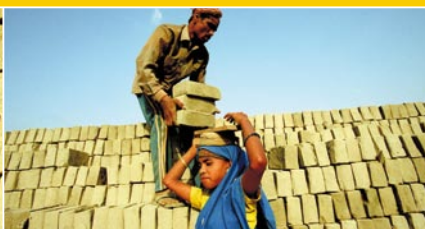


Norway's provision of budget support to developing countries Guidelines



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Introduction

Background

The initial guidelines for Norway's provision of budget support to developing countries were approved by the Ministry of Foreign Affairs in August 2004. The guidelines were developed in order to clarify Norwegian policy related to budget support, and to serve as a practical guide in budget support operations. The guidelines applied to general budget support and sector budget support, and they also covered budget support to fragile states.

These revised guidelines are based on and replace the initial guidelines. They are aligned with the structure of the latest (2005) version of the Norwegian Development Cooperation Manual. Hence, the Development Cooperation Manual forms the starting point also for budget support with these guidelines as a supplement on specific issues. This revision has taken on board some of the main recommendations from the OECD/DAC Guidelines on budget support of 2006 and the OECD/DAC Evaluation of General Budget Support finalised in April 2006. The guidelines cover general and sector budget support, as well as budget support to fragile states. Support channelled to the treasury for specific project implementation is not covered by these guidelines.

The concept of budget support

According to the OECD/DAC, the general characteristics of budget support are that the funds are channelled to the partner government (normally to the central treasury) using the country's own allocation, procurement and accounting system, and that the support is not linked to specific project activities. This means that the support is fully aligned with the Partner government's system.

There are two main forms of budget support, which can be defined by the following:¹

- » *General budget support* is budget support where the purpose is to contribute to the implementation of overarching goals in the poverty reduction/national development strategy.
- » *Sector budget support* is budget support where the purpose is to accelerate progress towards the government's sectoral goals.

¹ For detailed elaboration of the definitions, be referred to Norad's Discussion Report of May 2006, Donor definitions of and practises in providing budget support- with particular reference to sector budget support.

Both general and sector budget support are contributions to the state budget. The difference between the two lies in the purpose of the support. However, in some countries, support to a sector is provided through the general budget support mechanism. In other countries, due to country-specific circumstances, it may be relevant to provide both general and sector budget support². In practise, it may be difficult to clearly distinguish between these forms. However, the use of conditionalities, earmarking³ and dialogue tends to vary between them. It is normally the country context and the forums for political and technical dialogue at the country level, which determine the form of budget support used. In addition, other aspects such as political risk and the motivation for Norwegian presence in the country influence on the choice of budget support modality.

Related modalities

Budget support (both general and sector budget support) through Trust Funds (see chapter 4) is provided in particular as part of peace-building programmes. Funds are often handled through a multilateral trust fund mechanism, often managed by the UN or the World Bank.

Debt relief is normally provided as part of a multilateral debt relief operation, linked to a set of policy reforms. Debt relief will normally be provided as part of the Highly Indebted Poor Countries (HIPC) initiative, but exceptions are also made such as for peace-building operations. Norway is providing bilateral debt relief in accordance with a separate debt relief plan⁴. Norwegian co-financing of multilateral debt relief operations will be handled in a way that ensures coherence with budget support policies, but such operations are not explicitly covered by these guidelines.

Countries that may be considered for budget support

Many partner countries request increased budget support, and they often express their preference for untied and predictable budget support. While all parties may benefit from a transition from projects to programme and budget support, there are also certain disadvantages and risks involved. Budget support will therefore be considered only when circumstances, as described in chapter 1, are satisfactory, and will in most partner countries be combined with other forms of assistance. Budget support is normally provided and followed-up in a harmonised approach with other development partners.

Budget support should be considered provided to countries with which Norway has cooperation based on a longer-term perspective. Normally, budget support should only be provided to countries where political priorities are based on a poverty reduction strategy or similar development plans. In countries where

² See footnote 1.

³ There are different types of earmarking. However, in relation to budget support, earmarking is most often either notional (virtual) or not present at all. Notional earmarking means that the donor claims that the budget support provided is notionally or virtually earmarked to e.g. a sector, but only requires that the government's normal expenditure reports show that spending in the sector has exceeded the volume of budget support provided.

