to be able to handle these different opinions.

3.1. Increased Swedish Commitment to Capacity Development for Financial Management

The development of aid policy and practice in recent years makes it natural and desirable for Sweden to increase its commitment in this field, especially since Sida actively advocates programme support modalities.

3.1.1. Why Sweden?

There are many reasons why Sweden, in particular, should increase its support for development of PFM.

Internationally, Sweden is regarded as being in the forefront of the PFM field, especially within some specific areas, for example: modern accounting methods (accruals accounting), payment systems, systems for tax collection and to some extent budget control. This implies that Sweden has a good professional resource base.

Many of Sweden's relevant agencies, for example the Swedish National Audit Office, the Swedish Financial Management Authority and the Swedish National Tax Board, have a long history of co-operation with Sida for capacity development and institution building in partner countries, often through so-called "twinning arrangements". The partner countries' agencies have found it especially valuable to be able to cooperate directly with their counterparts in the donor country. Also a number of private consulting firms operate in the field of PFM reform and have acquired good competence and long experience of field work. All together, Sweden has a good and informed resource base.

Sida has 20 years of experience of capacity development in the field of PFM and through this experience has developed a systematic approach (see: "*Best practice in Capacity Building in Public Finance Management in Africa - Experiences of NORAD and Sida*". A study published within the framework of the Strategic Partnership with Africa). The Swedish interventions are characterised by a long term perspective, a process approach, flexibility, and a holistic view, i.e. characteristics that are generally regarded as necessary in this context.

3.1.2. Important Issues to Consider

PFM can not be viewed in isolation and as a purely technical subject area. It is a means to the wider systemic goal of good governance. In supporting PFM this has to be recognised from the start.

PFM of an acceptable standard does not automatically result in improved service delivery or improved democratic control, but is an important and indispensable component of a broader system to achieve these outcomes. Interventions in the field therefore have to be planned and implemented in such a way that development of democracy can be promoted. This may be, for example, by highlighting and strengthening the link to parliamentary work and, where possible, supporting civil society organisations to acquire knowledge that facilitates their scrutiny of the state budget, annual accounts and audits. As a consequence, Sida should promote user-friendly reporting systems that satisfy more than just the basic requirements of financial control.

The increased inflow of financial resources resulting from budget and sector support programmes may lead to a weakened commitment to domestic resource mobilisation in the partner countries. Therefore it is important to promote interventions, e.g. in the field of taxation in order to counteract aid dependence.

A poverty perspective makes it especially important to highlight the link between PFM and the production and delivery of services. This can be done by analysing PFM and capacity development needs from a sector perspective. It is also important to avoid a situation where over-sophisticated systems are developed which the partner countries lack the necessary capacity to manage. Experience shows that donors often promote systems development that would meet their own information needs rather than the actual needs of the partner countries. Moreover, the design of systems often pays too little attention to the capacities and capabilities (of both individuals and institutions) to implement and use the systems.

3.1.3. Choice of Intervention Areas

Choice of geographical area, level and sector for support will naturally depend on the demand from the partner country and the activities of other donors. Where possible, a programmatic approach should be sought e.g. through a broad intervention together with other donors.

In choosing areas of intervention the following should be given priority: the budget process, the accounting system, the payment system, procurement, auditing (internal and external/national) and the tax system.

Interventions may focus on the central state level and include nation wide systems, but may also focus on the regional level or the local level. Regardless of the level at which the intervention is made the linkages to the other levels have to be clarified.

Support which aims to improve PFM may also be provided to specific sectors. In these cases the support is usually a component of broader programmes for the education sector, the health sector etc. In these cases it is important that the sector work is related to development at the national level (in the Ministry of Finance) and that coordination is promoted. In interventions directed towards Ministries of Finance, Sida should stress the interests of the sectors to secure understanding that PFM should be supportive of service delivery and not just designed for control purposes.

3.1.4. Choice of Countries

Increased Swedish support to PFM should primarily be directed to countries where Sweden provides substantial budget support and/or where large sector support programmes are implemented or planned. The purpose of this priority is to enhance the effectiveness of the Swedish budget support and prepare the ground for an increasing number of sector support programmes channelling funds through the partner countries own system. When increased Swedish support is considered, an assessment should be made of the size and direction of the support of other donors and active cooperation should be sought.

