

## EIP Country Dialogues on Using and Strengthening Local Systems

### 1. The Use of Country Systems: Commitments and Progress

By endorsing the **Paris Declaration on Aid Effectiveness** in 2005 countries receiving aid agreed to strengthen their national systems and donors agreed to use them to the maximum extent possible. These commitments were reiterated in the **Accra Agenda for Action** (2008) and the Busan Outcome Document (2011), where it was agreed that the use of country systems (UCS)<sup>1</sup> should be the ‘default approach’ to channel aid. Despite Busan’s commitment, progress in using country systems has been mixed according to data from the 2016 [Global Partnership Monitoring Report](#). After an initial increase in the use of country systems (from 40% to 48% between 2005 and 2010), no further progress has been recorded between 2010 – 2014 with indicator 9a remaining around 48%. The latest score for indicator 9b is 51%, still well below the target of 57%<sup>2</sup>.

In order to improve results on this outcome, the Effective Institutions Platform (EIP) members, including CABRI and USAID, joined other partner countries and development partners (DPs) in discussions<sup>3</sup> to further elucidate the current status, good practices and main challenges around the use of country systems during the GPEDC meeting in Mexico in April 2014. **Country dialogues** on the challenge of using country system emerged as the priority, as they could generate the trust and partnerships needed for making progress on implementing this commitment. On that occasion the EIP launched the concept of **Country Dialogues for Using and Strengthening Local Systems**.

Given these commitments and strong partner interest in making progress on the UCS, the EIP has developed materials and initiated pilot dialogues in Senegal and Bangladesh, based on a country-led approach to this discussion, see below for emerging information on those dialogue processes.

### 2. Country Dialogues: objectives and process

The multi-stakeholder Country Dialogues provide a space for the government and DPs to discuss **risks and opportunities for using country systems**. Building on local efforts to integrate aid in the budget process, from planning to reporting, the Dialogues aim at fostering these efforts while ensuring that issues such as ownership, leadership, accountability, monitoring and evaluation systems (involving CSOs, Parliaments and Supreme Audit Institutions SAIs) are also taken into consideration.

- The Dialogues are launched at the **request of the government** (usually the Ministry of Finance and/or Ministry of Planning) keen to see DPs increasingly use their national mechanisms of audit, procurement, treasury, planning and budget preparation.

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<sup>1</sup> Under these commitments, country systems are defined as national arrangements and procedures for public financial management, procurement, audit, monitoring and evaluation and social and environmental procedures.

<sup>2</sup> Only seven developing countries, out of 46 participating to the target review, have reached the 85% target of aid reported on budget for Indicator 6.

<sup>3</sup> Two sessions were dedicated to the issue of use of country systems: ‘Unfinished Business: Moving forward to meet the Busan commitments’ and ‘Using Country Systems and Measuring their Strength: What’s Next?’

- The starting point of a Country Dialogue is an **agreement between the Development Partners (DPs) and the government** of the partner country on what is meant by UCS, moving away from a narrow understanding as only providing budget support to an approach that considers how aid can be integrated along the whole public management chain from planning to reporting.
- The Country Dialogue is resulting in a country-level agreement between DPs and the government on concrete themes and an **action plan** to move local systems to centre stage and assist in strengthening country institutions in a more holistic and open manner.

### 3. Structure of the Dialogues

**Country Dialogues on Using and Strengthening Local Systems** have been launched in two pilot countries, Senegal and Bangladesh, and they are taking place following these indicative stages:

**Phase 1** consists of a **fact-finding mission** in order to produce an **inception report**.

**Phase 2** takes the form of **in-country working sessions**, gradually moving from technical discussions toward high-level meetings, including participants from donor governments and the DAC, to commit to the engagements identified. The dialogues begin by discussing the outcomes of the mapping/inception report and identify short-term and medium-term opportunities for progress and collective action. These sessions facilitate the drawing up of Joint development partner and Government options for progress (or a flexible route map for progress toward increasing UCS).

**Phase 3** **monitor progress** against the joint DPs and government options for progress six-month or a year after implementation. Besides feeding into the Dialogue, the results will also be shared in the framework of peer-to-peer learning alliances (P2P LA) organised by the EIP.

**Actors and roles include** the national government and DPs operating in the country as the main actors in the dialogue, though a range of stakeholder can be included.

**Advisory Groups are used to help provide feedback at each step in the process and are** composed of a limited number of representatives from both parties.

**The EIP Joint Secretariat** plays the role of the “honest broker”, providing evidence and data to the factual dialogue, as well as bringing in political leverage to help ensure high-level participation in the dialogue. The EIP Peer Learning Guide <https://www.effectiveinstitutions.org/en/our-approach/2> peer-to-peer learning process launched in EIP can be used to assist with follow through and exchange where this is needed.

**A professional facilitator** could be hired for leading the working sessions in-country, to ensure and interesting exchange of information with the active participation of the audience, preparing to-the-point questions, orienting the dialogue to reach a formal agreement on proposed recommendations.