⁴ Debt Relief for Development: A Plan of Action (2004).

a full poverty reduction strategy has not been prepared, budget support can still be provided if the government's policy documents are found credible and the potential risks are outweighed by the expected development benefits. Fragile states may be eligible for budget support in support of a peace-building or stabilisation process or if it is otherwise deemed politically feasible and this can be justified from a development perspective according to these guidelines⁵. The budget support should stimulate public financial management and strengthen the role of the budget for policy-making and allocation of scarce funds. Often, a quick response from international partners is decisive in fragile states. Support will often be channelled through multilateral trust funds (see chapter 4). For countries with a positive transition into peaceful development, the regular process for providing development assistance, including budget support, should be initiated. In these cases, flexibility is needed according to what is deemed to best serve the objectives of conflict reduction and peace.

Other countries may receive debt relief as part of a multilateral debt relief operation under the expanded HIPC debt relief initiative, or as part of a bilateral debt relief operation.

OECD Guidelines for budget support

The "Paris Declaration on Aid Effectiveness" that was agreed at the High-level Meeting in Paris in March 2005 is particularly important for all development cooperation. The key principles of the Paris Declaration are (I) Ownership; (II) Alignment with Partner country policies and priorities; (III) Harmonisation and coordination of donor procedures and practices; (IV) Managing for Results; and (VI) Mutual Accountability. Budget support is the instrument which to the highest degree promotes these principles. These Norwegian guidelines are based on the principles of the Paris Declaration.

Specific OECD/DAC guidelines are provided for budget support⁶. These include four key principles that should be adhered to, and which are also integrated into these Norwegian guidelines:

- ① Budget support should strengthen partner countries' ownership.
- ② Budget support should enhance public financial management performance and accountability.
- ③ Budget support should contribute to reducing transaction costs.
- ④ Budget support should enhance predictability and reduce aid volatility.

⁵ Findings from Rwanda show a positive role for budget support in a state recently emerged from conflict where many public institutions were restored. Evaluation of General Budget Support, IDD Associates, March 2006.

⁶ OECD Harmonising Donor Practices for Effective Aid Delivery 2003, DAC Guidelines and Reference Series, Volume 2: Budget Support, Sector-Wide Approaches and Capacity Development in Public Financial Management 2006.

Budget support and assistance strategies

The appropriate scope and focus of budget support can only be decided within the country context, with adherence to strategies developed by the Partner country. Complementarities between different forms of assistance as well as harmonisation with other development partners should be sought optimised. The World Bank's Aid Effectiveness Review⁷, which is also produced at country level, could be considered in this process.

The central role of budget support in strengthening public financial management should be kept in focus. Development assistance strategies such as joint assistance strategies or bilateral country assistance strategies should consider the use of budget support in relation to other aid modalities.

There will be risks associated with all forms of assistance. In some countries, risks might be higher with budget support than for other forms of development assistance partly because the country's public financial management system may be weak. Channelling funds through public budgets and financial disbursement systems should still be considered, even in weak states, although with safeguards. Budget support is almost without exception provided in combination with capacity development programmes in areas such as public financial management and service delivery. Normally, because of the risks involved, it is recommended that an incremental approach⁸ is followed when introducing budget support to partner countries.

When Norway engages in budget support it is normally on the basis that it is within a long-term perspective with mutual accountability in which both sides need to build up and sustain trust and track records of reliability.

Chapter outline

The following three chapters concern the preparatory, the follow-up, and the completion phase of the budget support cooperation. Unless otherwise stated below (chapters 1, 2 and 3), the same procedures apply for general and sector budget support, and for budget support to fragile states. Chapter 4 deals with budget support through trust funds, and chapter 5 with administrative requirements for budget support operations.

The Development Cooperation Manual should be used as point of departure when applying these guidelines. The Practical Guide to Assessment of Sustainability Elements/Cross-Cutting Issues⁹ should be applied where relevant. When using these guidelines for sector budget support, reference is made to the Practical Guide for Sector Development Programmes¹⁰.

⁷ <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/STRATEGIES/CDFO,,contentMDK:20919987~menuPK:250090~pagePK:139301~piPK:139306~theSitePK:140576,00.html>

⁸ That means, to increase the volume of budget support over time.

⁹ June 2007.

¹⁰ MFA/Norad 2007.

1



1. Preparatory Phase

1.1 Platform for Dialogue

For general budget support, also to fragile states, the platform for dialogue should cover the following supplements to the requirements in the Development Cooperation Manual;¹¹

- » The identification of the political and framework conditions should also consider macroeconomic framework conditions. This review should moreover include a preliminary assessment of whether the poverty reduction/national development strategy or a similar document constitutes a credible instrument for poverty reduction, stabilisation or reconstruction.
- » A preliminary assessment of the public financial management system and risks. For public financial management assessments, see section 2.3. Note that the preliminary assessment of public financial management replaces the economic and financial risk identification in the Development Cooperation Manual. The technical/technological risk identification is not relevant for budget support.