3.1.5. Regional and Professional Organisations

Regional and professional organisations can play an important role in strengthening PFM, in establishing norms, and in providing a professional identity of agencies and individuals working in this field. For example, Sida has supported the establishment of regional organisations and networks for the supreme audit institutions and Accountant Generals' offices in Southern Africa (SADCOSAI and ESAAG). More interventions of this nature are required as well as a growth of professional organisations e.g. national associations of auditors etc. As mentioned above, support should also be given to civil society organisations specialising in scrutinising PFM. IDASA (Institute for Democratic Assistance in Southern Africa) is an example of such an organisation.

3.2. The Swedish Resource Base

The issue of the Swedish resource base has already been touched upon. This resource base can meet the needs created by an expansion of the number of interventions but it has its limits. Sida will promote the development of the resource base with the purpose of enabling state agencies and consulting firms to expand their capacity to involve themselves in a growing number of interventions. The experience is that development of a resource base is best done in the context of the planning of new concrete interventions. The on-going review (FÖLJSAM) of modes of cooperation between Sida and state agencies will facilitate an improvement of this cooperation.

An important aspect of resource base development is to provide an opportunity (primarily for the state agencies), to participate together with Sida in discussions with the World Bank, the IMF and other donors concerning the development of PFM in the partner countries.

In this context it is relevant to mention that Sida recently concluded framework agreements with eight consulting firms in the PFM field of which nearly half are Swedish. The main purpose of this procurement arrangement is to strengthen Sida's capacity to plan, follow-up and evaluate interventions and to train Sida staff. In implementing PFM interventions a fruitful cooperation between state agencies and consulting firms may result in more effective use of resources.

3.3. Donor Coordination

Donor coordination and, above all, cooperation with the BWIs will become increasingly important as the interest in the PFM field grows. The space for individual bilateral interventions will decrease substantially as a consequence. There are substantial differences in views and approaches to knowledge, learning and capacity development between Sida and some of the other actors in the field of development co-operation. It is therefore important to work together in a harmonised way that is conducive to an open exchange of ideas and not dominated by individual parties, while at the same time trying to influence the approach to capacity development together with like-minded development partners. Sida's and Norad's views and experiences have been published in the "best practice" study referred to in section 3.1.1

3.4. Conclusions

The discussion above leads to the following conclusions:

- Sida's interventions aiming at capacity and systems development should increase in terms of volume and number, and where feasible be implemented in cooperation with other donors and/or BWIs;
- countries where Sida provides programme support (budget support and sector programme support) should have priority;
- the budget process, the accounting system, the payment system, procurement, auditing (internal and external) and tax systems are areas of priority;
- the support to regional and professional organisations/networks and the support to civil society organisations in the PFM field should increase;
- a programmatic approach in cooperation with other donors should be sought;

– together with other like minded development partners attempts should - on the basis of Sida's experiences and views - be made to influence the approach to long term capacity development;
– interventions should be planned and implemented in order to strengthen democratic control and increase transparency. Interventions should also be based on a sector perspective so that systems are designed to facilitate production and delivery of services;
– cooperation with the Swedish resource base should be strengthened and deepened in order to create capacity for the proposed expansion of support to PFM;
– the on-going review of modes of cooperation with state agencies, FÖLJSAM, should give priority to state agencies in the PFM field.

4. International Policy – and Methods Development

4.1. Participation in On-Going InitiativEs

Sida has participated actively in DAC's Task Force on Donor Practices. The purpose has been to promote harmonisation and coordination of donor procedures and conditions. The Task Force reported to DAC at the end of 2002. Financial Management and Accountability was chosen as one of three prioritised areas. The work was characterised by close cooperation between a number of countries. In the PFM area a number of Good Practice Papers have been published. (See annex 2)

There has been a close cooperation with the World Bank and the working group that the multilateral banks (MDBs) have set up for "Financial Management and Accountability". The purpose has been to seek consensus between the bilateral donors in DAC and the MDBs.

Good Practice Papers have been adopted by DAC's high level meeting in December 2003 and have received political acknowledgement at the "High Level Forum" of aid agency heads which was sponsored by the DAC Task Force and MDBs in Rome, in February 2003. The GPPs therefore have a clear role in guiding the behaviour of the donors. Follow-ups will be conducted in order to enforce the practical use of the guidelines. Sida has adopted an action programme to implement the guidelines.

The work within DAC continues through its Working Party on Aid Effectiveness and Donor Practices, WP/EFF and its five working groups.

The Government bill on development cooperation stipulates that Sweden should take a leading role in the harmonisation work. Sweden also participates in the Strategic Partnership with Africa, (SPA) which focuses on the implementation of poverty reduction strategies in Africa, how donors adjust to these strategies and their consequences for financial management.

