




Evaluation

*Comparative Review of Austrian
Development Cooperation's
Budget Support Operations*

Country Report Nicaragua



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Austrian
 Development Cooperation



Imprint

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This is an independent evaluation report. Views and conclusions expressed do not necessarily represent those of the contractors.

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Table of acronyms

ADA	Austrian Development Agency
ADC	Austrian Development Cooperation
ALBA	Bolivarian Alliance for the Peoples of our America (<i>Alianza Bolivariana para los Pueblos de nuestra América</i>)
BS	Budget Support
BSG	Budget Support Group
CGR	Supreme Audit Institute (<i>Contraloría General de la República</i>)
CIES	Health Research and Education Centre
CPI	(Transparency International) Corruption Perception Index
EC	European Commission
ERCERP/PRSP	<i>Estrategia Reforzada de Crecimiento Económico y Reducción de la Pobreza</i> / Poverty Reduction Strategy Paper
FONSALUD	Nicaragua Health Sector Support Fund (<i>Fondo Nicaragüense para la Salud</i>)
FSS	<i>Fondo Social Suplementario</i>
GBS	General Budget Support
GDP	Gross Domestic Product
GoN	Government of Nicaragua
HIPC	Highly Indebted Poor Country (initiative)
IDA	International Development Agency
IDB	Inter-American Development Bank
IMF	International Monetary Fund
JFA	Joint Financing Agreement
MDG	Millennium Development Goals
MFA	Ministry of Foreign Affairs (Austria)
MINREX	Ministry of Foreign Affairs (Nicaragua)
MINSAL	Ministry of Health (<i>Ministerio de Salud</i>)
MoU	Memorandum of Understanding
MTEF / MPMP	Medium Term Expenditure Framework
NGO	Non-Governmental Organisation
OEZA	Austrian Development Cooperation
PFM	Public Finance Management
PIP	Public Investment Programme
PND	National Development Plan (<i>Plan Nacional de Desarrollo</i>)
PRGF	Poverty Reduction Growth Facility
PRSC	Poverty Reduction Support Credit
RAAN	<i>Región Autónoma Atlántica del Norte</i>
RAAS	<i>Región Autónoma Atlántica del Sur</i>
SICA	System for the Integration of Central-America (<i>Sistema de la Integración Centroamericana</i>)

SWAp	Sector-Wide approach
SBS	Sector Budget Support
SILAIS	Local Integrated Health Care System (<i>Sistema Local de Atención Integral de Salud</i>)
TYP	Three-Year Programme
UK	United Kingdom
UNAN	National Autonomous University of Nicaragua

1 Introduction

ECORYS Nederland BV (ECORYS) has been contracted to undertake a Comparative Review of Austrian Development Cooperation's Budget Support Operations.

The overall objective of the Review is to provide an assessment of the use of budget support¹ (BS) as an aid modality since 2005/6 to date, and how budget support creates synergies with other modalities used by Austrian Development Cooperation (ADC). The Review aims to achieve this by (i) comparing ADC's policy documents, internal procedures and human resources regarding budget support with those of two other comparable European donors (Belgium and the Netherlands); and by (ii) assessing ADC's budget support operations in four case study countries (Cape Verde, Mozambique, Nicaragua and Uganda).

The purpose of this report is to present the findings from the review of ADC's operational experience with budget support operations in Nicaragua since 2005, as part of the Review's second phase. Particular attention is paid to the value added of ADC's involvement in budget support operations including a review of ADC policies, capacities and procedures as determining factors. The review team focussed on analysing ADC's budget support in support of the health sector.

The report analyses ADC's participation in the programme aid to the health sector and refers -if relevant- to the Austrian support to the Regional Programme for Central America and the other two sector Austria supports in Nicaragua, being the rural sector and the support to small and medium enterprises.

The Nicaragua case study is based on desk research and a short field visit meant to control the validity of the findings from the desk research. The visit to Nicaragua was supported by the Nicaraguan expert Dr. Mario DeFranco and took place between 22nd and 28th of February 2010. Willem Cornelissen is the sole responsible for the desk research and reporting.

¹ For the purpose of this report the term Budget Support will be used to denote both General Budget Support (GBS) and Sector Budget Support (SBS). If something applies specifically to either of these types of BS, this will be communicated accordingly.

2 Country Context

2.1 General political, economic and social context

The **political context** of Nicaragua carries the scars of its history of dictatorship and the civil war (ended in 1988) that left the country politically divided and economically ravaged. Nicaragua has at least five political parties of importance, but the two main political blocks are the “liberals” and “Sandinistas”. The latter two parties do not only represent a political division but are also a manifestation of a profound division in society.

Nicaragua counts with a presidential system in which the power is highly concentrated in the president (head of state, head of government, commander-in-chief of the armed forces) and in practice the party of the president provides the staff for most high ranking positions in the public sector (the ‘posts of confidence’). The Legislature has functions in the formulation of laws, as well as nominations of high ranking authorities in the Judiciary, but has only a limited oversight role over the Executive.²

Early 2010, the political context could be characterized as tense and complex, where the juridical, executive and legislative powers all faced political pressure. In the international press concerns were expressed about the lack of respect for democratic values³, while government was publicly accused of violation of human rights.⁴

The **economic context** of Nicaragua is rooted in agriculture and livestock activity that employs about 40% of the population and caters for 60% of the exports and 20% of Gross Domestic Product (GDP). The country’s nominal GDP of USD 6.1 billion is equal to about 70% of the economy of Honduras or a third of the economy of El Salvador. The largest sector in terms of GDP is the services sector (50%), while the manufacturing sector (mainly concentrated in the Free Trade Zone) adds another 20%. Between 2000 and 2007 the economy grew with approximately 4% per year, but due to a young population, the per capita income increased by 1% per year. Due to the worldwide crisis the economy contracted in 2008 and stabilized in 2009. The International Monetary Fund (IMF) forecasts a modest growth of 1 % in 2010. Nicaragua’s trade imbalance, averaging

² Source: Constitución Política de la República de Nicaragua de 1987, incluyendo la Ley de Reforma Parcial de la Constitución Política de Nicaragua, Ley no. 192 del 1ro de febrero de 1995. Título VIII, art., 138, 144.

³ The international press paid considerable attention to the decision of the Supreme Election Council to exclude two political parties during 2008 municipal elections; and later to the accusation of fraud in the counting of votes (Latin American weekly). The Index of Democratic Development (IDD) shows a deterioration over the period 2006-2009; the Transparency International Corruption Perception Index (CPI) positions Nicaragua at place 130 with a constant low score (2.5 out of 10).

⁴ Source: Latin American Weekly November 2009; International Federation of Human Rights. Civil and Political Rights Violations in Nicaragua, April 2010.

25-27% of GDP in combination with a fiscal deficit of 6.2% (2009)⁵ and low private savings implies that the pressure on international reserves and the exchange rate are substantial.⁶ Despite debt forgiveness programmes under the Highly Indebted Poor Countries Initiative (HIPC), the public debt has increased over the last years, due to an increase in domestic debt. The level of public borrowing at the domestic financial market crowded out the liquidity for the private sector and puts pressure on interest rates. Table 2.1 presents some key economic data for Nicaragua.

Table 2.1 Key data economy Nicaragua

	2005	2006	2007	2008	2009 (est)	2010 (est)
Population (m)	5.8 5.9		6.1 6.2		6.4	6.6
Nominal GDP (USD mln)	4872	5294	5691	6365	6120	6316
Real GDP growth (%)	4.3	3.9	3.2	3.2	-3.6	1
Origin GDP (% real change)						
• Agriculture	4.6	3.4	-2.4	5	1	2
• Industry	5	4.2	4.9	1.4	-6	1
• Services	3.9 4.4	4.3		3.4	-4.1	1.9
GDP per capita (USD ppp)	2733	2857	2953	3034	2885	2898
Trade balance (USD mln)	-1302	-1451	-1759	-2211	-1464	-1718
Current account balance (USD mln)	-734	-710	-1001	-1151	-776	-984
Public sector balance (% GDP)	-7.1	-3.9	0.4	-1.2	-6.2	-5.7

Source: IMF, International Financial Statistics. In: EIU Country Report Nicaragua, Nov 2009.

The economic situation is carefully monitored by the IMF. After almost a year of delay, late-2009 the IMF approved the second and third review under the Poverty Reduction Growth Facility (PRGF). This is of importance since the multilateral agencies conditioned their disbursements on loans on IMF approval.⁷ In May 2010 the country's renewed Poverty Reduction Strategy Paper (PRSP) was endorsed by the IMF.⁸

Also the **social context** reflects a division in society: a sharp division between a relatively small wealthy top segment in society and the majority of the population living in conditions of poverty. Note that the political division crosses the socio-economic stratification in society. Next to Haiti, Nicaragua is the poorest country of Latin America, but nevertheless a lower middle income country.⁹

According to official poverty data approximately 80 % of the population lives from less than USD 2 per day. The poorest strata in the population can be found in marginal urban areas, as well as in the autonomous regions of the Atlantic Coast: *Region Autónoma*

⁵ Source: EIU. Country Report Nicaragua. November 2009. P.3.

⁶ Reality is more complex here, due to decreasing remittances from the United States (13% of GDP) and the unfortunate heritage of the bank crisis 2000 and 2001, that forced the Central Bank to assume USD 500 million in dubious debt.

⁷ In addition, the IMF will provide Nicaragua with USD 37.8 million in exceptional financing to help cover the country's budget deficit (EIU, 2009).

⁸ Source: IMF. Nicaragua, Poverty Reduction Strategy Paper. IMF Country Report no.10/108, May 2010.

⁹ Source: OECD DAC list of ODA Recipients for effective reporting on 2010 flows. 2010.

Atlántica del Norte (RAAN) and *Región Autónoma Atlántica del Sur* (RAAS). Parts of those regions are geographically rather isolated from the rest of the country and are the homeland of different indigenous population groups.

Assessment

Nicaragua's recent history of consecutive governments with contrasting economic visions implied that no single socio-economic model got time to mature. This has resulted in a rather peculiar mixture of economic strategies, where liberal views on trade go hand in hand with public sector provided free education and health services.

The official poverty data is questioned by various researchers, taking into consideration the magnitude and spread of remittances from abroad (by family members in the United States).

The IMF's forecast of 1% GDP growth for 2010 implies a constraint on the fiscal space available to the Nicaraguan government to expand investment in the social sectors. This constraint is valid for most Latin American countries. The (ECLAC)¹⁰ argued that the current global economic crisis will cause nine million people in the Latin American region to fall into poverty. This is a significant setback for efforts to meet the Millennium Development Goals (MDGs) of eradicating extreme poverty and hunger by 2015: this objective was met for 85% in the region in 2008, but has fallen back to 78% by late 2009.¹¹

2.2 General aid environment

In 1986, the Austrian development co-operation opened a bilateral development assistance office in Managua and signed a first bilateral agreement. In 1992, Nicaragua became one of the focus countries to the ADC. Up to the year 2000, the ADC to Nicaragua focused at agriculture and forestry (approximately 40% of total aid); small and medium enterprise development (approximately 30% of total aid) and activities in the social sectors, like the health sector and general capacity building – awareness raising programmes (approximately 30% of total aid). The total aid portfolio oscillated around € 5 million per annum.