For sector budget support, the following supplements to the requirements in the Development Cooperation Manual¹² should be covered in the platform for dialogue;

- » The assessment of the political and framework conditions should also consider macroeconomic framework conditions.
- » A preliminary risk assessment related to public financial management and corruption, with focus on the public financial management system at the relevant sector level¹³.

The assessments would normally be based on documents prepared by or jointly with other development partners or institutions. The platform for dialogue should conclude with a recommendation by the Embassy to the Ministry of Foreign Affairs of whether or not Norway should continue its preparations towards budget support to the country in question. By approving the platform for dialogue, the Ministry of Foreign Affairs gives the mandate for the Embassy to follow up as recommended.

¹¹ See part 1.1, including Format for Platform for Dialogue.

¹² See previous footnote.

¹³ Note that the preliminary assessment of public financial management and corruption replaces the economic and financial risk identification in the Development Cooperation Manual. The technical/technological risk identification is not relevant for budget support.

1.2 Programme Documents

For general budget support the programme document is usually the poverty reduction/national development strategy or a similar document. Fragile states or countries emanating from violent conflicts still affected by violence may not have a poverty reduction strategy, or the previous strategy may be irrelevant. These countries should be expected, however, to prepare an interim poverty reduction/national development strategy or an initial plan for relief, resettlement and reconstruction, as well as a rudimentary budget. The programme document related to sector budget support may vary. Normally, the programme document includes a sector policy and strategy¹⁴, an activity plan, and a sector expenditure framework.

1.3 Appraisal

The following issues are clarifications and supplements to the requirements described in the Development Cooperation Manual¹⁵. The assessments would normally be based on documents prepared by or jointly with other development partners or institutions.

1.3.1 Assessment of the Partner's planning process

- » The assessment of the relevance of the programme will normally be to consider whether the poverty reduction/national development strategy is a credible instrument for poverty reduction, see box 1.1. For budget support to fragile states this assessment may put more emphasis on political factors and issues relating to stabilisation and reconstruction. For sector budget support, the relevance of the programme should be assessed according to how the programme document addresses the sector-specific challenges. The assessment should also regard mainstreaming of cross-cutting issues, such as gender, HIV/AIDS and environmental issues as part of the poverty reduction/national development or sector strategy.
- » When considering the lessons learned, one should consult the annual progress reports on the poverty reduction/national development/sector strategy, where such exist. In addition, annual reviews of existing budget support programmes should be consulted, where relevant.

Good practises in assessing the quality of poverty reduction/ national development strategies

- Assess the quality of the poverty reduction/national development strategy the willingness to implement the strategy through the budget, and the country's capability to do so. This includes assessments of the poverty and equity focus of the poverty reduction/national development strategy
- Check the capability to implement reforms to improve public sector efficiency
- Consider the quality of the sector strategies supporting the programme

¹⁴ See Practical Guide for Sector Development Programmes, MFA/Norad 2007, for elaboration on the programme documents for sector budget support.

¹⁵ See part 1.3, including Format for Terms of Reference for Appraisal.

1.3.2 Assessment of the programme design

To assess the design elements means to assess the goals and objectives as they are described in the poverty reduction/national development/sector strategy. It moreover implies an assessment of how inputs and outputs within the various sectors or sub-sectors of the strategy support and contribute to the expected outcomes.

The goal of the budget support programme and results monitoring

The goal of the budget support programme will normally be to contribute to poverty reduction or to the achievement of other national development or sector goals. In many countries the reach of the goal may be difficult to measure in the short run. However, the objectives and outputs should be measured by solid benchmarks and indicators that point to the direction of progress. A selection of such indicators is often collected in the Performance Assessment Framework (see section 1.5.3), which is a central document for results monitoring of budget support programmes.

1.3.3 Assessment of sustainability and risks

Issues to consider when assessing sustainability and risks are presented in the Development Cooperation Manual¹⁶. Risks within the following categories may be particularly relevant:

Implementation of poverty reduction/national development or sector strategies

- » Risks related to the implementation of the poverty reduction/national development or sector strategy, with reference to the main findings in section 1.3.1 above.

Economic Governance

- » Risks of macroeconomic instability
- » Risks of corruption¹⁷
- » The public financial management system¹⁸ and related risks, and whether the government has a credible programme to improve public financial management. For public financial management assessments see box 1.3. The Public Expenditure and Financial Accountability (PEFA) system¹⁹ should be used or referred to in these assessments. For budget support to fragile states the assessment

¹⁶ See part 1.3 section 3.3 and annex 1.