Sweden will attempt to influence the methods development work carried out by the BWIs through the following channels:

– With Sida support, the *World Bank Institute* is developing a training programme in financial management in Africa. The training will be implemented in cooperation with local training institutes. Concerned units in the World Bank e.g. "Poverty Reduction and Economic Management" participate as well as Swedish government agencies in an advisory board to the programme.

– *The Public Expenditure and Financial Accountability Programme*, PEFA, is a partnership between the World Bank, IMF and EU, DFID, Switzerland, Norway and. France. A number of bilateral donors are also providing support to this strategically important programme. The objective of PEFA is to coordinate and harmonise policy approaches to diagnosis of and support for development of PFM systems. The main purpose is to spread "good practices" and reduce the transaction costs of analytical work and implementation of reforms in the partner countries. As an example, a joint framework regarding PFM indicators to be used in monitoring performance in PFM is currently being developed. Sida has developed close contacts with PEFA and should look favourably on providing support for specific projects initiated by the programme. Between the WBI programme and PEFA there are also potentially productive synergies.
– Sida is providing support to the "African Budget Project" implemented by IDASA (Institute for Democracy in Southern Africa). The aim of the project is to strengthen the capability of civil society organisations in African countries to analyse, influence and inform the budget process, and thereby promote better use of public resources. Similar assistance is also given to the *Centre for Budget and Policy Priorities* for its global project named, *Civil Society Budget Initiative.*

Sida should look favourably on support to strategically important projects, implemented by national and international non-governmental organisations, which aim to increase openness and transparency and create the necessary conditions for citizens to inform themselves, and to influence and follow up on budget priorities as well as resource utilisation.

Sida is increasingly invited to participate in diagnostic studies like *Public Expenditure Reviews*, PER, and *Country Financial Accountability Assessments*, CFAA. It is important to participate in these assignments, both in order to learn about the PFM systems in the countries concerned (and the use of the appropriate analytical tools), and to be able to influence the conditions set for the partner countries as a result of the diagnostic work. It is equally important that partner countries participate actively in the analytical work and that this has the backing of a large group of donors.

The diagnostic tools should not be used primarily to show the differences in quality of PFM systems between partner countries and donor countries. The risk with such an approach is that systems solutions which are too sophisticated are proposed and chosen. The partner countries need robust systems that can manage basic functions of financial management in timely fashion and under difficult circumstances.

4.2. Cooperation with Others

The Nordic countries, the Netherlands and United Kingdom have, on the whole, a common view concerning financial management, capacity development, programme support and the importance of partnership approaches to cooperation. Therefore Sida should strive to intensify its cooperation with those partners with the purpose of influencing the policy-and methods development work of the BWIs more effectively. This cooperation should be strengthened between the capitals as well as in the partner countries. Cooperation may also be established with regard to staff training programmes.

4.3. Conclusions

- Sida should identify opportunities to cooperate with like-minded donors in order to conduct dialogue with and influence the BWIs headquarters and their programmes in countries and regions where Sida is active.
- Sida should engage in the development of diagnostic tools
- Sida should promote a holistic approach in analytical work – emphasising capacity development rather than a narrow focus on control of donor resources.
- Sida should participate in diagnostic work, preferably in cooperation with like minded donors, in countries where Sida provides substantial budget support and /or where sector support programmes are planned or implemented. The purpose is to acquire hands-on knowledge of PFM in the countries and contribute to the preparation of appropriate capacity development programmes.

5. Demands on Sida

Considerations concerning PFM are made in all programmes/projects where funds are channelled through the system of the partner country. The approach in assessing the financial management systems when decisions on budget support, sector programme support and project support are prepared is based on a common framework and methods, but has to be adjusted depending on what level of system - national, sector or project - is to be assessed.

Knowledge about PFM, and ability to assess PFM systems and carry out a dialogue on improving the systems has to be available at all operating units: in embassies and sector departments throughout the project/programme cycle; in regional departments and embassies in the country strategy processes and budget support assessments. It is therefore necessary to have a critical mass of competence in PFM at the embassies and at the divisions of Sida headquarters. This critical mass can be created by developing the capacity of Sida's own staff, through access to an external resource base and through the recently established support function of two PFM Advisors.

This area of expertise is developing fast internationally. Effective mechanisms are therefore needed for exchange of experience, coordination of competence development, and continued method development at Sida.