The natural disaster caused by hurricane Mitch (1998) triggered a large aid flow to Nicaragua. This flow was fragmented and the need for coordination was felt by both donors and government alike. Nicaragua counts with the support of 23 official donors (2009) and multilateral organizations, as well as support by public-private global funds, and numerous international non-governmental organizations (NGOs). The Government of Nicaragua (GoN) undertook reforms in Nicaragua's aid management and promoted coordination based on sector round-tables (see for details Chapter 6) and the development of sector-wide approaches (SWAs). Fuelled by the HIPC and related PRSP process, the signature of the IMF's PRGF II (2002) paved the way to the international aid community

¹⁰ Source: Economic Commission for Latin America and the Caribbean (ECLAC) "Social Panorama of Latin America 2009", November 2009.

¹¹ Source: Latin American Weekly, 29th November 2009.

to embark upon discussions about the preconditions for both sector and general budget support.

In 2003, ‘like minded’ donors took the initiative to establish a Budget Support Group (BSG). With rotating leadership, this group appealed to both bilateral and multilateral Development Partners, including the World Bank (through its Poverty Reduction Support Credit, PRSC), the European Commission (EC), Finland, Germany, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom (UK). A Joint Financing Agreement (JFA) became the basis for the general budget support (GBS) and the policy dialogue. In May 2005, a harmonisation and alignment action plan was agreed upon between GoN and its development partners.

The policy dialogue that was initially appreciated by both GoN and development partners¹² alike experienced a twist in tone -from 2008 onwards- as a result of delays in disbursements by development partners in combination with a number of controversies¹³. The development partners could not maintain a single harmonised position and either slowed down the process of further alignment (World Bank, IDB)¹⁴, froze their support for certain periods (Switzerland, Finland, the Netherlands), reduced their contributions or pulled out (Sweden in 2007; the United Kingdom in 2009)¹⁵, while the German Parliament expressed doubts on the effectiveness of general budget support as a financing modality, leading to a temporary suspension of Germany’s application of this modality worldwide, hence also to Nicaragua. In 2009, the GBS group had disbursed only USD 21 million out of the USD 122 million planned. In February 2010, the status of general budget support was rather uncertain since 6 of the GBS donors had either withdrawn or suspended the disbursements, while to some development partners¹⁶ the modality has lost its function as instrument to support the policies of GoN.¹⁷ This is in sharp contrast to the stand of the GoN that expressed its preference for fully aligned support¹⁸, as long as the development partners acknowledge and recognize the sovereign and independent governance by GoN.

¹² The Budget Support Group in Nicaragua is composed of nine donors: the EC, (the UK), Finland, Switzerland, Germany, the Netherlands, Norway, the Inter-American Development Bank (joined later, in 2007) and the World Bank.

¹³ Amongst the points of controversy figure the exclusion of two political parties in the run-up for the municipal elections in November 2008, and indications for electoral fraud during these elections.

¹⁴ In practice, the World Bank and IDB suspended disbursements on their loans, but the motivation was the delay in the IMF approval of the macro-economic programme under the PRGF.

¹⁵ Sweden suspended its aid in 2007 in a controversy over the country’s abortion law. (see: <http://www.catholicnewsagency.com/news/>). An exit programme was launched for 3-4 years, but discontinued when the same subject appeared once more on the political agenda in 2009. The official reason for discontinuation is the reduction of number of countries as partners of Swedish’s development co-operation (see also: Nils-Sjard Schulz. Nicaragua: a rude awakening for the Paris Declaration. FRIDE, November 2007). The United Kingdom (DfID) closed its office in April 2009, officially because Nicaragua has been upgraded to a lower middle income country (see: www.ukincostarica.fco.gov.uk). Also Denmark (not a budget support partner) will close its bilateral co-operation with Nicaragua in 2012 since “The government of Denmark considers a pluralistic democracy of high importance and is concerned about the direction that the Government of Nicaragua has chosen”. Official communication by the Government of Denmark 22nd April 2010. See also: Latin American Weekly May 2010.

¹⁶ Source: Interviews with World Bank, embassy of the Netherlands, embassy of Finland. February 2010.

¹⁷ General Budget Support reduced from 0.5% of GDP in 2008 to 0.3% of GDP in 2009. While grants reduced with USD 87.5 mln, freely available loans increased with USD 110.6 mln.(Source: A. Acevedo V, March 2010). These shifts also translates into changes in the power relations between GoN and (some) traditional development partners.

¹⁸ Source: Interview MINREX, February 2010.

Prior to and parallel to the development of general budget support mechanisms, a number of sector (SWAp) programmes emerged in the education, health, water supply and rural development sectors. The first attempt for a programme aid kind of support was made in 2000 by the creation of the *Comisión Interagencial de Salud*, resulting in the *Comisión Sectorial de Salud* of the donors that were interested in sector support. This resulted in an initiative for a SWAp in the health sector in 2002.¹⁹ From the start onwards, the Austrian development co-operation participated in the efforts to come to a sector-wide approach. This materialised in the signing of a Memorandum of Understanding (MoU) late 2005 for a basket fund / budget support mechanism, called *Fondo Nicaragüense para la Salud* (FONSALUD).²⁰ The development of FONSALUD is detailed in chapter 4.

Assessment

After the Sandinista Revolution, during the 1980s, Nicaragua experienced an inflow of poorly coordinated externally financed projects. The Austrian development assistance to Nicaragua also dates back to that period.²¹ In November 1998, hurricane Mitch caused at least 3,800 fatalities in Nicaragua and this natural disaster triggered once more a flow of hardly coordinated aid to Nicaragua. At the same time, a new international paradigm on aid effectiveness emerged²² and its suggestions for more government ownership, and better harmonization and coordination were well received by both GoN and its donor community. Hence the aid environment during the first years of the new millennium was receptive and conducive to start working with the new aid instruments.

The current official policies, as expressed in the 2009 draft PRSP have clear pro-poor features that coincide with international development objectives and in consequence are positively appraised by most development partners. At the same time, (some) partners are concerned about the alleged deterioration of democratic values; about the severe conflict between government and some non-governmental organisations²³; and about undiplomatic behaviour in relation to development partners. Another concern is important traditional donors like Japan and USAID never provided budget support, while ‘south to south’ donors²⁴ (Taiwan, Venezuela, Cuba, Russia, and Iran) are not integrated in the harmonization and alignment structures.

While early 2010 some European partners continued disbursing modest amounts of general budget support, an increase of fully aligned support for the years to come (in particular during the election year 2011) is unlikely.²⁵ The (temporary) suspension of general budget support by traditional donors is an important context factor, since various

¹⁹ A breakthrough was the study launched by DfID and UNFPA: Dr.Linda Humphrey, Dr.Miguel Orozco. Support to the SWAp initiative in reproductive health and the health sector in Nicaragua. 2002.

²⁰ The Memorandum of Understanding dates from August 2005. Austria signed later in autumn 2005. *Memorandum de Entendimiento (MdE) entre el Gobierno de Nicaragua representado por el Ministerio de Relaciones Exteriores y el Ministerio de Salud y los Socios para el Desarrollo Signatarios que apoyan al Sector Salud en relación al Fondo Nicaragüense para la Salud (FONSALUD)*.

²¹ Source: Österreichische Entwicklungszusammenarbeit. Landesprogramm Nicaragua 2003-2006. Dezember 2002.

²² Source: David Dollar and Lant Pritchett. *Assessing Aid*, Washington, 1998; Millennium Development Goals, 2000.

²³ In November 2009, the Nicaraguan Centre for Human Rights (Cenidh) filed a complaint before the Inter-American Court of Human Rights regarding the existence of Sandinista ‘shock troops’ working on behalf of government to stifle dissent.

²⁴ Nicaragua is member of Alternativa Bolivariana para las Americas (ALBA), an initiative of Venezuela, also including Cuba, Bolivia and Ecuador. ALBA brings to Nicaragua loans and grants for health, energy, in particular oil (ALBANIC), agricultural credit and debt forgiveness. It has contributed to Nicaragua’s exports to ALBA members.

²⁵ Source: The Economist Intelligence Unit. Country Report Nicaragua. November 2009.p.4 www.eiu.com.

development partners have provided both general and sector budget support simultaneously. By early 2010, the concerns regarding GBS did not affect the support to sector programme aid in the social sectors (health, education).

2.3 The role of budget support in the public budget

The Central Bank of Nicaragua registers all official aid disbursements (loans and grants) and keeps track of “liquid” aid resources versus aid directed to projects. A liquid resource is programme aid and can be understood nowadays as budget support (both general and sector). Budget support was substantial in 2006 and 2007, but contracted afterwards (although data of 2008 had not been consolidated). In 2006, budget support represented even over 10% of the total central government expenditures. The early 2010 situation was hard to assess, due to influx in the non-financial public sector of resources that could be used for central government expenditures.²⁶ The public investment programme (PIP) is financed for 45.1% with internal revenues and loans; 39.1% external loans and 15.7% with grants.²⁷ Table 2.2 presents an overview of the magnitude of programme aid in the central government budget.

Table 2.2 Budget support in the central government budget (in USD mln.)

	2005	2006	2007	2008
Total aid to Nicaragua	565	640	689	413
Total programme aid	51.3	132.7	109.1	30.7
Budget support as % total aid	7.1	20.6	14.3	7.3
Total public budget (budgeted)	967	1247	1385	1571
Budget support as % total central g'ment expenditure	4.2	10.6	7.1	1.9
Aid as % total expenditure	58.4	51.3	49.7	26.3
Aid as % of GDP	11.6	12.1	11.8	6.9

Sources: Central Bank, Ministry of Finance and Public Credit. Own calculations. Data 2008 in part estimates.

Assessment

The role of budget support in Nicaragua is subject of debate among development partners and researchers. There is no econometric evidence that budget support has increased public spending over the period 2005-2008 (additionality).²⁸ Some development partners believe that budget support is used to finance the budget deficit²⁹, in particular since public borrowing at the domestic market is discouraged by the IMF. Although this is not very likely, if it were the case, than it has reduced government's financing requirements. It is however, more likely to assume that the current account balance benefitted from

²⁶ Flows from Venezuela to the semi-public petroleum company. Venezuela is the most important donor (in 2008, Venezuelan cooperation reached US\$ 457 million, of which US\$ 293 million was used to finance activities that otherwise –at least in part- would have been financed with public resources.

²⁷ Source: Ministerio de Hacienda y Crédito Público. Dirección General de Presupuesto. Informe de ejecución presupuestario enero-setiembre 2009, p. 18. Oct. 2009.

