TOWARDS A GREATER USE OF COUNTRY SYSTEMS IN AFRICA:

RECENT TRENDS AND APPROACHES

SYNTHESIS REPORT AUGUST 2014

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CONNECT • SHARE • REFORM

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ACRONYMS AND ABBREVIATIONS

AfDB	African Development Bank
CABRI	Collaborative Africa Budget Reform Initiative
CIPFA	Chartered Institute of Public and Financial Accountancy
CPIA	Country Policy and Institutional Assessment
DAC	Development Assistance Committee
DFID	Department for International Development
DRC	Democratic Republic of Congo
EU	European Union
GDP	gross domestic product
GPMR	Global Partnership Monitoring Report
IATI	International Aid Transparency Initiative
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
NGO	non-governmental organisation
ODA	official development assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
PD	Paris Declaration
PDMS	Paris Declaration Monitoring Surveys
PEFA	Public Expenditure and Financial Accountability
PFM	public financial management
PIU	project implementation unit
SAI	supreme audit institution
SWAp	sector-wide approach
UCS	use of country systems
UNICEF	United Nations Children's Fund
US	United States
USAID	United States Agency for International Development
USD	United States Dollars

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EXECUTIVE SUMMARY

There are many benefits to using country systems, such as improved alignment with partner country policies, increased country ownership and domestic accountability, and strengthened systems, including a more stable macroeconomic framework and higher efficiency in public expenditure.

It has been argued that using country systems also leads to greater potential for overall impact, improved co-ordination, increased predictability and sustainability of donor programmes, as well as lower transaction costs for official development assistance (ODA).

The Paris Declaration on Aid Effectiveness commits donors to use country systems (UCS) and procedures to the maximum extent possible. In turn, partner countries will undertake the necessary reforms to ensure that national systems, institutions and procedures for managing aid and other development resources are effective, accountable and transparent. These commitments were restated in the Accra Agenda for Action in 2008 and emphasised in article 19 of the Busan Global Partnership Agreement in 2011.

The Busan Partnership agreement committed donors to using country systems by default for development cooperation in support of activities managed by the public sector.

Progress to date in using country systems and remaining challenges

- While there was a greater willingness and momentum towards increased UCS evidenced by data from the Paris Declaration Surveys of 2005 to 2010, data from the 2014 Global Partnership Monitoring Report show that this commitment is in decline in Africa.
- Most countries have experienced an increase in the use of public financial management (PFM) and procurement systems.
- Countries that are more reliant on aid experience lower UCS. Generally, high-volume donors are less inclined to use procurement systems in high-aid-receiving African countries than is the case in the rest of the world.
- However, 'new' instruments have emerged over the past few years that should contribute to the greater UCS, especially for high-aid countries.
    - Programme for results – funding flows through country systems and is disbursed once agreed results have been achieved.
    - New budget support instruments for fragile states – waiving some of the requirements for budget support in the interests of restoring public services and building institutions.
- Challenges remain in implementing the Global Partnership commitments on using country systems. These include capacity to manage using country systems at the country level (e.g. weak co-ordination mechanisms), lack of donor guidance on how to use country systems, and persistent donor incentives to not use country systems.

Key lessons learnt and recommendations

1. Countries should create entry points for development partners to shift to UCS. Specific and sustained reform of parts of the PFM system will encourage UCS.

   In fact, increases in UCS are often preceded by specific and effective reforms of sub-components of the PFM system, such as in the case of procurement in Tanzania.

   Our report finds that the least used systems are planning and budget preparation, except for cases of un-earmarked sector budget support and general budget support.

   Country audit systems tend to be the common entry point for donors in using country systems.

   There is evidence of gains being reversed when issues arise, such as the irregular and inefficient use of funds.

2. Countries and donors should develop country-donor co-ordination systems that prioritise making aid transparent (such as aid management systems and sector review processes) as platforms for a move towards using country systems. Non-executive actors have an important role to play in these platforms.

   Other key factors matter in UCS, including country capacity for implementation and strength of donor co-ordination mechanisms.

3. Donors need to develop guidance for the UCS, not only for budget support and programme-based approaches, but for all aid modalities, including project support.

   Donor policy frameworks are important for guiding country-level staff in implementing greater UCS. In this regard, very few development partners, including the United States Agency for International Development USAID, the Department for International Development (DFID) and the World Bank, have updated their policies regarding UCS since the Busan Declaration.