5.1. Competence at Embassies

There are special needs to strengthen competence in PFM at embassies in countries receiving direct budget support or where large sector support programmes are implemented or planned with Swedish participation. The strengthening of competence should be done in a flexible manner based on the situation of each embassy. Where there are posts for economists, these can, besides addressing the traditional tasks, also be given responsibility for PFM and the competence profile of the posts can be adjusted accordingly. In other cases the needs can be met by advisory services from Sida headquarters, by consultancy support, or through close cooperation with like-minded donors. It is also important to raise the competence of embassy staff in general. In their annual operational plans, the concerned embassies should present to Sida headquarters descriptions of the type of competence they think they need in PFM and propose ways to meet these needs.

5.2. Country Strategies and Country Plans

The country strategy work carried out by the regional departments is crucial for placing PFM in focus and for emphasising the need for a comprehensive approach where needs of increased resources, better use of resources for combating poverty, and needs for improved domestic resource mobilisation are analysed and assessed.

When country strategies are prepared, the regional departments together with the embassies should analyse the PFM systems including the capability to manage procurement. Findings should be incorporated in the strategies. A holistic approach should be adopted in this analytical work and should include analysis of the systems at sector and organisational levels. In most cases the analysis could be based on existing analytical work where the diagnostic tools of the BWIs have been used e.g. PER (Public Expenditure Review), CFAA (Country Financial Accountability Assessment), ROSC (Report on Observance of Standards and Codes), CPAR (Country Procurement Assessment Review) etc. Where necessary, the analyses should be updated annually through short status reports.

The strategic choice of aid modality and the selection of issues to be brought up in the dialogue will be based in part on the analytical work. It is important to link budget support and sector programme support to the enhancement of capacity and improvement of the PFM systems of a country. It is also important to carry out an inventory of interventions by other donors. The regional departments and the embassies have an additional role to play in identifying needs and in taking new initiatives for support to capacity development in the area. Against this background it is essential that the regional departments enhance their knowledge of PFM.

5.3. Training

In view of the internal competence needs of Sida, a training programme will be implemented over a two year period targeting the concerned embassies and Sida headquarters. The programme will be based on the experience of previous training and may include tailor made courses, especially for embassies, regional and sector departments, but also recurring courses of a general nature. PFM will be included as a compulsory module in the introductory training for Sida staff and also in the special course offered to staff taking up assignments in embassies. Responsibility for the training and for updating of competence rests with the embassies and the departments. The PFM support function will assume responsibility for coordinating the implementation of the two year training programme.

5.4. Handbook

There may be a need for a handbook in PFM to be used for self-study and as a reference book for officers and managers. A minor study on the content of such a handbook will be made and will include an inventory of what other donors can offer. The PFM support function will be responsible for this task.

5.5. Distribution of Responsibilities

The distribution of responsibilities that will be presented below is a result of a consultative process in which concerned departments/units have participated.

5.5.1. Regional Departments and Embassies

Country strategy work

For this regional departments and embassies will:

- be responsible for carrying out analysis of PFM and for drawing conclusions for the strategy e.g. regarding modalities of support or mix of such modalities. The analysis should preferably be based on already existing analytical work. (See 5.2)

Country based work

For this regional departments and embassies will:

- be responsible for annual up-dating of the analysis if needed;
- conduct dialogue with the partner country at different levels and occasions about PFM;
- conduct dialogue and actively participate in processes, where assessments of PFM systems are made and where reform programmes are formulated, together with other actors, primarily the BWIs;
- identify needs for capacity development of partner countries and in cooperation with DESO/DESA assess where and when it may be suitable to offer active Swedish support;
- be responsible for coordination and cooperation with Norad and other like-minded donors regarding competence development, monitoring and participation in BWI-processes, analysis of and dialogue about interventions aiming at enhancing capacity of partner countries;
- make an annual assessment, as part of the annual operational planning process, of the internal need of competence in PFM and propose how this need should be met (e.g. through recruitment, consultants, cooperation with other donors, call on services from Sida headquarters, training of staff);
- be responsible for cooperation within Sida regarding PFM in relation to budget support and sector programme support.

5.5.2. Sector Departments

These departments will:

- make assessment of the PFM capacity of the sector when a sector programme support is being planned. This assessment should be based on the overall analysis made of the capacity and PFM systems of the partner country (See 5.5.1 above). It is assumed that the sector departments may call on support from the PFM support function;
- propose interventions for development of the PFM systems and capacity of the sector after consultations with DESO/DESA, the regional departments and the embassies. Make certain that the development activities of the sector are in line with the overall framework of PFM development in the country;

– in consultation with embassies provide information about PFM of the sector to the regional departments/embassies in connection to their work on the overall analysis of the systems and capacity and/or the annual up-dating of the analysis and/or at occasions when dialogue is held (See 5.5.1 above).