¹⁷ Such risks can be found i.a. by application of the Public Expenditure and Financial Assessment (PEFA) system. Political economy analysis will normally have to supplement PEFA with regard to corruption. The following references may be used when assessing corruption:

- The Utstein-group (U4); www.u4.no
- Transparency International's Corruption Index; www.transparency.org
- Global Integrity provides a thorough evaluation of corruption in some countries (not perception based) www.globalintegrity.org/default.aspx

¹⁸ Note that the assessment of public financial management and corruption replaces the economic and financial risks in the Development Cooperation Manual. The technical/technological risk factors are not relevant for budget support.

should consider the need for additional safeguards relating to public financial management. For sector budget support, the assessment should focus on risks related to the public financial management system at sector level.

Political Governance

- » Human rights and whether conditions for free and open multi-party elections are in place. Where this is not the case, one could describe whether the political leadership has broad public legitimacy and there is participation in decision-making processes.
- » Political economy factors that influence on the efficiency and effectiveness of the public sector, such as power relations, drivers of change and institutional functioning in general.
- » Government's willingness to implement national anti-corruption measures.
- » Government's willingness to improve regional security, peace and reconciliation, where this is relevant.

External factors

- » External risk factors, such as adverse weather conditions and international economic factors. Has the country adopted systems to manage external risk factors?

The Practical Guide for Assessment of Sustainability Elements/Cross Cutting Issues could be used where relevant²⁰.

The risk analysis for budget support to fragile states should be adjusted to the shorter term perspective of such operations and to the rationale behind the support; which is stabilisation and reconstruction.

Good practices when assessing public financial management

The public financial management system should be interpreted in a broad sense to include the regulations and the actual exercise of planning, budgeting, budget execution, procurement, transfer of funds, accounting and auditing, and Parliament's role and participation in the budget process.

The Embassy should aim at collecting information on the capacities of the public financial management system at regional and local level. Instruments which can be used are Public Expenditure Tracking Studies and the PEFA system applied to local government, where such exist.

The tax system (design and revenues collection) plays an important role in a country's policy, through various ways. It finances expenditures, and influences economic growth and income distribution. To fully understand the way a tax system works, specialist competency, often found in the IMF, may be needed.

¹⁹ www.pefa.org

²⁰ June 2007.

The risk analysis should provide an overview of the risks, their probability (low, medium, high) and likely consequences (small, medium, large), and risk mitigating factors. For further elaboration of risk analysis, see the Development Cooperation Manual²¹.

1.3.4 Assessment of donor coordination in co-financing programmes

For sector budget support, an assessment of the dialogue forum for the relevant sector and cross-sector issues should be made. This should include an assessment of the level of co-operation with private providers to the sector, civil society and international partners involved in the specific sector.

1.3.5 Overall assessment and recommendation

The final step of a budget support appraisal will be to make the overall assessment of whether the expected development results outweigh the remaining risks after the proposed risk responses are undertaken. There is no universal level of risk tolerance for budget support or any form of assistance. Where the development arguments in favour of budget support are strong, a higher level of risk may be justifiable. The assessment should be forward-looking with regard to expected outcomes and impact. The conclusion of the assessment should include a clear recommendation of whether a budget support agreement should be entered into or not. If the conclusion is in favour of an agreement, concrete recommendations on how to manage the identified risks should follow. In the case of a recommendation not to provide budget support, the assessment may include a proposal of possible steps that could be taken to prepare for a future budget support agreement.

1.4 Appropriation Document

The following are supplements to the requirements in the Development Cooperation Manual:²²

Good practises for predictability and disbursement

The expectation by both sides is that budget support will provide predictable funding for the implementation of the government programme for poverty reduction (or similar objectives) for the agreed period, normally 3-5 years. Since an increasing number of developing countries are preparing three-year rolling Medium Term Expenditure Frameworks (MTEFs), the importance of reliable commitments and predictable funding well in advance of the budget year becomes even more evident.

Good practice is that funds for year t+1 are confirmed in year t based on overall assessments of performance in year t-1 and year t up to the review.

²¹ Annex 1.

²² See part 1.4, including the Format for Appropriation Document, section 4.

Graduated response

The suspension of budget support may lead to macroeconomic volatility, which is damaging to the Partner country's planning and budgeting procedures. One mechanism that may help mitigate the risk of "stop and go" cycles is to apply a graduated response mechanism. This means that international partners allow for partial disbursements in cases of partial fulfilment of the agreement. Such a mechanism can reduce the volatility of budget support by establishing an intermediate option between withholding all funds and releasing all. Graduated response mechanisms should apply best practises with regard to disbursement (see box 1.4). However, disbursements should be predictable, also over a medium-term time frame. Graduated response is a disbursement mechanism under investigation, and should, if found appropriate, be developed with caution depending on country-specific circumstances.