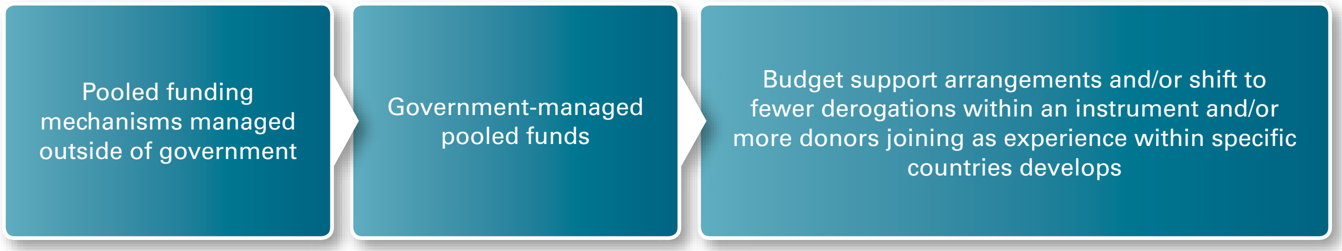
   Many country offices still operate in the absence of updated frameworks regarding UCS. In the case of many donors, there is a lack of technical guidance and procedures for the application of country systems to non-budget support/pooled funding.

   Procedures that describe why country systems are not used as the default position are not always included in donors' guidelines.

4. The research finds that in many respects, a 'trailblazer' role may need to be taken up by one donor to provide other donors with a path to follow.

   There is also a threshold effect in UCS. In fact, it is more common for UCS to increase despite lack of improvement (or deterioration) in PFM systems, than for UCS to decrease when systems deteriorate or remain stable. This suggests that progress by one donor can yield sustained progress by encouraging a larger group of donors to increase UCS.

   There is evidence that donors grow into using country systems through a graduation process:



5. Donors should use derogations as a safeguard only in the last resort.

   Indeed, we find that even minor derogations have a significant impact on (and cost to) the budgetary process of partner countries, often resulting in a domino effect on other parts of the system.

6. Donors should strengthen efforts to provide complete, reliable and useful aid estimates. Further progress on the International Aid Transparency Initiative (IATI) common standard is needed. Countries should use this resource, including the budget identifier, which bridges the gap between donors' projects and budget classifications used by countries.[1] Efforts to harmonise fiduciary risk assessments, and fiduciary risk-management frameworks and mitigation measures, are needed and best undertaken at the global level.

   While 'global light, country heavy' is a guiding principle of the Busan Global Partnership, some issues still require significant effort at the global level.

1 See IATI 2012, PWYF 2013.

INTRODUCTION

In order for African states to grow out of aid, the development of sound public financial management (PFM) systems, which enable governments to manage public resources with efficiency, integrity and effectiveness, is critical. The commitments made by donors in the 2005 Paris Declaration to use country systems to the maximum extent possible and by countries to strengthen their systems were as much in recognition of the damage done to systems when donors manage aid through parallel channels as of the potential pay-off of increased investment in countries' own systems when these are used.

At the Third High Level Forum on Aid Effectiveness, held in Accra in 2008, both partner countries and donors agreed to accelerate and deepen their commitment to UCS. Donors agreed to move from using country systems to the greatest extent possible to using these systems 'as the first option'.

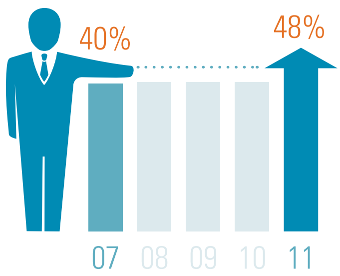
The Fourth High Level Forum on Aid Effectiveness, held in Busan in 2011, committed donors to UCS by default for development co-operation in support of activities managed by the public sector, subject to the outcomes of joint assessments of country systems. The Busan Partnership agreement states:

> *Where the full use of country systems is not possible, the provider of development co-operation will state the reasons for non-use, and will discuss with government what would be required to move towards full use, including any necessary assistance or changes for the strengthening of systems.* (OECD 2011: 5)

Despite the shared commitment to using country systems made in Paris and Accra, little progress had been made in the use of such systems by the Fourth High Level Forum. The 2011 Paris Declaration Monitoring Survey,[2] found that only 48 per cent of disbursements used country PFM systems in the countries also surveyed in 2007, an improvement of 8 percentage points. Similarly, only 44 per cent of disbursements used country procurement systems in 2011, and only 46 per cent of donor disbursements were reflected in country budgets (compared to a target of 85 per cent). By 2013, however, some of the improvements in UCS in Africa registered between 2006 and 2013 had been reversed, as is illustrated below.