5.5.3. The Division for Democratic Governance (DESA)

Strengthening capacity and PFM systems of partner countries

– In close cooperation with embassies, DESA will be responsible for preparing new and manage on-going interventions and/or provide professional support to delegated embassies managing such interventions. Close coordination with Norad should be sought;
– DESA will be responsible for contacts with and development of the resource base (primarily the Swedish one). Development of and strengthening the resource base concerns its capacity to implement interventions in partner countries, to participate in or implement capacity development activities for Sida staff, to provide support and to advise Sida in its dialogue with the BWIs and other donors about development work on PFM.

5.5.4. The Division for Organisational Learning (EOL)

– EOL will be responsible for incorporating PFM training into Sida's introductory and pre-posting courses.

5.5.5. Department for Policy and Methodology (POM)

In General POM will:

– follow the development of policy and methods concerning budget support, sector programme support and combating poverty;
– provide the lead in preparing guidance on poverty reduction strategies, anti corruption and capacity development;
– assist departments and embassies in methodological issues;
– provide a focal point for and coordinate policy- and methods development concerning programme support.

Specifically POM will:

– provide a professional support function for the special effort in increasing support to PFM and coordinate this effort;
– be the PFM focal point at Sida;
– create, maintain and coordinate a broad network for PFM within Sida;
– on a call-down basis, work as advisor/partner to embassies, regional and sector departments and, when required, take the initiative to establish and coordinate working groups for specific interventions in a country or within a region and thus be a contact point for the embassies;
– identify and organise methods development work regarding PFM in cooperation with other concerned units within Sida;
– coordinate the participation of Sida in international cooperation

regarding development of methods and norms and participate actively in this work;
- make certain, in cooperation with JUR (legal department), that assessment of procurement capability of the partner countries is included in the overall assessment when budget support is to be decided;
- keep an up-to-date register on consultants/advisors in PFM;
- be responsible for coordination of the internal training effort in PFM:

5.5.6. Chief Controller (Director General's staff)

- The Chief Controller will actively participate in Sida's internal network for PFM in development cooperation.

5.5.7. EVU/JUR (Division for Legal Services and Procurement Advice)

- EVU/JUR will develop a framework for assessing the procurement capability of partner countries;
- The Division will be responsible for advisory and support services in assessing the procurement capability of partner countries.

Annex 1
Acronyms

BWI	Bretton Woods Institutes (WB, IMF)
CFAA	Country Financial Accountability Assessment
CPAR	Country Procurement Assessment Review
DAC	Development Assistance Committee (OECD)
DESA	Division for Democratic Governance
DESO	Department for Democracy and Social Development
DFID	Department for International Development
ESAAG	East and Southern African Association of Accountant Generals
ESV	Ekonomistyrningsverket – Swedish Financial Management Authority
EVU/JUR	Division for Legal Services and Procurement Advice
FÖLJSAM	Review of the modalities of cooperation between Sida and state agencies
IDASA	Institute for Democratic Assistance in Southern Africa
MDB	Multilateral Development Banks
NORAD	Norwegian Agency for Development Cooperation
PFM	Public Financial Management
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
ROSC	Report on Observance of Standards and Codes
RiR	Swedish National Audit Office
RSV	Swedish National Tax Board
SADCOSAI	Southern African Development Community for Supreme Audit Institutions
SPA	Strategic Partnership with Africa
WBI	World Bank Institute

Annex 2
Publications

Göran Andersson and Jan Isaksen, "Best Practice in Capacity Building in Public Financial Management in Africa: Experiences of NORAD and Sida" (SPA, Task Team on Financial Management and Accountability) - 2002

Torun Reite, "Lessons Learnt from Donor Participation in Country Financial Accountability Assessments" – draft, 2001

Martin Schmidt, "Inventory of Programme Support at Sida," Programme Support – Sida Working Paper No. 2. – June 2002.

Stefan Sjölander & Ulrika Brobäck: "Program Support and Public Finance Management" – Sida studies no. 6 – November 2001

IMF & IDA, "Actions to Strengthen the Tracking of Poverty-Reducing Public Spending in Heavily Indebted Poor Countries (HIPC)," March 2002.

Crown Agents: "Financial Management Issues for Program Support Methodologies", Working paper no 3. 2002.

Sida's Policy for Sector Programme Support and Provisional Guidelines – 2000

OECD DAC's Task Force on Donor Practices:
- Good Practice Paper on Financial Reporting and Audit
- Good Practice Paper on Measuring Performance in Financial Management
- Good Practice Paper on Reporting and Monitoring (*http://www.oecd.org/dac/donorpractices)*.

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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