²⁸ Source: W.J.Cornelissen. Erasmus University Rotterdam. SEOR BV. (ongoing research) and interview A.Acevedo, February 2010.

²⁹ Source: Interviews development partners FONSALUD, February 2010.

budget support³⁰: the Central Bank had to assume part of the financial burden (dubious debt portfolio) of the banks that went bankrupt in 2000-2001³¹, while at the same time national reserves are required to finance the highly negative trade balance. Since public borrowing at the domestic financial market would jeopardize private investment (crowding out), the Central Bank does require a constant net flow from the public to the private sector accounts in order to keep control over the interest rate. Foreign exchange is an important asset for that monetary management.

General budget support makes use of national Public Financial Management (PFM) systems. For fiduciary reasons the development partners involved strived for improvements of that system. Budget support has contributed to improve the financial management systems applied in the public administration.

³⁰ The difference between 'spending' budget support in the budget and 'absorbing' budget support in the economy.

³¹ During that period 7 banks went bankrupts: Banco de Europa y Centroamérica, Banco del Campo, Banco Sur, Banco Popular de Nicaragua, Banco Nicaragüense de Industria y Comercio, Banco Mercantil y Banco del Café. Later on followed the National Development Bank (Banco Nacional de Desarrollo).

3 ADC Country Programme

The Austrian ODA to Nicaragua represents less than 1% of total ODA by all OECD participants to Nicaragua. All Austrian ODA is grant. Nicaragua does not pertain to the 10 most important aid recipients of Austria. In fact the ODA budget for Nicaragua represents around 1% of total Austrian ODA.³²

Prior to 2000, the ADC had no formal operations with the Government of Nicaragua. All activities were implemented by Austrian NGOs in cooperation with their local (Nicaraguan) partner organizations (e.g. NGOs or municipalities). A substantial part of these activities were in the health sector and in particular in the Atlantic Autonomous Regions (RAAN and RAAS).

The current Country Programme dates back to December 2002 and covers the period 2003-2006.³³ The Country Programme states that the underlying principles for the bilateral co-operation with Nicaragua rest in the PRSP (ERCERP), the policy dialogue and the efforts of government to eliminate corruption. Note that the PRSP was updated in 2009. The 2003-2006 Country Programme concludes to continue the then existing activities in rural development, small and medium enterprise development and social sectors.³⁴ Also the cross-cutting issues 'gender' and 'environment' as well as the concentration in the Atlantic Coast continued without any major change.

The bilateral consultations between Nicaragua and Austria took place in 2005 and 2007 and have not been renewed since then. In absence of this instrument the baseline for the Austrian policies with Nicaragua is the conformity -whenever possible- with the policies and positions taken by the European Union.

The Country Programme for Nicaragua remained officially unaltered, but an internal revision process between the Austrian Ministry of Foreign Affairs (MFA) and Austrian Development Agency (ADA), as well as a consultation process with the Ministry of Foreign Affairs of Nicaragua took place. By February 2010, a new strategy for the period 2010-2013 had been drafted, but was not yet approved. The draft version of that strategy concludes that Austria should continue in the same sectors without any major change. The document is explicit in its search for synergy and coherence among the three main sectors, the new Central America Strategy and the relation with the cross-cutting issues.

³² Source: own calculations based on OECD-CRS Aid Activity Database (OECD.stat). By March 2010, 31 countries (plus observers) register their flows to OECD DAC. The ODA does not encompass flows by south-to-south donors.

³³ Source: Österreichische Entwicklungszusammenarbeit. Landesprogramm Nicaragua 2003-2006. Dezember 2002.

³⁴ Die bisherige Konzentration der ÖEZA auf die Sektoren Landwirtschaft und ländliche Entwicklung, Mikro-, Klein- und Mittelbetriebe sowie soziale Bereiche (Bildung und Gesundheit) kann in diesem Zusammenhang weiter fortgeführt werden, da alle drei Bereiche auch Schwerpunkte der ERCERP-Strategie sind".

The Coordination Office elaborates an annual plan (“Planung des Arbeitsfeldprogramms”)³⁵ that refers to the broader policy documents, like the ‘Three-Year Programme 2006-2008’ and the activities in the field of coordination and programme coherence for aid effectiveness. The annual plan provides the oversight of the ongoing and planned activities in each of the three sectors, as well as the cross-cutting themes ‘gender’ and ‘environment’. The annual plans indicate continuing programme aid for FONSALUD, as well as the start of programme funding for the rural development (PRORURAL), while a comparable implementation modality is envisaged for the SME programme, starting in 2011.

Parallel there is a Strategy for the Central-American Region³⁶ for the period 2008-2013.³⁷ This Regional Strategy does not replace the Country Strategy. The background of the regional strategy rests in the late 1990s in the European approach³⁸ for the peace process. The vision was (and still is) that further regional integration would enhance peace and economic development. The Central American Integration System created in 1991 by the Central American States, *Sistema de la Integración Centroamericana (SICA)*, is the political and institutional framework of regional integration in Central America. The Austrian activities and resources are aimed at strengthening this integration process. The regional strategy has both an economic development branch and a social development branch. The economic development branch coincides to a large extent with the Nicaraguan priority sectors: rural development and small and medium enterprise development, but adds to that the (renewable) energy. The social branch is rather broad and encompasses issues like governance, civil rights, human rights, indigenous people and conflict prevention. On top there are the cross-cutting themes ‘gender’ and ‘environment’ (including forest management). The regional strategy counts with its own budget (€ 2.33 million for 2007; € 2.72 million for 2008; € 4.05 million for 2009 and approximately € 4.1 million annually over the period 2010-2013).³⁹

Both the Nicaraguan programme and the Central-America programme are being coordinated and managed by the Coordination Office in Managua.

Assessment

Health is not a general priority sector of the ADC policies as expressed in the Three-Year Programme, but sexual and reproductive health care are considered a cross-cutting issue in the regional strategy, while health is a priority sector at the country level Nicaragua (see also chapter 5).

³⁵ Source: ADA. Planung des Arbeitsfeldprogramms 2010. Schwerpunktland Nicaragua. Version vom 19.01.2010.

³⁶ In May 2006 in Vienna, the Forum to Harmonize and Align Regional Cooperation for Central America was organised, where the EU member states and Central America countries agreed upon EU member states’ continued support to Central America in spite of the higher per capita income levels compared to those in many African countries. The EU member states indicated that support was not restricted to a political and trade agenda, but also encompassed the aid agenda. The “Vienna Initiative” got financial and logistic support from the ADC, since the fostering of regional initiatives forms part of ADC’s Regional Strategy for Central America.

³⁷ Source: Österreichische Entwicklungszusammenarbeit. Regionalstrategie Zentralamerika 2008-2013. August 2009.

³⁸ http://ec.europa.eu/external_relations/ca/rsp/07_13_en.pdf.

³⁹ Source: Österreichische Entwicklungszusammenarbeit. Regionalstrategie Zentralamerika 2008-2013. Vienna 2009, p.8,9; and interview Head of Cooperation, Managua.

4 The (sector) budget support programme

4.1 Background

The National Health Policy 1997-2002 was the first comprehensive policy for the health sector, encompassing all main health components. There were five main components:

- The health sector modernization through the Integrated Local Health Care systems (SILAIS);
- The strengthening of the Ministry of Health (MINSA);
- The strengthening of the hospital care;
- The introduction of new strategies in the public health care system, in particular focused on vulnerable groups; distinguishing between contributory and non contributory health care;
- Reform of the social security system.

This health reform agenda was backed by a World Bank Adaptable Program Credit (1998) and was an important backbone to the 2001 PRSP.

Multilateral and bilateral development partners supported GoN with channelling funds indirectly to these activities through the *Fondo Social Suplementario* (FSS). In support of the FSS, both the IDB and the International Development Agency (IDA) provided concessionary loans (Adjustable Programmatic Loan).⁴⁰ Since late 2002 advanced plans existed to come to the first health SWAp in Latin America⁴¹, but later (August 2003) the new government at the time (the Bolaños administration) presented a second generation PRSP in the form of the National Development Plan (PND – *Plan Nacional de Desarrollo*) with an operational plan (*Plan Nacional de Desarrollo Operativo*) covering the period 2005– 2009. By late 2004, the first Joint Financing Agreement (JFA) for general budget support was signed between GoN and bilateral and multilateral partners. The International Financing Institutes contributed with a PRGF (IMF) and a PRSC (WB). This implicit ‘endorsement’ of government policies by IMF and World Bank paved the way for further aligned approaches, but now in the form of sector support.⁴²

By mid-2004, the MINSA released its ten-year National Health Policy (2004-2015) and its accompanying 2004-2015 National Health Plan and five year ‘rolling’ plan (2005-2009), outlining how it envisaged to achieve the health goals. The merits of these policies

⁴⁰ IDA loan NI-3084, 2002.

⁴¹ The General Law on health care (2002) was an important step in the modernization of the health care system.

⁴² Source: Paolo Gosparini, Rebecca Carter, Mike Hubbard, Andrew Nickson, Lola Ocon. Joint Evaluation of General Budget Support 1994-2004. Nicaragua Country Report. Draft 12 May 2006. A draft was available in Sept 2005.

and plans were recognised by the international donor community and counted with support from both multilateral and bilateral partners.

An initial basket-funding system by the World Bank, Sweden, Finland, Norway, the Swiss Development Cooperation and the Netherlands was established in 2003. Later, and with different partners (Sweden, Finland, the Netherlands, Austria and the World Bank; UNFPA joined in 2007 and Spain in 2008, while Sweden withdrew in 2009) the FONSALUD emerged. For its internal operations, a Code of Conduct (CoC, May 2005) was elaborated, as well as a Memorandum of Understanding (MoU, August 2005) signed between the GoN and its development partners, including Austria. This MoU spelled out the way of operation between GoN and its partners. Austria's financial commitments to FONSALUD will be discussed in Chapter 5.

From 2011 onwards, the planning period will be three years, based on the sector Medium Term Expenditure Framework (MTEF). It will also be elaborated using a results-based budgeting method. Austria has expressed its intention to join in with the rhythm of this new planning facility from 1st January, 2011 onwards.

4.2 The relative role of the sector support programme

Partners in FONSALUD support the mandate laid down in the General Health Law no. 423 of May 2002 and its Regulations⁴³, recognising MINSA as the normative entity for the health sector. The relative role of the support by development partners should be understood in three major aspects:

- in financial terms;
- in terms of contributions to the policy and strategy formulation and monitoring of achievements;
- in the strengthening of the PFM system.