Despite the shared commitment to using country systems made in Paris and Accra, little progress has been made in the use of such systems by the Fourth High Level Forum.

The slow increase in the use of country systems, 2007–2011



Study purpose, scope and approach

Study purpose and scope

The purpose of the current study is to increase the knowledge of CABRI members and participating countries regarding the different practices of the main donors in Africa, in order to strengthen their approach to UCS – and potentially their bargaining positions – thereby promoting UCS. For the report, a cross-country review was undertaken to determine the practices of the ten biggest donors in Africa, as well as country practices.

2 Three Paris Declaration Monitoring Surveys have been conducted to date: the Baseline Survey, undertaken in 2006 (using 2005) data; the 2008 Survey (using 2007 data); and the 2011 Survey (using 2010 data).

This research was supplemented by two in-depth country case studies.

The report focuses, in particular, on:

- donor practices, incentives, risks and attitudes at country level in respect of UCS, and how the incentives at country level differ from the incentives at headquarters level;
- a description of the various ways in which donors partially use country systems in Africa, and the associated risks and benefits from a country perspective;
- the incentives countries face to use country systems and how these differ between the centre of government and line ministries; and
- ways in which project implementation units (PIUs) can be used more beneficially, and how their use interacts with UCS.

Defining the use of country systems

The subject of the study is UCS, which has two aspects: what would count as *country systems*, and what would count as *using* them. According to the Paris Declaration:

> *Country systems and procedures typically include, but are not restricted to, national arrangements and procedures for public financial management, accounting, auditing, procurement, results frameworks and monitoring.* (OECD/DAC 2005: 4)

Paris Declaration Indicator 5a measures the use of partner country PFM systems as the use of budget execution, auditing, financial reporting and procurement systems, while Indicator 3, which is related to alignment with partner country strategies, measures how much aid is reported on budget. Indicator 9a of the Busan monitoring framework monitors the use of the same components of country systems as Indicator 5a, while Indicator 6 also measures how well aid is reported on budget.

CABRI has often employed the terms 'use of country systems' and 'aid on budget' interchangeably. In the 2008 'aid on budget' research programme, it interpreted the use of systems as referring to all elements of the expenditure budget cycle, from planning through to audit (CABRI 2009). It defined the use of systems in each phase as follows:

- *on plan* – aid is integrated into spending agencies' strategic planning and supporting documentation for policy intentions behind the budget submissions;
- *on budget* – aid is integrated into budgeting processes and is reflected in the documentation submitted with the budget to the legislature;
- *on Parliament* – aid is included in the revenue and appropriations approved by Parliament;
- *on Treasury* – aid is disbursed into the government's main revenue funds and is managed through the government's systems;
- *on procurement* – procurement using aid funds follows the government's standard procurement procedures;
- *on account* – aid is recorded and accounted for in the government's accounting system, in line with the government's classification system;
- *on audit* – aid is audited by the government's auditing system; and
- *on report* – aid is included in *ex post* reports by the government.

This typology has been adopted by many stakeholders as a useful way to describe existing practice comprehensively, while at the same time offering a framework to target progress towards improved UCS, as proposed in the OECD *Practitioners' Guide to the Use of Country Systems* (OECD 2011 (b)). The 2009 OECD-DAC report on UCS, similarly, defined it as the use of systems in 'the entire budget cycle from strategic planning to oversight' (OECD-DAC 2009: 13).

The current research, however, makes a finer distinction between 'use of country systems' and 'aid on budget' than has been drawn by CABRI (and others) to date. There are two dimensions to bringing aid on budget. The first is whether comprehensive official development assistance (ODA) information is available, enabling the country to integrate this information into decision-making on the allocation of funds, to reflect ODA on budget and in budget documents, and to report ODA to Parliament and citizens. The second dimension is whether donors actually rely on country systems to manage their resources.

The first dimension is primarily a matter of aid transparency. While aid transparency is critical for country systems and budget decision-making processes, the issue at hand for this study was not whether countries reflect or integrate aid information in their budget processes, but rather the question around the second dimension, which is the degree to which donors are prepared to rely fully or partially on country systems to plan, budget, disburse, procure, account for and report their aid resources.

The distinction is particularly well illustrated in the 'on plan' and 'on budget' dimensions. One way of using country systems in this narrower sense in these dimensions, is to shift resources from earmarked project and programme flows to budget support. However, country systems can also be used in project and programme flows when these two modalities are planned and budgeted through country systems, even if they are not managed fully as budget support. For example, in many sector-wide approach (SWAp) arrangements, donor resources are planned and budgeted in line with and through the country budget process, even if funds are not managed as budget support. In the 'on plan' and 'on budget' dimensions, when and how this UCS occurs, is the primary focus of the research.