Types of graduated response mechanisms

- 1) One type of graduated response is the fixed and variable tranche mechanism utilised by some international partners. In some cases, the fixed tranche component consists of funds disbursed as macroeconomic support in an "all or nothing" form, depending on the fulfilment of economic management measures. In other cases, the fixed tranche component may be a general assessment of performance according to the PAF. In most cases, the variable tranche components are resources that are released in a graduated form depending on the extent to which targets and performance indicators within the framework of the country's poverty reduction strategy are achieved. The variable tranches are normally not considered released unless the criteria for the fixed tranche are fulfilled.
- 2) Another possible type of graduated response would be to devise budget support as a set of multiple tranches, each subject to its own specific array of conditions, and hence independent of each other. One option here would be to split up the tranches in a macroeconomic and a sectoral tranche. While one tranche could be withheld in the case of non-compliance, the remaining funds could still be disbursed if sector-related performance measures were met.

Progress reports

These should preferably be part of the government's regular reporting procedures (to Parliament and the public) and follow the regular budget cycle. International partners should focus on necessary documentation, and avoid overloading the government with excessive reporting procedures.

For general budget support, the following reporting requirements may be relevant:

- » Annual progress reports on the poverty reduction/national development strategy.
- » Reporting on the indicators in the Performance Assessment Framework in addition to progress in terms of the fundamental principles of the Joint Financing Arrangement (see section 1.5.2), where this is relevant.
- » Annual budgets and Medium Term Expenditure Framework revisions, where such exists.

For sector budget support, reporting requirements normally include:

- » An annual report on overall progress on implementation of the programme and/or the sector/work plan.

In addition, evaluations of the sector programme and other relevant analysis, where such have been undertaken, may be considered.

Good practice in reporting on donor performance

Given the key principle of mutual accountability, regular reporting with independent monitoring of performance of the international partners involved in the budget support cooperation is recommended. Such reports could play an important role, and should incorporate monitoring of performance against the Paris Declaration benchmarks which relate to mutual accountability. An example is the Review of the Programme Aid Partners Performance in Tanzania.

Financial reporting

The Joint Financing Arrangement and/or the bilateral agreement should specify the financial documentation required by international partners.

Core financial reporting will normally be:

- » Budget report, produced by the country's own financial reporting system.
- » An annual financial statement of accounts for the previous fiscal year. The annual statement of accounts should include a specification on the revenue side of the accounts of the received general budget support from the individual partner countries.

For sector budget support, regular in-year budget execution reports by programme component may be relevant.

Where there are deficiencies in terms of financial reporting, the Embassy should consider together with international partners including the Partner government the need for additional reports such as Public Expenditure Tracking Studies, Public Expenditure Reviews and reports from anti-corruption agencies.

Audit reports

The Embassy should receive and assess, preferably together with other international partners, the audited annual financial statement of accounts from the national audit office or similar authority. In many cases, the audit requirements may include Parliament's formal comments on the annual report, if such exists. In those cases where the national accountability system, e.g. the auditing capacity, is weak particular auditing arrangements may be agreed between the development partners and the Government²³.

²³ See Agreement Manual, Template no. 8 – JFA for Budget Support, paragraph X, including Guide for negotiating Joint Financial Arrangements Section B, paragraph X.

An annual audit with the objective to verify the flow of funds from the foreign exchange account to the treasury account may also be relevant.

In addition, performance or value for money audits for a sample of activities relevant for poverty reduction might be included in the audit requirements depending on specific country considerations. If additional audits are requested, these should preferably be conducted jointly with other international partners and the government.

1.5 Agreements

The following are clarifications and supplements to the requirements in the Development Cooperation Manual²⁴. Budget support agreements with fragile states will normally be short-term, for one or maximum two years.

Budget support agreements are considered as *treaties*²⁵. The Ministry of Foreign Affairs must therefore provide the Embassy with the authority to sign such agreements. Norad's Legal Affairs Unit shall provide quality assurance.

In most cases, the framework for budget support operations normally consists of two main parts:

- » A bilateral agreement between Norway and the partner country.
- » The Joint Financing Arrangement (JFA, see section 1.5.2) describing the joint budget support mechanism including details on funding arrangements, disbursement, reporting requirements, monitoring etc.