In **financial terms**, the role of FONSALUD to MINSA has been substantial. MINSA relies on foreign aid for its capital budget mainly. In 2009, the grants contributed an estimated 10.4% of MINSA's budget of approximately USD 235 million; foreign loans financed 8.5%, while the contributions resulting from debt write off (HIPC) contributed 10.9%, giving a total of 29.8% of MINSA's budget.⁴⁴ FONSALUD represents the bulk of the grants and the total disbursement of approximately USD 19-20 million per year. If related to the sector capital budget, the share of FONSALUD increases to well over 50% of the resource envelope.

In terms of **policy and strategy formulation**, the contribution was substantial in the initial years 2005-2007. Since 2007, GoN took more ownership and introduced not only a new health model (*modelo de salud familiar y comunitaria*) but also a system of free health care services for all. The free-services-for-all policy was questioned by (some)

⁴³ Source: Nicaragua. Reglamento de la Ley General de Salud. Art 49.

⁴⁴ Approximation based on República de Nicaragua. Ministerio de Hacienda y Crédito Público. Dirección General de Presupuesto. *Informe Ejecución Presupuestaria* Enero-Setiembre 2009. Dic 2009.

FONSALUD development partners, and the influence of the partners on the policy and strategy formulation eroded.

Unlike Austria, most FONSALUD partners embarked upon programmes to drastically reduce the number of projects implemented parallel to the programme support to the health sector. According to these partners, the reduction of these projects narrowed down the opportunities for ‘reality checks and balances’ to assess the effectiveness of MINSA’s policies and strategies in the field.⁴⁵

In terms of strengthening the PFM capacities and capabilities FONSALUD played an important role. The Swedish and Netherlands development co-operation provided short-term and long-term assistance in order to improve the budgeting and control systems. In 2006, MINSA started - as one of three pilot ministries- to elaborate a MTEF (*marco presupuestario de mediano plazo*- MPMP).⁴⁶ In 2011 this MPMP will be institutionalised and will be entirely based on a result-based budgeting system. The progress in achieving more ownership, alignment and harmonization as a result of the Paris Declaration on Aid Effectiveness in the health sector in Nicaragua has been evaluated in 2008.⁴⁷ The report concludes that though progress has been made in the process, a lot remains to be done. Of total donor support to the health sector, 30-40% continues to be provided as traditional project support, often through separate implementation units, and differences in approaches continue to exist. The report recommended to include more partners in the regular dialogue and to encourage them signing the Code of Conduct.

Assessment

The dialogue between the GoN and the development partners on the free-services-for-all policy in the health sector was perceived by the MINSA as affecting the ministry’s mandate, while the development partners’ perception is that their arguments were not taking into consideration. The influence of the partners on the policy and strategy formulation has eroded.

The fact that Austria has maintained the finance of activities using the project modality has strengthened its position among the development partners. Austria still receives ‘reality checks and balances’ from the field about the effectiveness of MINSA’s policies.

⁴⁵ Source: Interviews World Bank, embassy of the Netherlands, embassy of Finland. February 2010.

⁴⁶ Source: S.Sjolander, W.J.Cornelissen. The development of the SWAp in the health sector in Nicaragua. Managua. June 2006.

⁴⁷ Source: Evaluación de los Procesos de Apropiación, Alineamiento y Armonización de la Cooperación Internacional en el Ministerio de Salud, May 2008, Requested by the Ministry of Health and the Swedish Embassy.

5 Inputs

5.1 Policies

Next to financial resources, policies are the main input to budget support. This section describes the policy relevance, meaning the extent to which budget support (and complementary activities) in Nicaragua adheres to the policies described in (i) the Three-Year Programme (TYP) 2006-2008; (ii) the Budget Support Strategy 2009 and (iii) the Country Programme. Since FONSALUD was launched in absence of these guiding documents, FONSALUD cannot be ‘judged’ against these instruments. The comparison serves, however, as a benchmark reflecting the early 2010 Austrian perceptions concerning budget support.

Implementation of the Three-year Programme (TYP) 2006-2008 strategic objectives

The *Three-year Programme* sets some general principles:

- the up-scaling of aid;
- the shift towards more aligned aid modalities;
- a thematic concentration; and
- a greater transparency and dialogue with the civil society organisations.

General scaling up of aid. All Austrian ODA to Nicaragua is 100% grant. Since Nicaragua reached the HIPC Completion Point and all its debt forgiveness had become irrevocable, the share of debt relief in the ODA to Nicaragua has decreased.

There have been no signals of scaling up of Austrian aid to Nicaragua. Total Austrian ODA commitments to Nicaragua decreased from € 12.2 million in 2005 to € 6.8 million in 2008.⁴⁸ These commitments represented, between 2005 and 2008, on average, around 1% of total ODA commitments by the development partners to Nicaragua.⁴⁹ The commitments have mainly stemmed from ADA’s budget. ADA’s share of total Austrian ODA commitments to Nicaragua has remained fairly constant during this period, representing on average 94%.⁵⁰

ADA’s ODA commitments to Nicaragua decreased with 45% from €11.8 in 2005 to €6.5 million in 2008.⁵¹ Nicaragua has received a significant, albeit decreasing, share of the ADA funds. In 2008, Nicaragua received 5.5% of ADA’s total bilateral ODA disbursements and 9.7% of ADA’s bilateral disbursements to priority countries (see Table 5.1).

⁴⁸ Source: ADA Statistics.

⁴⁹ Source: own calculations based on OECD-CRS Aid Activity Database (OECD.stat).

⁵⁰ Source: own calculations based on ADA Statistics.

⁵¹ Source: own calculations based on ADA Statistics.

Table 5.1 ADA's ODA disbursements to Nicaragua

	2005	2006	2007	2008	2009 prov.
Total bilateral ODA funds of ADA (in €million)	7.56	5.88	5.92	5.68	4.71
As share of ADA's total ODA	8.9%	6.2%	6.4%	5.5%	5.1%
As share of ADA's total ODA to priority countries	16.4%	10.9%	12.7%	9.7%	n.a

Source: Own calculations based on ADA Statistics.

Qualitative shift towards more aligned financing modalities. Prior to Austria's participation in FONSALUD, there was no formal government to government cooperation between Austria and Nicaragua. Joining FONSALUD in itself implied a move towards more alignment with government policies. The TYP 2006-2008 refers to 'more aligned' modalities.

Over the period 2005-2007, ADA's budget to FONSALUD was € 2.5 million. In 2008 another € 1 million, and in 2009 € 1.2 million, was committed and disbursed.⁵²⁵³ The FONSALUD commitments as share of ADA's ODA budget fluctuated substantially, while the disbursements as share of the ADA budget increased over time from 6.6% in 2005 to 17.6% in 2008 (see Table 5.2).

Table 5.2 FONSALUD as share of ADA's ODA funds to Nicaragua

	2005	2006	2007	2008
FONSALUD commitments as share of ADA's ODA	21.2% 0%		0%	15.4%
FONSALUD disbursements as share of ADA's ODA	6.6% 17%		16.9%	17.6%

Source: Own calculations based on ADA Statistics.

In 2011, GoN will change its planning system towards a results-based MTEF on a three-year rolling base, and therefore the FONSALUD procedures have to be revised. The year 2010 is a bridging year, for which the Coordination Office in Managua has envisaged to consider a contribution to the magnitude of € 0.8 million.⁵⁴

The Coordination Office in Managua made efforts to come to more aligned approaches in the other sectors, in particular in rural development. After initial approval of the sector approach for PRORURAL in 2009, the implementation of the basket fund modality has

⁵² Source: ADA statistics.

⁵³ As part of this review it was found that the financial support to the Nicaraguan health sector programme (FONSALUD, for 2009 1.2 million EUR) does not meet the definition of budget support as agreed by the Development Assistance Committee (DAC) in 2008 through the new classification by type of aid. Therefore, Austria decided to no longer include this contribution in the budget support category from 2009 onwards and to re-classify it as "basket funds/pooled funding" type of aid.

⁵⁴ Source: Interview ADA Coordination Office, Managua.

not yet been approved (by April 2010). More aligned approaches are also ‘in the pipeline’ for the programmes supporting the small and medium enterprise development. The basket fund financing modality is applied in the Gender Support Fund (*Fondo de Apoyo al Género*) in which Austria has participated since 2007.

Over the period 2005-2008, the portfolio of projects in the health sector remained basically the same, both in number as in resource allocation.⁵⁵ It is the current policy of the Coordination Office in Managua to streamline its overall portfolio of well over 50 different activities and to frame them in a reduced number of contracts. The aim is to implement less, but financially more voluminous projects.

Thematic concentration. The TYP 2006-2008 identifies six priority sectors for development assistance in general: education and science; energy; governance, including peace and security and conflict prevention; rural development; private sector development and water and sanitation. Health is not among these priority sectors.⁵⁶ However, the ODA overview table in the TYP 2006-2008 identifies health as one of the three sectors for Nicaragua.

Based on its history of cooperation through NGOs, the ADC has a concentration in the two autonomous regions RAAN and RAAS. Exception is the small and medium enterprise development component that prospers better in the surroundings of the departmental capital Masaya (at a close distance of Managua).

The Cooperation Office in Managua is not only responsible for the country programme, but also for ADC’s regional programme for Central America. This programme deals with several priority sectors translated into activities and projects. This makes the number of sectors and cross-cutting issues to be dealt with by the Coordination Office rather extensive. On top of the country priorities health, rural development and small and medium enterprise development, it includes regional priorities like renewable energy, governance, human rights, indigenous people, and conflict prevention.

Greater transparency & dialogue civil society. In general, ADC is highly appreciated in Nicaragua by government and other development partners alike for its transparency and independence and for not working with any hidden (political) agenda.

Since late 2008, the GoN has questioned the role of some (international) NGOs as well as their local partners. The coordinating office for national NGOs “La Coordinadora civil” and its staff became subject of harassment by the state.⁵⁷ National NGOs do not participate in the health sector round tables. The Coordination Office has indicated that in the discussion of the new draft National Health Plan, participation of the civil society ‘appears to be jointly accepted’.⁵⁸

⁵⁵ Source: Portfolio overview; Coordination Office, Managua.

⁵⁶ Next to Nicaragua, ADC supports the health sector in Ethiopia.

⁵⁷ Sources: interviews NGOs Managua, February 2010. International Federation of Human Rights: Civil and Political Rights Violations in Nicaragua, 2010. Also: DfID, CENIDH, Save the Children. Las Relaciones Gobierno – Sociedad Civil en el actual context, 2008.

⁵⁸ Source: ADA Coordination office, Managua, March 2010.

Part of the ADC country programme is implemented by NGOs. Furthermore, ADC has a specific co-financing budget-line for NGO projects. In this way, Austrian NGOs can get funding for their country programmes in Nicaragua. One of the most important Austrian NGOs in Nicaragua is Horizont 3000. In 2007, this NGO implemented 33 out of 57 different contracts (58%).⁵⁹ The NGO co-financing scheme is primarily managed and monitored by headquarters in Vienna.

