

Lessons from India's First SWAp

Although India has achieved major progress in expanding primary education, it still accounts for one-quarter (104 million) of the world's out-of-school children. To help address this problem, a World Bank team worked with other donors and the Government to develop the country's first-ever SWAp. The SWAp supports a government program that covers more than 30 subnational states and territories, and it relies on country systems as the basis for fiduciary assurance, disbursement, and accountability for results.

Background

India's National Program for Elementary Education (Sarva Shiksha Abhiyan, or SSA), designed to ensure that by 2010 every child will receive eight years of education by age 14, provides targeted interventions to promote universal access and enrollment and improve quality. Launched in 1999, the program covers almost the entire nation: 28 states and 7 union territories with nearly 600 districts and around 800,000 reporting entities. Over the next three years, the national and state governments will invest about \$2.45 billion in the program, in the ratio of 3 to 1, respectively.

Donor Support

In June 2004, the World Bank, Britain's Department for International Development, and the European Union entered into a joint project—a sectorwide approach (SWAp)—through which they will support the SSA with an additional combined contribution of more than \$1 billion. All partners supported the basic design and objectives of the SSA, and all were willing to maximize the use of government systems to meet their procurement, financial reporting, audit, and disbursement requirements.

Fiduciary Assurance

The World Bank conducted the financial management (FM) and procurement assessments on behalf of all partners—a significant challenge, given the breadth of the SSA. The solution was to build on knowledge gained from the previous generation of education projects (in 18 states) and to supplement this with assessments in 5 states that together account for nearly half of the total program resources. Within each of the 5 reviewed states only a small number of representative districts could be visited.

Recognizing the need for a more comprehensive and systematic appraisal of FM performance than that

supplied by the normal processes of external and internal audit, the Government of India (GoI) has instituted a program of concurrent audits (involving review of systems and elements of expenditure tracking) and a process for countrywide monitoring of adherence to FM norms that will continue throughout the SSA.

Fitting into an Existing Program

Another challenge for the donor partners was how to influence the design of a government program already under implementation, particularly when (a) the donor partners were funding a relatively small share of total program costs, and (b) GoI was generally satisfied with its FM arrangements for SSA, which built on lessons from the earlier generation of Bank-supported projects. Ministry officials critically reviewed the FM assessment before accepting any design changes. They adopted its recommendations—such as funds flow improvements and redesigned financial monitoring reports (FMRs)—only when convinced that the measures would result in improved program management and greater impact.

Managing Varying Capacities

The FM assessment found wide variations in capacity, with poorer states and districts generally having less capacity to plan, manage, and account for the use of funds. Since releases of SSA funds depend on satisfactory reporting on previous expenditure, poorer states will require improved FM capacity if they are to meet the program's objectives.

The original design of the SSA program included some provision for capacity building, including training and a central technical assistance team to help poorly performing districts. The SWAp added enhancements to these arrangements: roll-out of a finance manual, use of FM performance indicators, strengthening of the central technical assistance team, and appointment of a Finance

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Director for SSA. Since these are modifications to Gol's internal arrangements, they are likely to continue at least until the program ends in 2010.

Financing Formula

For donor partners, a key issue was ensuring that their financial support would be additional funding available over the lifetime of the program. Capturing this in a legal agreement proved problematic because multiyear budget commitments conflicted with Gol's system of submitting annual budgets for Parliamentary approval. The agreed solution was to use a disbursement formula that rewards increases in Government expenditure, with donor partners funding two-thirds of program expenditures over an increasing annual threshold.

Disbursements

In establishing the disbursement arrangements, the donors aimed both to ensure a steady, predictable flow of funds to support SSA implementation and to fund a share of total actual audited expenditures. To meet these twin objectives, the program will first provide an initial advance, then base subsequent payments on unaudited FMRs, and finally adjust later payments to reflect differences between the audited financial statements and FMRs. Invalid expenditures may be identified either before consolidated FMRs are submitted or by subsequent audit. In either case, Gol will be primarily responsible for adjusting the amounts claimed.

The partners also agreed to provide retroactive financing (based on actual audited expenditures) for a share of total program spending in the fiscal year that preceded the agreement.

To ensure timely availability of funds to village education committees and local resource centers, the program treats transfers to entities below district level as incurred expenditure. SSA and local fund audits include safeguards to ensure that funds are used for the purposes intended.

Simplifying Audit

Firms of chartered accountants, appointed separately in each state, will report on the total SSA program

expenditure, following common terms of reference acceptable to the donor partners. Rather than providing separate audit reports for each state, which is the norm for other projects, the Ministry of Human Resource Development will provide partners with a consolidated program audit report. This will be the first time a centrally sponsored scheme operating across states supplies a consolidated report on audit, and it should strengthen Gol's ability to compare financial management of the program across states.

Joint Monitoring and Supervision

Twice-yearly SSA supervision will be undertaken jointly by Gol and its partners. FM supervision will be based mainly on reports generated by the SSA program and field visits. An initial package of FM reports (FMRs, results of concurrent audit and statutory audit, and performance indicators for management by states and districts) has been agreed and will be enhanced as Gol and donor partners assess its suitability in practice.

Lessons

The first use of a SWAp in a country is a difficult transition, requiring major changes in the mindsets of Bank, donor partner, and government staff. Time spent early on, ensuring that SWAp principles are thoroughly understood, is a sound investment. FM staff have a particular responsibility and should be involved early in project preparation, given that many of the biggest changes implied by SWAp are in the approach to FM, financing, and disbursement.

Effective joint monitoring and supervision depend critically on the willingness of all parties to continually review the program's financial management arrangements and to adapt them as necessary in light of experience. Lessons learned are not simply a matter of exercising professional aptitude; they are also a function of attitude: openness, deepened levels of trust among the parties, and flexibility will help generate lessons and strengthen the effort to expand primary education in India.

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This note series is issued by the Financial Management Anchor to summarize good practice and key policy findings on FM-related topics.