A common matrix of performance indicators for monitoring and review is normally used. This matrix is often referred to as the Performance Assessment Framework (PAF, see section 1.5.3).

1.5.1 Bilateral agreements

The bilateral budget support agreement between Norway and the partner country should be prepared in accordance with standard procedures (see the Development Cooperation Manual and the Agreement Manual), taking into account the special elements in budget support programmes and what has been agreed between the budget support partners. The Agreement Manual provides a specific template for bilateral agreements under multi-donor arrangements, which should be used. Important articles in the bilateral agreement are the articles on funding and disbursement, where the maximum amount of support from Norway is stated in NOK.

²⁴ See part 1.5.

²⁵ See MFA's Directives for entering into treaties, agreements and contracts of 13 Sept. 2006.

1.5.2 Joint Financing Arrangements (JFA) including fundamental principles

Budget support operations are in most cases carried out jointly with other international partners and delivered through a JFA. This support facilitates harmonized support aligned to the implementation of the poverty reduction/national development or sector strategy. A template has been agreed by eight Nordic Plus countries²⁶. This joint template is included in the Agreement Manual. A guide for negotiating JFAs is also prepared by the same countries²⁷. The joint template and guide is recommended used as a basis for preparing the JFA.

The JFA and/or the bilateral agreement should clearly specify issues to be monitored under the agreement, such as fundamental principles²⁸, in order to make future funding as well as any non-disbursement as predictable as possible. It is also important that performance assessment criteria (such as benchmarks and indicators) and expected achievements regarding policy reforms are well within the normal capacity and responsibility of the government.

Delegated cooperation

The Embassy may delegate i.a. the responsibility for monitoring and review of parts of or the entire budget support cooperation to other international partners (often a “lead donor”). It is important that such a delegated cooperation is formalised and regulated through an arrangement. The Nordic Plus countries have developed a practical guide to and template for delegated cooperation²⁹. Where delegated cooperation is not formalised, the Embassy is responsible for following-up of the budget support cooperation according to the terms and procedures described in the Joint Financing Arrangement/bilateral agreement.

1.5.3 Performance Assessment Framework

The Performance Assessment Framework (PAF) is a monitoring instrument applied in many of our budget support programmes. It is a country-specific matrix that is being used by the international partners and the Partner government to monitor progress in terms of the budget support cooperation. The framework consists of indicators and benchmarks in selected areas, and progress according to the PAF is normally being measured during reviews at an annual basis, see section 2.3.

²⁶ Canada, Denmark, Finland, Iceland, Ireland, the Netherlands, Norway, Sweden and the UK. The template can be found on Norad's internal web-site; http://utsikten/kvalitetssikring/juridiske_saker/ http://utsikten/kvalitetssikring/juridiske_saker/agreement_manual/The+new+agreement+manual.htm

²⁷ Guide for negotiating joint financing arrangements, February 20 2004. Prepared and finalized by the Legal Department of the Netherlands Ministry of Foreign Affairs.

²⁸ See Agreement Manual, Template no. 8 – JFA for Budget Support, article 6.

²⁹ See Nordic Plus Practical Guide to Delegated Cooperation, including the template, October 2006. http://utsikten/kvalitetssikring/juridiske_saker/agreement_manual/The+new+agreement+manual.htm

Good practice when developing Performance Assessment Frameworks

The PAF normally constitutes a central part of budget support reviews (see section 2.3). The appropriate scope and focus of the PAF can only be decided within the country context. However, the central role of budget support in strengthening public financial management should be kept in focus.

Depending on country-specific circumstances, inclusion in the PAF of cross-cutting issues such as gender and environmental issues should be considered. The same applies to political governance issues such as democracy and human rights. Pragmatic considerations mean that different approaches will be taken in different countries and at different times, taking account both of the need to avoid overloading the budget support instrument; the scope for addressing cross-cutting issues through other instruments; and the potential to add value by exploiting complementarities between instruments.

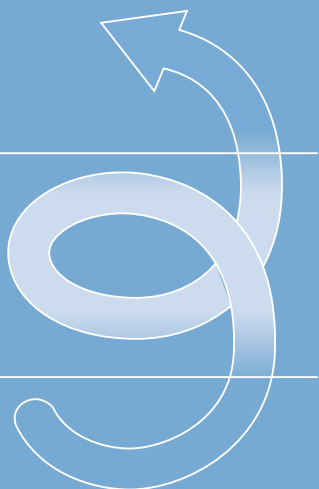
All PAFs should be based on the poverty reduction/national development or sector strategy. There should not be several policy matrices and the matrices should be short rather than long and detailed. Focus should be on overall key issues, and contribute to reducing tendencies at micro-management by international partners. It may be relevant to consult civil society when developing the PAF.