Implementation of the ADC Budget Support Strategy

The ADC Budget Support Strategy⁶⁰, which has been approved in 2009, sets a number of eligibility criteria for budget support. These criteria were not precisely formulated yet in 2005. Table 5.3 summarizes whether these criteria would have been fulfilled if they would have existed at the time.

Table 5.3 Eligibility criteria for budget support

ADC Budget Support Strategy	Accomplished in Nicaragua
Stable political conditions, democracy and rule of law, peace and security, human rights	No consensus among donors
Stable macro-economic conditions	✓ (IMF programme ongoing)
National development strategy	✓
MTEF for sector	✓ (in a basic form in 2005)
Sound PFM system	✓ (CFAA)
Adequate institutional structures, absorption capacity	✓

Table 5.4 summarizes whether the major pillars⁶¹ of the ADC Budget Support Strategy would have been fulfilled.

Table 5.4 Fulfilment of the criteria of ADC Budget Support Strategy

ADC Budget Support Strategy Objectives	Implementation experiences with ADA Country Programme Nicaragua
BS only in priority partner countries	✓
BS only in priority sectors	Not a general priority sector, but mentioned for Nicaragua.
BS only in cooperation with others	✓
Focus on Sector Budget Support (SBS)	✓

Implementation of budget support in line with the country programme conditions

There has been no formally approved country strategy governing the Nicaragua country programme since 2006. The elaboration of a new country programmes is in a well-advanced stage.

⁵⁹ Source: Österreichische Entwicklungszusammenarbeit. Country Report Nicaragua 2007.

⁶⁰ Source: Austrian Development Cooperation, Budget Support Strategy, Vienna December 2009.

⁶¹ Source: Austrian Development Cooperation, Budget Support Strategy, Vienna December 2009.

Assessment

FONSALUD is registered as special fund in the National Budget of Nicaragua. The financial flows are channelled through special accounts at the Central Bank to the Treasury, and are subsequently freely available to the Ministry of Finance for implementation of the National Health Policy. This expenditure is accounted for separately, enabling a separate external audit as required by the FONSALUD partners. In fact there are two external audits: one for the loan components and one for the (bilateral) grants. World Bank and IDB maintain their own procurement regulations. Although ADA's contributions to FONSALUD qualify for ODA registration as aligned modality, FONSALUD is a basket fund and not a fully aligned budget support. FONSALUD qualifies as budget support in terms of ODA registration, but is not recognised as budget support by GoN.^{62,63}

The role of donors in joint programme aid depends on sector-specific knowledge and management capabilities. It is in this area where the role of a small financial contributor could become important as 'subject matter' leader. Since ADC has limited manpower available in the Coordination Office, it has neither been in the position to occupy one of the three representative 'seats' in the so-called 'troika' nor has it contracted specialised expertise for strengthening its capacities and those of the MINSA. According to the Coordination Office there has been no demand from the MINSA in that direction.⁶⁴

ADC's draft new Country Strategy for Nicaragua for 2010-2013 reveals basically a continuation of ongoing activities. Coherence and complementarity receive explicit attention. Complementarity exists between the aid modalities: budget support and project support. Projects have a sub-national focus, but are operative under a national structure and national policies. FONSALUD provides access to national policy levels for the sector. Up to date, ADC has maintained a project portfolio in the health sector in RAAN and RAAS of approximately € 700,000 – 800,000 per year.

The Country Strategy does not make a clear strategic choice when it comes to programme based approaches or budget support.⁶⁵ A careful review of the strategic utilisation of budget support within the total of the Austrian programme in Nicaragua would be useful.

ADC is highly appreciated in Nicaragua by government and other development partners alike for its transparency and independence and for not working with any hidden (political) agenda. In addition, partners in FONSALUD refer to Austria's constant

⁶² According to the OECD DAC definition "Budget support is defined as a method of financing a partner country's budget through a transfer of resources from an external financing agency to the partner government's national treasury. The funds thus transferred are managed in accordance with the recipient's budgetary procedures" FONSALUD is mentioned in the budget, but not fully 'on budget'. The Financial Accounts treat FONSALUD as special Fund. Source: República de Nicaragua. Ministerio de Hacienda y Crédito Público. Informe de Liquidación del Presupuesto General de la República 2009 Marzo 2010, cuadro 24.

⁶³ As mentioned in footnote 53, as part of this review it was found that the financial support to the Nicaraguan health sector programme (FONSALUD, 2009, 1.2 million EUR) does not meet the definition of budget support as agreed by the Development Assistance Committee (DAC) in 2008 through the new classification by type of aid. Therefore, Austria decided to no longer include this contribution in the budget support category from 2009 onwards and to re-classify it as "basket funds/pooled funding" type of aid.

⁶⁴ Source: Comments of the Coordination Office on previous drafts March and April 2010.

⁶⁵ The draft country strategy does not state, for instance, whether budget support should be used to get access to the BSG and hence to high level policy dialogue, or whether it should be used to enabling the institutional environment for the activities in the health sector in general, or in the Atlantic Coast in particular.

defence of the Paris Declaration principles even if this relates to partners in the FONSALUD group.⁶⁶ In a politicized country and in a donor community split between ‘traditional’ and ‘south-to-south’ donors, this perception is of importance.

5.2 Financial resources

In 2004, the World Bank loan agreement in support of FONSALUD envisaged a total resource envelope for the period 2005-2009 of USD 82.2 million, including the IDB and World Bank loans and the bilateral grants.⁶⁷ This estimation was close to reality, since by late 2009, approximately €71.4 million had been disbursed, excluding the GoN counterpart contributions to the World Bank and IDB loans (see Table 5.5).⁶⁸

On November 30th, 2005, ADC signed a 3-year Bilateral Agreement with the Nicaraguan Ministry of Foreign Affairs, covering a period between 1st July 2005 and 30th June, 2008 and making € 2.5 million available for the Health Sector Programme. By the 1st of July 2008, a one-year addendum was signed allocating an additional € 1million to FONSALUD. On 22nd October, 2009, ADC signed an additional addendum with GoN, offering € 1.2 million for the period between 1st July, 2009 and 30th June, 2010.

In 2005, next to ADC the partners to FONSALUD were Sweden, the Netherlands, Finland, the IDB and the World Bank, UNFPA and later Spain. Both Sweden and the Netherlands provided unrestricted budget support to MINSA. Sweden committed USD 20 mln⁶⁹ over a five year period, the Netherlands USD 2 mln per year and Finland USD 6.9 mln over a four year period. The IDB approved a performance based UDS 30 mln loan, and the World Bank a loan of USD 11 million.

⁶⁶ Source: Interviews World Bank, embassy of the Netherlands, embassy of Finland, February 2010.

⁶⁷ The World Bank included the counterpart contributions to IDB and WB loans. World Bank. Project Appraisal Document in a proposed Credit in the amount of SDR 7.2 million (USD 11 mln) to the Republic of Nicaragua for a Health Services Extension and Modernization Project. Washington. March 4, 2005, p.21. This estimation excluded Spain.

⁶⁸ The counterpart contributions are an outdated concept in the case of programme based approaches in support of government policies.

⁶⁹ Expressed in Swedish kroner. In 2009 this amount happened to equal € 23.7 million.

Table 5.5 Commitments and disbursements FONSALUD, 2004-2009 (in EUR million)

Cooperation partners	Total commitment	Disbursement					
		2004 + 2005	2006	2007	2008	2009	Total 2004-09
ADC 4.7		0.5	1	1	1	1.2 ⁷⁰	4.7
Sweden 23.7		4.98	4.89	4.6	5.04		19.51
UNFPA na			0.2	0.2	0.1		0.5
Netherlands 13.75		2.75	2.75	2.75	2.75	2.75	13.75
Finland	5	1.25	1.75	1.5	3.2		7.7
Spain 4				2	2		4
Alianza GAVI	na						0.47
Total bilateral	48.95						50.43
IDB loan (USD)	30	6	6	2.8	9.1		23.9
World Bank loan (USD)	11		4.1	1.9	2.4		8.4
Total multilateral	41						32.3

Source: Elaboration by mission, based on MoU, documents MINSA and ADA Statistics.

Based on the experience gained over the years, ADC has been a predictable partner to the GoN and has never failed to pay in due time. ADC has always disbursed its contribution to FONSALUD during the month of July.⁷¹ The month is not related to the budget cycle of MINSA, but to the resource flow management of the Austrian government. MINSA knows in advance that ADC will disburse in July and hence submits its request for that month. Disbursements can only take place after completion of the external audit. In 2008, ADC showed flexibility when required and disbursed even in the absence of a completed audit report.⁷²

5.3 Human resources and technical assistance

The Coordination Office in Managua counts with a Head of Cooperation (the single Austrian national), and three sector experts, one responsible for each sector. Each sector specialist is responsible for both the programme in Nicaragua and the Central-American programme. Since the Central-American programme counts with different partners, stakeholders, implementation environments, monitoring requirements, etc., one could

⁷⁰ As mentioned in footnote 53, as part of this review it was found that the financial support to the Nicaraguan health sector programme (FONSALUD, 2009, 1.2 million EUR) does not meet the definition of budget support as agreed by the Development Assistance Committee (DAC) in 2008 through the new classification by type of aid. Therefore, Austria decided to no longer include this contribution in the budget support category from 2009 onwards and to re-classify it as "basket funds/pooled funding" type of aid. As a consequence, the total volume of budget support commitment from ADA in the period 2005-2009 reduces from EUR 31.7 million to EUR 30.5 million.

⁷¹ ADC intended to disburse € 1 million per year in the period 2006-2009. The difference in actual disbursement 2007 and 2008 is due to a delay caused by a transfer problem with an intermediary bank in 2007.

⁷² In May/June 2008, MINSA experienced a severe shortfall of financial resources, since none of the donors had disbursed during the first months of the year due to a problem with the auditing firm Price Waterhouse Coopers (PWC). MINSA and lead donor the Netherlands asked all bilateral donors to disburse in short term to overcome a crisis. Apart from the Netherlands (who disbursed half their commitment), Austria was the only donor that gave an immediate positive answer, based on the good auditing results MINSA had achieved the years before.

argue that the sector experts in the Coordination Office all need to cover more than a single sector.

Two of the three local specialists are employed by means of a national contract with a different status than the third specialist. Next to the four thematic staff members, there is a general administrator and support staff. On a temporary base, volunteers may complete the team.

The Head of Cooperation is not only the manager of the Coordination Office, he is also the Head of Mission fulfilling diplomatic and representative functions in absence of a resident Ambassador. The Ambassador responsible for Nicaragua is based in Mexico. The last visit by the Ambassador was in spring 2009, when the previous Ambassador made his farewell tour. In the Austrian system, the functions of the embassy are hardly related to development assistance. The main 'line of communication' on budget support is between the Coordination Office and ADA headquarters in Vienna.