**A Research Consultant can serve as an** expert on PFM reforms and aid policies accompany the preparation of the inception report and the recommendations issued from the dialogue.

#### 4. What's next?

- ✓ As noted above, the EIP has already piloted the country dialogues in Senegal and Bangladesh, and a short synopsis of these experimental efforts is included below. Other countries may be interested in joining going forward. Lessons learned from the pilots will be discussed at this EIP Annual Meeting and at the Global Partnership on Effective Development Co-operation (GPEDC) Ministerial 30<sup>th</sup> November-1<sup>st</sup> December 2016.
- ✓ If this dialogue approach assists in increasing the use and strengthening local systems, it could be increasingly used by partner countries and development partners within and beyond the EIP context.

#### Questions for Break-Out Groups:

- *What opportunities are there for development partners' use of country systems across aid modalities and system components?*
- *What are the main bottlenecks with using country systems (strength/capacities of country systems, donor policies) and what are policy options to address them?*
- *How do the Government and development partners hold each other accountable for using country systems?*
- *What have been lessons learned on the benefits and costs of joint-dialogue in Bangladesh and Senegal on Strengthening and Using Country Systems? In your countries did the government engage in similar efforts in the past (i.e. Ghana Country Dialogue within the framework of the building block on PFM).*

### Use of Country Systems Dialogue in Senegal

The issue of aid transparency and use of country systems matter as aid constitutes a significant share of public resources in Senegal, where it represents about 41% of total Government revenue. Therefore, how well aid is managed is an important factor in how well overall public finances are managed. Thus, the keeping track of the use of aid at each stage of the budget process will result in effective public finance management:

- *Aid transparency will lead to an alignment with basic principles of sound budgeting and financial management:*
  - Increased comprehensiveness of the Budget, thus facilitating macroeconomic management and effective distribution of resources
  - Increased Fiscal transparency – decision-makers have all relevant information – is a driving force for improving fiscal management.
  - Transparency is also important to ensure accountability – decisions and their basis, results and costs are accessible, clear and communicated to the wider community – so that decision-makers are held responsible.

- *Aid integration will lead to greater potential for overall impact by:*
  - Improving alignment with partner country policies and co-ordination,
  - Increasing country ownership and domestic accountability, strengthening systems, including a more stable macroeconomic framework and higher efficiency in public expenditure.

Senegal is characterised by its **proactive approach to implementing** the Paris Declaration and Busan Monitoring Framework, illustrated by its participation in the follow-up surveys. However the use of country system in Senegal has actually declined from 31% in 2010 to 22% in 2013 and climbed up again to 42% in 2015.

This provided the rationale for the Ministry of Finance, Economy and Planning to enter a dialogue with development partners to discuss and remove technical and political bottlenecks related to the use of country systems. Senegal is implementing a large reform programme, which is, according to Government, already showing significant improvements in the country's Public Financial Management (PFM) system. Indeed, Senegal is currently implementing guided by the **West African Economic and Monetary Union (WAEMU)**'s harmonised framework for public finance management of 1997 as amended in 2009, which has to be completed by 2017.

During the first round of consultations organised by the EIP and CABRI in September 2015 the stakeholders (several branches of Senegalese government, development partners and CSOs) identified four dimensions of the UCS as priorities areas for further progress: planning, budgeting, reporting and procurement.

So far, the engagement in Senegal has indicated that using country systems is not just a technical matter; thus, given some amount of distrust between the different stakeholders, the most realistic approach will be to implement a phased approach. **Phase I** will involve improving the flow and the management of aid information as well as integration of this information to the different dimensions of the use of country systems. Efforts from development partners to increase the supply and quality of aid information coupled with efforts from Government to integrate this information in the different steps of the budget process will be used a demonstration effect for better aid transparency. This can help build trust between the different stakeholders and help implement further reforms and engagement on using country's systems.

### **Objectives:**

- In addition to having a direct impact on improving the country's indicators under the Global Partnership Monitoring Report survey, the project is expected to facilitate decision making and an effective allocation of resource. It could also be as a starting point for further reforms on increasing the use of country systems.

## **Expected achievable outcomes in the short term:**

### **“On Plan”: Aid transparency**

- Understanding challenges related to aid transparency and present key issues to be tackled for improving flow of information.
- Propositions to enhance coordination and communication between the different government and non-governmental actors to improve the flow of information (i.e. mainly around comprehensiveness, timeliness, usefulness, accessibility, etc.) and this information medium and long term aid flow to be available to the internal and external source.

#### **“On Plan”: Integration:**

- Recommendations to enhance participation of development partners in the planning phase and sectorial plans as well as increasing coordination between key line ministries and the Ministry of finance.
- Proposing sustainable mechanisms and criteria to ensure that information provided is relevant and integrated to the planning process, this includes concrete mechanisms for donors to provide realistic medium term projections.