The PAF should according to the Paris Declaration be based on the Partner country's own reporting and performance monitoring system. Performance assessment systems should address all links in the results chain. Such indicators may often be based on poor statistical grounds. Results at the impact level normally evolve slowly, and there may be a multi-year lag from the time the policy action is undertaken to the impact appears. Performance assessment criteria which are directly linked to disbursement should be kept at a minimum and if applied, such measures should genuinely be agreed with the partner government.

Normally for sector budget support, separate sector PAFs are developed for monitoring purposes. In contributing to the development of such sector PAFs, one should be mindful of aligning performance assessment criteria and benchmarks with the monitoring framework for general budget support, if such exist. This should be done in order to minimize the number of assessment criteria and to avoid conflicting monitoring frameworks.

Since it is likely that the PAF-indicators will be changed during the implementation period of the JFA, the PAF should not be annexed to the JFA. A reference in the JFA to the PAF including its name and date will suffice.

2



2. Follow-up Phase

The following are clarifications and supplements to the procedures described in the Development Cooperation Manual:³⁰

2.1 Progress, Financial and Audit reports

The purpose of the annual progress reports is to monitor progress in terms of implementation of the poverty reduction/national development or sector strategy. International partners concentrate on selected indicators, as reflected in the Performance Assessment Framework, and use the progress reports as a basis for next year's disbursement. Issues to be monitored are included in the Joint Financing Arrangement, the Performance Assessment Framework and/or the bilateral agreements.

The purpose of the financial reporting is to verify expenditure according to budget. For sector budget support, the annual financial statements of accounts are normally used to verify that the amount of budget support provided to a sector is reflected in the accounts, and that the budget support is additional to the country's own allocation to the sector.

The development partners should monitor the Government's follow-up of the recommendations from the National Audit Office, and the comments from Parliament.

2.2 Disbursement

In accordance with the Development Cooperation Manual, the Partner government should request for budget support according to the agreed disbursement schedule.

Disbursement of agreed *tranches* should normally be undertaken by the Embassy according to the agreed disbursement schedule, provided that agreed requirements and performance assessment criteria are met. These requirements will vary between countries, and should be stated in the Joint Financing Arrangement/bilateral agreement or in the PAF, see section 1.5. Unexpected events may nevertheless occur. When agreed conditions are not achieved, it is necessary to establish to what extent the government can be held responsible for these deviations, and what steps the government is taking in order to rectify

³⁰ See Chapter 2.

the situation. There is no automatic link between decisions by other international partners and Norway's decisions to disburse. Norway is not automatically dependent on whether the country is "on-track" with IMF or World Bank conditionality. Norway will, however, seriously consider any strong concern that these institutions may express and seek common understanding with the other bilateral and multilateral institutions such as the World Bank and the IMF.

Different measures for sanctioning

If it is found that agreed underlying principles and/or performance criteria are not met or the contractual obligations are breached and there is no acceptable justification for this, Norway may, depending on the severity of the deviation:

- Bring up the issue during joint reviews and meetings.
- Use diplomatic channels for dialogue on budget support related issues outside the circle of country economists/sector advisers.
- Reduce or suspend the level of budget support for future financial years.
- Reduce or suspend in-years disbursements.
- Require repayment of (parts of) the budget support.
- Terminate the agreement.

Issues of minor concern and less serious deviations can be handled by the Embassy and be discussed within the regular consultations, while more serious issues must be handled in consultation with the Ministry of Foreign Affairs. Normally, Norway, jointly with other international partners, will seek a solution that will rectify the issue without severely disrupting payments of budget support. However, Norway must always make its own assessment, taking into account the reactions of other international partners.

2.3 Annual/Monitoring meeting(s), reviews and evaluations

Annual/Monitoring meetings

Annual meetings are often replaced by joint budget support reviews, see below. In most budget support programmes, international partners do not approve work plans and budgets, and the reviews are normally not decision-making forums. Decisions of whether or not to provide or disburse budget support are made at the respective embassies or head-quarters.

Reviews

Normally, the country's performance against the Performance Assessment Framework constitutes the most important component of the budget support review(s). In some cases, this component may be supplemented by a review of performance against the fundamental principles, see section 1.5.2. One review per year is recommended. One of the reviews carried out during the budget support cooperation (that is, agreement period) will normally replace a mid-term review, and one may replace an end review.

Evaluations

For evaluations of general budget support programmes, the monitoring framework of the OECD/DAC 2006 Evaluation of General Budget Support could be used.