Human capabilities. The Head of Cooperation and the three thematic experts have different professional backgrounds. The Head of Cooperation is a generalist, graduated from the Diplomatic Academy of Vienna, while the thematic experts are subject matter specialists. Sector experts may have other nationalities, and there is a preference to employ local experts. ADA appoints the thematic experts. Since only the Head of Cooperation rotates, the continuity and institutional memory is vested in the thematic experts. Some experts work well over a decade for ADC.

ADA Headquarters stated that it is not evident that each Coordination Office disposes of the qualities to properly deal with a sector support programme. If gaps exist, other donors (Sweden, the Netherlands, and Finland) have contracted the necessary expertise for shorter or longer periods. The Coordination Office in Nicaragua did not have the financial means to do so. The evaluators did not assess the capabilities and capacities of the staff at the Coordination Office.

Formal training. Professional training is an indispensable means to keep the experts 'up to date' in a rapidly changing environment. Training could be provided in three forms:

- institutionalised interchange among colleagues;
- from Headquarters to the Coordination Offices;
- by contracting specialised training.

In Coordination Office in Managua there exists an informal exchange of information among colleagues. ADC has hardly established any system of exchange of information among its professionals around the world⁷³, apart from the "KoBü Tagung" to which Heads of Cooperation are eligible only. ADC does not count with subject matter specialist groups that share information through the internet ('thematic leaders')⁷⁴.

The individual staff member's training needs are being identified during the annual personal assessment, but ADA headquarters has not implemented level-based capacity

⁷³ There are some reports/data accessible on the joint Outlook-folder. Source: Coordination office Managua, March 2010.

⁷⁴ Compare for example the subject matter 'circuits' in the Dutch development cooperation, or professional groups in GTZ.

development paths for individual expertise.⁷⁵ If provided, training is mostly ad hoc. No tailor-made training programmes exist⁷⁶ in -for example- trends in development aid or related subjects, like negotiation skills and conflict management. A systematic system of training through courses and seminars in each of the professional field among subject matter specialists⁷⁷ or comparable instruments has not been established.

The Head of the Coordination Office indicated that training needs are being discussed annually (March 2010). In general, the staff of the Coordination Office showed little awareness of the need for constant training.

Also in cross-cutting themes like gender (for example gender sensitive budgeting; gender sensitive assessment for projects and programmes), in which ADC has an internationally recognised high level of knowledge; there is no systematic transfer of this knowledge to the Coordination Offices. Contracting opportunities for training by the Coordination Office are limited, since the budget allocated to that purpose is small (approximately € 2,600 per year for the office). Training in the form of international exposure is limited as well. Although the national staff members work at Central American level, they are not 'transferable' to countries outside Central America.

Assessment

The absence of a resident ambassador has had no negative effect on the implementation of the budget support operation, although budget support is implemented in a political environment. But the implication of the absence of a resident ambassador is that positions cannot always be clarified to development partners. The Coordination Office reports to ADA Headquarters, but ADA Headquarters cannot determine any political position, since this is the authority of the Ministry of Foreign Affairs. The Ministry's official channel however is not the Coordination Office, but Austria's embassy in Mexico. This implies in practice that no position is taken when it comes to politically sensitive issues, as was the case in the controversy over therapeutic abortion.

The human capabilities required to be able to contribute professionally to a sector support programme are threefold:

- a subject matter knowledge of the sector at the level of policy making;
- experience in, and knowledge of, public sector reforms; and
- knowledge of PFM.

The interviews with the three professional staff members encompassed knowledge questions in these areas, but it was beyond the scope of this evaluation to assess the human capabilities of the staff, apart from the observation that the experts are not aware of flaws in knowledge when it comes to PFM and public sector reforms.

⁷⁵ Compare the training sequencing in EuropeAid.

⁷⁶ Source: Central and Latin America unit. ADA. Vienna.

⁷⁷ For example, the management of health statistics among the health specialists; the various forms of guarantee schemes for agricultural producers among rural development experts, etc. In a comment to an early draft (March 2010), the Coordination Office referred to the PFM seminar for Coordination Offices in Ethiopia in 2009.

6 Outputs

6.1 Disbursements realised

The financial contribution of ADA to FONSALUD is shown in Table 5.5 and 6.1. The relevance of this output can be assessed in perspective of the funding available to the sector. The total annual budget for the health sector varies by year, but has averaged at approximately USD 235-260 mln. per year.⁷⁸ According to the MINSA budget, the total ODA to the health sector is approximately USD 50 mln. per year. The FONSALUD grants component represents 20-30% of total ODA to the sector, while the share of ADA's contribution in these grants is between 5 and 10% (see Table 6.1). So, the ADA contribution represents some 2-3% of all ODA to MINSA or 0.5% of the budget of MINSA.

Table 6.1 Percentage share of ADA support to FONSALUD grants

	2004 + 2005	2006	2007	2008
ADA disbursed (in EUR million)	0.5	1.0	1.0	1.0
All grants disbursed (in EUR million)	9.5	10.5	11.6	14.6
Austria as percentage of all grants (%)	5.3	9.5	8.6	6.8

Source: Own calculations based on ADA Statistics and FONSALUD.

The 'relative weight' of the support gets a different perspective if we take into consideration that approximately 90% of the USD 260 million budget of MINSA is non-discretionary, hence only some USD 26 million is available for discretionary spending.⁷⁹ If the grants in the FONSALUD were compared to MINSA's discretionary budget, they represent about half of it (between 40 and 55%)⁸⁰, and ADA's contribution 5%.

In the central government budget FONSALUD contributes to specific expenditure items, such as the purchase of medical supplies or rehabilitation of infrastructure. This contribution is not an earmarking, since FONSALUD partners never requested such a link, but to MINSA, it provides some guarantee that these purchases will be exempted from austerity measures.

⁷⁸ Budget MINSA 2009: 5,182 mln. Cordoba. Exchange rate USD 1:19.

⁷⁹ Discretionary expenditure is spending which a government body is empowered but not legally required to undertake. The discretionary budget is available for implementation of policies and achievement of targets. It can include both spending on real goods and services, such as public works, and grants to individuals or organizations. Discretionary spending is contrasted with mandatory spending programmes. Note that the per capita expenditure on health services in Nicaragua is approximately USD 41, far below the Latin-American average of USD 450 per capita.

⁸⁰ This share might be over-estimated taking into consideration the support by south – to- south donors to the health sector that may sum to USD 20-25 mln. per year. However, there are no undisputed data concerning these contributions.

Hence - and notwithstanding that Austria is among the smaller contributors to FONSALUD- both the Ministry of Foreign Affairs and the MINSA stressed the point that Austria's € 1 million per year is considered a significant financial contribution to the health sector.⁸¹

6.2 Austria and the policy dialogue

The Nicaraguan government's harmonisation and alignment action plan (2005) has structured the relation between government and donor community. Over time the organisation developed in a blend of mechanisms according to the needs. Concerning FONSALUD, the following coordination mechanisms were operative up to 2009⁸²:

- Health Sector round table (*Mesa Sectorial de Salud*), a large group, consisting of all bilateral and multilateral donor agencies involved and several representatives of the government, including the Ministries of Health, Finance and Foreign Affairs. This group functions as a platform for discussions and exchange of information. The health donors are represented by a Technical Secretariat that is composed by the Netherlands (in representation of bilateral donors and lead), World Bank (in representation of IFIs) and WHO/PAHO ('troika');
- Development partners round table (*Mesa de Donantes del Sector de Salud*), consisting of representatives of around 20 donor agencies involved in the health sector. This group of donors tries to reach agreements about a coordinated stand and approach in their support to the health sector and in the policy dialogue;
- FONSALUD Committee, the group of development partners involved in the sector health basket. Members of this group are: the Netherlands, Spain, Austria, Finland, World Bank, and UNFPA. IDB is an observer. This group tries to achieve a fully harmonized and aligned approach in their sector support to the MINSA;
- Technical working tables.

The Coordination Office's Annual Plan⁸³ reveals that the office participates in 14 different coordination mechanisms. Among these coordination mechanisms eight (8) have either directly –or indirectly- to do with the health sector. The round tables have also working groups in which the ADC social sector expert participates. These eight coordination mechanisms are listed in box 6.1.

Box 6.1 Austria's participation in coordination mechanisms related directly or indirectly to the health sector

Round table	Working groups	Frequency of meetings
General round table		2 times per year
General round table of development partners		6 times per year
European Heads of Cooperation		12 times per year
Sector round table health		2 times per year
FONSALUD round table		2-3 times per year

⁸¹ Source: Interviews Ministry of Foreign Affairs and MINSA, February 2010.

⁸² From 2010 onwards only two coordination mechanisms will operate, since the donor round table and the FONSALUD round table will be merged together.

⁸³ Source: Planung des Arbeitsfeldprogramms 2010. Schwerpunktland Nicaragua. Version 19.01.2010, p.4.

Round table	Working groups	Frequency of meetings
Health sector round table development partners	3 Technical working groups:	8-9 times per year
	Public health care	6 times per year
	Public Finance (Austria does not participate)	3 times per year
	Decentralisation (Austria does not participate)	2 times per year
Development partners in the health sector at the Atlantic coast		6 times per year
Tri-partite meetings MINSA (CONISIDA), OEZA and UNDP		4 times per year (will end in 2010)

Round tables have technical working groups on specific topics, such as PFM, HIV/AIDS, decentralisation and the like. Members of these working groups are coming from the general round table. Recently FONSALUD has revived a number of its thematic groups (nutrition, HIV/AIDS, information systems).

During its early stages, the health sector round table had some influence on the policy formulation (2005, 2006), but since 2007 due to controversies at the general round table, the influence of the health sector round table on policy formulation diminished as well. GoN stressed its sovereign government and the sector round table operates as a platform for exchange of information.

More influential is the meeting between FONSALUD partners and MINSA. This round table has a more pragmatic character and development partners are dealing with technical and planning staff of the ministry. It is at this level that the joint review of progress is being organised and that support mechanisms are being discussed. At this level, also the budget is being studied in detail, the data underpinning the performance of the sector are being analysed and reviewed against the Performance Assessment Framework.

Austria's input in the policy dialogue is made in the FONSALUD round table. This input partly focused at the characteristics of the health provision to the (indigenous) populations of the Atlantic Coast regions. Since 2007, GoN introduced the 'household and community health model' (*modelo de salud familiar y comunitaria*). One of the components of this model is of interest to Austria, since it not only aims at a further deconcentration through the SILAIS system, but also a decentralisation of health services to the regional authorities of the autonomous areas RAAN and RAAS. This may imply a regional budget and a regional management of health care services in the Atlantic Coast (although by early 2010 no implementation of this decentralisation had started yet). The necessary agreements, envisaged for late 2008, faced various political and administrative hurdles and are far behind schedule.