### **“On Budget”: Aid transparency**

- Recommendations to make aid information available to internal and external audience in the form of a short brief presenting how external finance is being used and how this use fits the medium-term plans to be developed by the department receiving this aid information and possibly published on their website.
- Ensuring that the ministry of finance receive information in a timely manner and under the appropriate format from line ministries as well as development partners to ensure the accuracy of the data.

#### **“On Budget”: Integration:**

- Defining criteria for the type of aid information to be included on the budget.
- Assess the scope for the adoption of budget identifier for external financing in the chart of account. This is expected to allow for a deeper integration of aid in the budget process.

### **“On Reporting”: Aid transparency**

- Strengthen and streamline mechanisms for reporting
- Clearly define roles of agencies in charge of reporting.

#### **“On Reporting”: Integration**

- Donors need to adapt to government classifications, currency, time periods and reporting timetables to increase the value of reports.
- Ensure there is a need for coherence and discipline in dealings with donors.

## **Brief Findings on Using and Strengthening of Country Systems in Bangladesh - A Case Study**

### **Executive Summary**

Bangladesh has the support of many bilateral and multilateral donors and has played a forefront role in the implementation of Effectiveness agenda since 2005. This has led to an increasing emphasis in recent years on the importance of coordination, harmonization and alignment of development cooperation with government priorities. The use and strengthening of country systems is one response to ensure efficiency and effectiveness in the management of development assistance. It aims to harness continuity in the country's decade-long growth spree to achieve its 'Vision 2021', and to support both national poverty reduction and the international commitment to meeting the Sustainable Development Goals (SDGs). Bangladesh is not an isolated case of poor application of country systems by its development partners. Many developing countries struggle with this particular aspect of Global Partnership for Effective Development Cooperation (GPEDC) agenda. The initiative of Effective Institutions Platform (EIP) emerged as a response to this global deficiency which prompted in the objective to bring together the government and development partners at the country level in an effective engagement through dialogue to:

- Further improve government systems and capacity in delivery and management of external assistance;
- Reduce transaction costs for government and development partners; and
- Increase government and development partner awareness of potential efficiency gains and cost savings resulting from better use of country systems.

### **Recommendations**

The case study on the Use of Country Systems in Bangladesh presents the outcome of an assessment of the use of four elements of country systems: *planning and budgeting, aid information flows, accounting, reporting and auditing and procurement* and their impact on overall effectiveness of managing external assistance in Bangladesh. Enormous gains have been made in stabilising the growth in GDP since beginning of new Millennium. But this is only the experience of a decade and half, and public financial management is still extremely weak. A gulf remains between financial accountability in Bangladesh and international standards and best practices. This study, however, reveals that laws and regulations, relating to almost every area of resource management, exist, but often they are not properly enforced.

In recent years, though, the government has increasingly acknowledged weaknesses, and demonstrated a willingness to review options and strategies with which to improve management of public expenditure to ultimately strengthen public financial management. A series of reform initiatives have been undertaken in this area and some of which (for example, Financial Management Reform Programme (FMRP), Public Procurement Rules (PPR), etc.) are successfully implemented during the last two decades. But, the impact still remains mixed.

On the positive side, several strategic level processes continue to improve. Budget preparations and systems for priority setting at the national level and within ministries, are slowly approaching benchmark standards. Additionally, in spite of institutional limitations, the Medium Term Budgetary Framework (MTBF), plays a critical role in unifying the Annual Development Plan (ADP) and recurrent budget regimes. Strategic level monitoring processes undertaken by finance division of the Ministry of Finance supported by the office of the Comptroller and Auditor General (CGA) are functional and provide for a degree of in year budget oversight. This is also supported by improving compliance with the legal framework, notably the Public Procurement Act and implementation of Public Procurement Review (PPR) in full force.

Real weaknesses however, continue at the operational level, and progress here has been slower than expected to cope-up with the requirements for transitioning to upper middle income country by 2021. Moreover, there is some evidence of an imbalanced reform process – with little concentration on the practice of budget management and control below ministry level.

Separate mention is merited of the currently weak arrangements for audit. Here, progress has been incremental and insufficient to provide the necessary level of assurance; again greater attention is needed to strike the balance between practice and delivery as compared to policies and structures. Key issues are weak staff capacity, especially in relation to the application of modern systems-based audit, rooted in risk and materiality. Equally, important is the delivery of a basic internal audit function to rightly enforce internal control. However, it is also worth noting that Development Partners' assisted project audits (provided by Foreign Aided Project Audit Directorate (FAPAD)) offer relatively higher levels of assurance.

In summary, this study concludes that, although current systems (generally) continue to pose some level of fiduciary risks these are not so severe, as to preclude the use of national systems, and that the net benefits remain positive. This study has also identified actionable steps in the areas of operational budget management and improving the control environment. It is underlined that these should be limited in scope to the ministries and entities in which the DPs are active as trailblazers for other services and branches of the government. It is further recommended that these inputs should be led by the Government of Bangladesh and reforms delivered by change management.

See <http://www.effectiveinstitutions.org/en/> for more information and contact details.