Good practice for budget support dialogue

In a normal budget support setting, dialogue is carried out continuously at the various levels of the cooperation; at high level between political leadership and top civil servants and heads of missions or other persons in charge of the development cooperation, and in the more day-to-day follow-up of the budget support programme between programme officers (country economist and/or sector advisers) and government officials. Other dialogue forums are the regular reviews, strategic meetings (on e.g. the country strategy) and missions. Dialogue with other relevant stakeholders, such as the civil society is relevant.

In fact, most of the monitoring and follow-up of the budget support cooperation is done through dialogue, however, the nature and focus of the dialogue varies. A good dialogue is crucial for a successful implementation of the programme. The Embassy should strive to maintain close relations both to other international partners and the relevant levels and sectors of the Partner government. This in order to swiftly reveal factors that may influence the programme, and to contribute to efficient solutions should unfortunate events occur. Dialogue is as such an important tool also for risk management.

Dialogue on cross-cutting issues

The Embassy should reveal what forum is most suitable for dialogue on cross-cutting issues of particular interest to Norway. In some cases, it may be relevant to include cross-cutting issues directly in the PAF, and address these issues in the regular reviews and monitoring procedures. However, certain issues may be better addressed at sector level, in inter-ministerial meetings or in working groups outside the budget support programme. For instance, separate forums for dialogue between gender advisers and the government may be beneficial for the monitoring of the government's policy towards gender mainstreaming.

3



3. Completion Phase

The following is a clarification to the procedures described in the Development Cooperation Manual;³¹

A separate final report from the Partner government is normally not needed for budget support.

³¹ See Chapter 3.

4

4. Budget support through trust funds

Norway may channel budget support funds through a multilateral trust fund. This may be administered by a UN agency, a multilateral development bank, or some combination depending on the situation. This implies, as for other trust funds, that the multilateral agency has the responsibility for managing the joint resources for the agreed objectives. The agency ensures that results are obtained, funds are well managed, accounting and auditing are undertaken, and reports are produced.

The Ministry of Foreign Affairs or the Embassy will be responsible for preparing the platform for dialogue and also to appraise the (proposed) trust fund arrangements, including the capacity and competence of the (proposed) management arrangement for the fund.

The Ministry of Foreign Affairs and/or the Embassy shall monitor the trust fund, relying primarily on the agreed reporting procedures from the managing agency. Norway should receive the audited annual financial statements of accounts of budget support and assess the quality and timeliness of these reports. The Ministry of Foreign Affairs may nevertheless consider entering into an agreement on delegated cooperation (see section 1.5.2) with another “like-minded” bilateral agency with capacity to follow the trust fund more closely, in order to cooperate in monitoring the budget support through the trust fund³².

Alternatively, and especially in countries where Norway has a broader engagement, Norway may follow more actively the design and implementation of the trust fund. The Ministry of Foreign Affairs or the Embassy should ensure that Norway receives regular information, reports and updates on the implementation of the programme; that Norwegian delegates are invited and participate in regular review meetings and/or missions; and that Norway considers any opportunity to participate in managing or advisory boards.

³² For delegated cooperation, see section 1.5.2 in these guidelines.

5

5. Administrative and professional requirements

Entering into an agreement on budget support is professionally demanding on the Norwegian side. Norway needs to participate constructively in numerous processes not only for monitoring purposes, but also in order to contribute with substance in the dialogue. This requires competence on a wide range of issues, such as public financial management, public sector reform, political and economic governance, poverty reduction/national development and/or sector policies and strategies. Norway should also keep track of missions and reviews such as Public Expenditure and Financial Assessment and Public Expenditure Reviews.

It is normally necessary to have a country economist and a governance advisor at embassies with an ongoing general budget support programme. In addition, the country economist needs good working relations with other embassy staff addressing issues at sector level in addition to embassy management involvement. Embassies responsible for sector budget support should be staffed with a sector advisor in order to participate actively in the monitoring of and dialogue concerning the sector and related issues.

The capacity in embassies is limited and may require substantial support from Norad or from professional consultants. International cooperation and sharing of experiences take place within the framework of OECD/DAC and forums such as the Strategic Partnership with Africa. Norad and the Ministry of Foreign Affairs should also work actively with the multilateral agencies (IMF and World Bank, the regional development banks, and UNDP especially) in order to maintain a dialogue on budget support.

At the country level, extensive collaboration between international partners and informal division of labour has developed among budget support partners. This is positive and should be further encouraged.

For inquiries about
*Norway's provision of budget
support to developing countries*
Guidelines

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