The cross-cutting issues. The Coordination Office has been keen in safeguarding a gender perspective in its programme. For the health sector, it is MINSA itself that pays attention to gender, as do other partners in FONSALUD. Since the female component is very important in health care, there might be risk of an 'overkill' in attention at the

detriment of typical male diseases. The ADC social sector specialist is eager to maintain the right balance⁸⁴. Also environmental aspects are present in FONSALUD (*saneamiento ambiental*) and ADC pays attention to these aspects.

6.3 Austria and the support structures

Budget support provides GoN with financial resources for implementing its strategies and programmes at a larger scale. Supplementary measures (e.g. strengthening of the PFM and planning systems, promoting accountability, introduction of new techniques) facilitate improving both the quality and the efficiency of the service delivery by government.

Support structures to assist government in the implementation of sector programmes can have either of a temporary or a more permanent character. In the health sector a special fund for technical assistance has been established. This fund is at the disposal of MINSA. But parallel to that, also the development partners take initiatives for strengthening the system as part of the mutual responsibility as one of the fundamentals of the aid architecture. As support mechanism, Sweden contracted expertise in the registry of documentation for monitoring purposes and provided both short-term and long-term technical assistance to MINSA in the area of (results-based) budgeting and planning. The Netherlands provided PFM training to development partners and MINSA staff, while the World Bank brought in expertise in the area of international health sector standards. Recently Spain contracted the services of the Health Research and Education Centre (CIES) and National Autonomous University of Nicaragua (UNAN) to gain better insight in the statistical evidence concerning maternal mortality.⁸⁵

All these additional services are considered as ‘joint initiatives’ by the FONSALUD partners made available to MINSA.⁸⁶ The Coordination Office (and ADC at large) has not provided additional support to FONSALUD. It argues that the demand for such a support should have been emerged from the MINSA’s capacity building plan (that did not exist), while the collateral services provided by other donors were never agreed upon within FONSALUD⁸⁷.

ADC as learning organisation

Engaging with new aid modalities requires systematic and regular exchange of knowledge and targeted capacity building measures across the organisation, in order to disseminate ideas and working practices and develop a critical mass of staff experienced in the subject. This does not encompass only technical staff, but administration, and legal departments as well.

There are no special ‘ADA groups’ on budget support at the internet to interchange experiences among the professional dealing with BS in the various countries. The

⁸⁴ Source: Interview ADC social sector expert, Managua, February 2010.

⁸⁵ Source: Director CIES/UNAN. February 2010.

⁸⁶ Source: Interview MINSA, February 2010.

⁸⁷ Source: ADA comments on first and second draft report. March and April 2010.

Coordination Office in Managua is satisfied with the technical support provided by ADA headquarters on budget support. Joint exchange of experiences among staff of ADA in Vienna and in the field is limited. Although the Coordination Office counts with good contacts in the academic world in Nicaragua, the strategic use of research centres to contribute to ADA has been close to absent.

6.4 Unintended results and other important issues

During the initial years of the new aid paradigm, frontrunner donors tended to present budget support as a ‘technical instrument’ to enhance effectiveness of aid delivery, based on macro-economic and PFM motivations.⁸⁸ This technical focus disguised the political aspects of budget support. ADC’s joining FONSALUD was assessed and discussed in the ADA Supervisory Board prior to approval.⁸⁹ Due to the lack of clear guidelines and regulations this assessment was made without standardized assessment procedures for budget support operations. Based on this assessment, the Coordination Office obtained approval to proceed with FONSALUD. In practice, in Nicaragua the political aspects of budget support became apparent. It happened to be not only about effectiveness of aid anymore, but also about conditions and about the political side of policies, ‘taking a common stand’ in relation to government. The response of GoN was to curtail the dialogue, in fact undermining the major motive for donors to provide budget support.

A second unintended result is the relation between ADC and the civil society organisations. All larger Austrian NGOs have accepted budget support⁹⁰ and are supportive in identifying a division of labour. Prior to the contributions to FONSALUD, of all Austrian funding to Nicaragua’s health sector about 80% went through NGOs and 20% through international organisations. In 2009, the funding through NGOs has dropped to less than 30% of the total to the sector. This change is felt in particular by local NGOs that used to be sub-contracted by the Austrian NGOs. Since the current GoN has reduced certain freedoms of operation of these organisations, some local NGOs feel abandoned by the donor community in general, including Austria.⁹¹

A third unintended result has been the unexpected high transaction costs of the budget support mechanism to the Coordination Office. These transaction costs are the result of the novelty of the instrument to ADC in 2005 and the extensive circuits of communication and coordination established in Nicaragua (round tables and working groups).

⁸⁸ In particular Sweden and the Netherlands presented the budget support as a financing modality in macro terms only. Source: Interview ex-head of cooperation Coordination Office Managua. MFA, Vienna.

⁸⁹ Source: ADA comment on draft report 4th June 2010.

⁹⁰ See: Austrian EU-Platform of Non-Governmental Development Organisations. Positionspapier GEZ, KOO und EU_Plattform zu Budget Support. Vienna 2005.

⁹¹ Sources: interviews Coordinadora Civil and CESAS. In reaction to the draft report the Coordination Office emphasized its continued collaboration with NGOs in various fields using a special fund for projects (up to € 10.000 each, max.€ 100.000 annually in total, established in 2009), used by the Office to finance local socially important NGOs.

Assessment

Development partners and MINSA alike appreciate ADC as partner in FONSALUD for its active collaboration and transparency. This appreciation does not deny that the opportunities for a fully transparent dialogue have been slim. The GoN has stepped aside from open and frank discussions with its traditional partners and can afford doing so, thanks to the influx of south-to-south cooperation. Without denying the merits of south-to-south cooperation, the procedures of these donors do not fit in the principles of Paris Declaration.

During the first years of the FONSALUD, the staff of the Coordination Office at the time⁹² was rather unaware of the political aspects of programme aid and underestimated the time required to prepare and attend meetings related to the modality. The Coordination Office was not fully equipped for the political aspects of programme aid mechanisms. In some embassies in Managua, development assistance forms part of the daily business, while others (e.g the Swedish and Spanish cooperation agencies) are permanently backed by their embassies in Managua. The Coordination Office cannot count on the backing by the Austrian embassy in Mexico. Furthermore, the formal line of communication is with ADA headquarters and not with the embassy.

The 2004 intention to come to a sector-wide forum for the health sector (encompassing the public sector, the private sector, the non-governmental organisations and the donor community) never materialised. Since 2006, in the broad sector round table groups four ministries and some 20 official development partners contributing to the health sector. According to the MINSA, too many civil society organisations wanted to join⁹³. This was overcome by the participation of the coordinating entity of the civil society (*la Coordinadora Civil*), but after a few meetings GoN considered it unproductive to discuss policy matters with organisations free of any responsibility for the public sector. The exclusion of NGOs is noteworthy, since the health sector in Nicaragua counts with the largest number of NGOs, and some nation-wide programmes (such as on sexual and reproductive health care) are almost entirely dependent on implementation by NGOs. Early 2010, the GoN and *la Coordinadora Civil* had interrupted all communication. According to the Coordination Office, in the discussion of the new Health Plan (to be approved by May 2010) NGOs have been accepted as partners in the discussion. There is no permanent 'sector-wide' platform in the health sector in Nicaragua.

ADC's output can be summarised as follows:

- The Coordination Office has contributed to the policy dialogue with its knowledge about RAAN and RAAS, key areas in the Health Plan;
- Among the FONSALUD partners, the Coordination Office has strived for adherence to and expansion of the Paris Declaration principles. And with success, since new World Bank loans will operate under conditions influenced by the Austrian position;
- The Coordination Office is active in various round tables and technical groups; capacity constraints prevent from joining more groups.

⁹² Source: Interview in Vienna with ex head of cooperation, Coordination Office.

⁹³ Prior to 2007, a forum for all national health actors was operational, the Consejo Nacional de Salud. In this forum the health NGOs used to discuss their issues with MINSA. For RAAN and RAAS, there were the so-called Consejos Regionales de Salud, that met twice a year. As a result of the tensions between GoN and the NGOs, the Consejo did not meet after 2007.

7 Institutional set-up and operational procedures

When FONSALUD was established in 2005, programme aid was a novelty to ADC. There were no guidelines or regulations. Other donors did have procedural guidelines at an earlier stage (DfID and the Netherlands for example in 2004). Hence, various procedures had to be taken over from partners, or decisions had to be taken in absence of well-defined procedures. In that respect, Austria's stand was to be flexible and to support the position taken by the European Commission.

The FONSALUD partners elaborated their own procedures, laid down in a Manual of Functions (2005).⁹⁴ Adherence to this Manual was agreed upon in the Memorandum of Understanding and Code of Conduct (2005). The advantage was that these instruments forced the partners to actively look for harmonised and aligned procedures.

Harmonisation and alignment

The harmonisation and alignment efforts were made, but not fully completed. The following summary can be made:

- The ADC policy is fully aligned with the MINSA policy, also in its amendments made in 2007/2008;
- The ADC procedures are aligned with all GoN procedures, except the requirement for a separate external audit⁹⁵;
- The ADC disbursement calendar responds to the Austrian budget cycle. The timing of this disbursement is predictable and MINSA takes into consideration in its quarterly request for funds;
- ADC has shown to be flexible in the FONSALUD group and has harmonized its own procedures accordingly;
- The Coordination Office has stressed the need for harmonization of the bilateral-multilateral partners in FONSALUD and has taken leadership in the strive for further harmonization and alignment;
- There is a joint monitoring and evaluation against a common performance assessment framework of 22 indicators (in 2010 to be reduced to 11 indicators).

The Coordination Office in Managua reports that the ADA administrative system still requires 'mainstreaming' to accommodate the budget financing mechanism and its procedures. Since ADA is a relatively centralised organisation, with limited financial delegation to the field offices, the procedural communication between Coordination

⁹⁴ Source: República de Nicaragua. Ministerio de Salud. *Manual de Funcionamiento del Fondo Nicaragüense para la Salud* (FONSALUD). Agosto 2005.

⁹⁵ The requirement for a special audit is not a specific ADC requirement. It is a result of harmonization where the development partners required a separate external audit. This requirement existed before ADC joined. There are different audits for the multilateral creditors and for the bilateral donors.

Offices and headquarters counts with standard operational procedures. The Coordination Office reports that some of these standards are hardly applicable when it comes to budget support.

All donors deposited their contribution in FONSALUD, where initially, and on the preference of the Ministry of Finance, each donor had its own deposit account. Later on, the accounts were split in a common account for the bilateral donors and two separate ones for each of the multilateral partners.

While the Swedish and Dutch contributions were granted as much as possible as budget support, other contributors, like Finland and Spain were sticking more to basket fund principles. Separate accounts for each donor implied that particular expenditures could be administratively ‘tagged’ to a particular development partner. If required, MINSA could produce separate expenditure reports for each partner (in practice this happened only to UNFPA, the World Bank and the IDB). Both these Banks insisted on separate audits of their contributions (loans), while the bilateral donors also had an (non- aligned) external audit on the total of bilateral grants. Each of these three audits only encompassed the components of the particular partners and not the total. The total expenditure was audited by the Supreme Audit, the *Contraloría General de la República* (CGR). Since 2008, the financial reporting has been integrated and one single report is being produced for FONSALUD.

General or sector budget support

Both the Ministry of Foreign Affairs of Nicaragua and MINSA have explicitly expressed the preference for budget support. In GoN’s understanding there is no difference between GBS and SBS, apart from the level of coordination and policy support. The financial mechanism is the same and implies making resources available that can be used by the Ministry of Finance for the implementation of the central government budget. The development partners that have provided GBS over the last years are reluctant to continue GBS but intend to continue with SBS.

Predictability

- ADC has been a predictable partner and has disbursed its contributions in June/July of each year;
- Although the “Vorbelastungsgrenze” implies constraints, in practice, the Coordination Office has not encountered difficulties to commit multi-annually; and
- None of the FONSALUD partners applies variable tranches.

7.1 Programme cycle of budget support operations

The programme cycle for all financing modalities except for budget support is governed by the “Prozessbeschreibung” January 2009. In 2009, ADA has prepared draft Guidelines for budget support which describe the programming cycle for GBS and SBS operations. Prior to 2009, there were no guidelines which guided budget support operations. Hence, the programming cycle, relevant for quality assurance mechanisms and requirements as regards country analysis and risk assessments, was less elaborate. With regard to the

FONSALUD, operations in Nicaragua that started in 2005, the Coordination Office has followed the procedures as agreed in the MoU (2005).

ADC's programme cycle has been well adhered to the jointly agreed standards, principles and procedures. Regular monitoring of FONSALUD has taken place through the joint annual reviews with progress reporting. Furthermore, the Coordination Office reports on a quarterly basis to ADA headquarters on relevant developments and information as regards their involvement in the sector.

ADC has also developed a new tool for financial control, called the "Pruefbericht". In July 2009 this has been introduced, and retrospectively been undertaken for earlier years. It facilitates ADC financial control and monitoring of FONSALUD funding and might be introduced also as standardised reporting format. Financial delegation to the Coordination Office is limited.

Assessment

Although FONSALUD is an aligned instrument, there are options for further improvement:

- FONSALUD is – at the initiative of the GoN- not a mechanism that can be used freely for budgeted expenditures; resources are earmarked for specific expenditures, mostly within the capital budget;
- FONSALUD makes use of national PFM systems, but not fully. The World Bank and the IDB require use of their procurement guidelines, while all partners adhere to separate external audits;
- The audit system is neither aligned, nor harmonised. The World Bank and the IDB conduct their own external audit, while the bilateral partners and UNFPA have a separate common external audit. None of these external audits covers all MINSA expenditures, but are restricted to those expenditures listed in the sector budget as funded by a particular source. On top the CGR conducts an audit over all expenditures⁹⁶.

⁹⁶ All development partners have considered the option to accept the external audit by CGR, but the problem is the time-lag of approximately 1.5 years. Source: Coordination Office, Managua, March 2010.

8 Conclusions

The major aim of the field visit to Nicaragua was to assess the value added of ADC's contribution to FONSALUD. In order to address this question attention was paid to the policy relevance, to the inputs delivered in terms of financial resources, policy dialogue and the (human) capacity to support programme aid operations.

The macro-economic variables of Nicaragua indicate that the country will remain reliant on external financial flows to support its balance-of-payments, as well as its central government (investment) budget. These external flows have changed in composition over time, from foreign loans and grants by traditional donors to (more) remittances from abroad and loans by 'south-to-south' partners, such as the Bolivarian Alliance for the Peoples of our America (ALBA) agreement. In Nicaragua, the dependency from aid in general is decreasing slowly, but the dependency on traditional development partners has been reduced substantially. This had implications for the relation between the GoN and the traditional development partners. Whatever the merits of south-to-south cooperation are, the financing modalities applied by these donors do not match with the fundamental concepts of the Paris Declaration.

Traditional development partners appreciate the pro-poor perspective of current GoN policies, also expressed in its recent PRSP, but some donors are concerned about the underlying principles that enable budget support, such as the respect for democratic values and budget transparency. In the short term, the willingness among traditional development partners to strive for fully aligned financing modalities (General Budget Support) will be modest at the best. Most traditional donors aim at less aligned modalities in support of sector programmes, such as basket funding.

According to the definitions that were used by ADA (Budget Support Strategy, 2009) FONSALUD qualified as a programme-based approach. In Nicaragua, both the "Budget Support Group" (development partners) and the GoN alike do not consider FONSALUD as budget support, due to the fact that it is not fully aligned with GoN PFM procedures.⁹⁷

In financial terms, ADA's support to FONSALUD is limited. Nevertheless, ADA's contribution represents approximately 5% of the discretionary budget of the MINSA and hence enables the ministry to implement its policy. ADC is highly appreciated for its technical input thanks to its knowledge about the Atlantic Coast autonomous regions. The draft Country Programme for Nicaragua continues to focus on the Atlantic Coast regions,

⁹⁷ As mentioned in footnote 53, Austria decided, based on the findings of this review, to no longer include the contribution to FONSALUD in the budget support category and to re-classify it as "basket funds/pooled funding" type of aid, as from 2009 onwards.

based on considerations of poverty criteria. The strategic linkage between that regional choice and budget support at national level to FONSALUD is not fully evident, since the alternative of budget support to the sub-national level has either not been explored or not explained in the draft Country Programme.

MINSA and development partners alike, consider ADC a reliable partner with no hidden agenda. ADC is appreciated for its commitment to the Paris Declaration and the European Consensus. ADC has largely aligned to national budget procedures and jointly agreed policies and standards.

Among the development partners supporting FONSALUD it is recognized that smaller donors can play an important role regardless of the level of their financial contributions, whenever these small donors invest in subject matter capacity. In addition, small donors – considered as independent - can play a balancing role between large donors. In practice, ADC has opted for not taking (partial) thematic leadership. Notwithstanding the dedication of the Coordination Office, FONSALUD partners observed that ADC has not provided collateral services to the MINSA or to the group of partners. Initiatives in this area were taken by other partners. ADC did contribute in the dialogue with its knowledge about the health sector in the Atlantic Coast autonomous regions.

Due to the fact that the standing country strategy dates back from 2002, ADC's strategic choice for budget support in Nicaragua has not been made explicit. The formulation of a new country programmes is in a well-advanced stage, but –so far– the draft version does not elaborate on the function of programme based approaches within the total of Austrian supported activities in Nicaragua. The underlying question concerns the envisaged levels of intervention: the sub-national level (RAAN and RAAS), the national level or the Central American level? Or all three? The strategy does not justify activities at three levels simultaneously in an array of sectors with limited financial and human resources.

If the strategic choice for budget support has been gaining access to the global policy dialogue (justified from the perspective of the Head of Mission's diplomatic functions), ADC could have opted for general budget support and hence could join the Budget Support Group. In 2010, this option does not seem a convenient choice considering that 6 out of the 9 partners in the Budget Support Group are not (fully) disbursing.

If, as another option, budget support has been used as a means to strengthen the public health structures and institutional environment in RAAN and RAAS, one could have considered to provide support at sub-national level (and to use the budget support as leverage instrument). Another option would be linking budget support to the health sector in relation to the health component in the Central America Programme. That would imply the choice for a more earmarked approach.

The achievements made are the product of the dedicated commitment, determination and capacities of individual staff in the Coordination Office. The Austrian ambition of having a combination of a representative office, a country programme office and Central-American programme managed by a limited number of staff is challenging. Although one could imagine various solutions to the workload that has emerged, the logical step to take seems to be setting clear priorities, as well as deliberate choices for alternative ways of

operation. These alternative ways may encompass delegated co-operation (a form currently excluded) and reduction of the number of sectors to attend. Also investments in staff capacities in the field offices might ease the pressure and stimulating greater learning and sharing of experiences among staff worldwide. This could be further strengthened by seeking external technical expertise and be supported through strategic alliances with centres of excellence (research institutes, consultancy services).

Annexes

Annex 1 List of interviews conducted

Name	Position/Department/Unit	Organisation
Acevedo, Adolfo	PFM expert	Member of Directory Coordinadora civil. Managua
Baldizón Ibarra, Yader	Technical advisor Small and Medium Enterprise Development and Energy	Coordination Office for Development Cooperation Austria. Managua
Boedeker, Marielas	Budget Planner	Planning Department. MINSA, Managua
Echegoyen, Magaly	Acting head	Planning Department, MINSA, Managua
Ellmeier, Michaela	Head of Unit VII.1.a	EU Coordination of ADC, Vienna
Getino Canseco, Elena	Advisor in Cooperation	Delegation of the European Commission in Nicaragua
González Calderón, Humberto	National coordination sector approach and OECD, International Cooperation	Ministry of Foreign Affairs. Managua
Hörnigke, Christina	Technical advisor Social Sectors	Coordination Office for Development Cooperation Austria. Managua
Küblböck, Karin	Researcher	International Economic Policies. ÖFSE. Austrian Research Foundation for International Development. Vienna (telephone interview)
Largaespada F., Maria Jesús	Health Expert	Embassy of the Kingdom of the Netherlands. Managua
Littlejohn, Coleen R.	Principal Operational Official	World Bank, Managua
López Ortegáray, Nelson	Technical advisor Rural Development Sector	Coordination Office for Development Cooperation Austria. Managua
Marquiño Quezada, Wilmer	Advisor Prevention and Control	Regional Office World Health Organisation (OPS), Managua
Neuwirth, Hubert	Counsellor	Head of Office. Coordination Office for Development Cooperation Austrian Embassy Mexico. Managua
Orozco V., Miguel A	Director Centro de Investigaciones y Estudio de la Salud	Public Health School. UNAN University. Managua
Pettinato, Carlo	Head of section budget support and Institutions	Delegation of the European Commission in Nicaragua
Prosperi, Jorge Luis	Resident Representative Regional Office	World Health Organisation (OPS), Managua
Quiros, Ana	Director	Information and Service Centre for Health CISAS (NGO) and member of

Name	Position/Department/Unit	Organisation
		directorate of "Coordinadora Civil". Managua
Raatikainen, Riikka	Advisor Health Sector and Social Affairs	Embassy of Finland. Managua
Ramirez, Martha	Official for co-operation relations with European countries	Ministry of Foreign Affairs. Managua
Saadat, Lydia	Head of Unit VII 5b.	Programming and Planning Development Cooperation in Asia, Middle-East, Mediterranean Region and Central America, MFA VII 5b, Vienna
Talavera, Johanna	Coordinator	External Cooperation MINSA, Managua
Traxler, Gottfried		Central and Latin America, ADA, Vienna
Vogel, Thomas		Horizont 3000, Vienna
Wessels, Hans	Head of Cooperation	Embassy of the Kingdom of the Netherlands. Managua

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