For the purposes of the research, therefore:

- the term **aid transparency** is used to refer to the integration and reflection of ODA by the government in all phases of the budget process, from planning through to audit and evaluation;
- the term **use of country systems** is used to refer to the willingness of donors to plan, manage, monitor, report, audit and evaluate their aid resources using country rather than their own systems; and
- the term **aid on budget** is used to refer to a catch-all of aid-transparency and UCS issues.

The 'use of country systems' in this narrower sense is seen as a continuum of practices throughout the budget cycle, with the ideal being the delivery of aid using all of the components of the core budget process fully, notwithstanding the aid modality. Thus, donors can use country systems to a greater or lesser degree: they can use some or all of the PFM component systems, and in any one or all components they can integrate their support fully, or only to some degree, to be managed by the country notwithstanding the modality.

Conceptually, and in practice, UCS is associated with a number of key development effectiveness issues.

Related concepts and definitions

Conceptually, and in practice, UCS is associated with a number of key development effectiveness issues. For the purposes of definition and clarity in this report, we briefly set out the issues here.

Off-budget ODA and different disbursement channels
A key issue for UCS is the disbursement channel. In principle three channels are possible:

1. ODA can be disbursed through the country Treasury (i.e. it can be on Treasury);
2. ODA can be disbursed as cash to the recipient country institution, which bypasses Treasury, but can still be counted as UCS; or
3. ODA can be managed by the donor itself or be disbursed to a contracted third party (e.g. a consultancy company or an NGO).

Clearly, ODA that flows through channels 1 and 2 uses country systems in the on-Treasury dimension. However, use of these channels does not imply use in other dimensions, nor does use of channel 3 necessarily imply that country systems are not used in other dimensions.

'Off-budget' aid is a term that is used broadly to refer to ODA that, in some significant way, is not 'on budget' – often channel 3 flows. For the purposes of the research, however, the term 'off-budget' aid is used narrowly to refer to ODA that is not approved by the country's Parliament as part of the budget approval process (in other words, ODA that is not 'on-Parliament').

Budget support and different aid modalities
UCS is often associated with a shift to budget support (general and sector budget support), which, by definition, uses country systems across the budget cycle. However, the study has shown that sector budget support does not always use systems fully (i.e. all systems and without additional safeguards). At the same time, budget support is also not the only way in which donors can use country systems. Project and programme aid modalities also use country systems and, insofar as these still account for the bulk of ODA resources, how and when this occurs is a key part of the study. The study, however, also looks at the degree to which a shift to budget support underlies increased UCS, and at the factors that increase UCS through budget support.

Research scope and focus

Figure 1 sets out the research scope of the report. It illustrates that the research overall has two related but separate focuses: UCS and use of PIUs. For UCS, the research focused on two areas, namely the use of budget support and donors' actual UCS to plan, budget, execute, manage, account for, report and audit non-budget support aid resources.

For use of PIUs, the research investigated the Paris Declaration blanket approach to reducing the use of PIUs, asking the key question as to whether there are circumstances under which the use of PIUs results in a better trade-off between the short-term risks of not achieving results or misusing funds, and short- and long-term sustainability risks.

The research was undertaken between November 2012 and April 2014 and comprises four main elements: (a) analysis of available global comparative data on UCS (updated in April

2014); (b) two country case studies (undertaken in 2013); (c) a literature review on additional African countries (2013); and (d) engagement with key donors and donor literature (2013).

Figure 1: Use of country systems research scope

Case studies

The two country cases were Tanzania and Burundi. Their selection was based on the interplay between two main factors:

- quality of PFM systems and changes in quality, as measured by the World Bank Country Policy and Institutional Assessment (CPIA) and/or the Public Expenditure and Financial Accountability (PEFA) frameworks; and
- changes in UCS, as measured by the Paris Declaration Monitoring Surveys (PDMSs).

Three further factors were taken into account: (a) high ODA in absolute terms and/or in terms of ODA as a percentage of GDP; (b) regions and administrative heritage characteristics; and (c) the availability of literature on ODA management in the countries. The two country cases were selected from a long-list of 16 high-aid-receiving countries, for which standardised UCS data were available. Tanzania was selected as a country with high and increasing UCS, despite declining scores on PFM aspects. The country scored 79.8 on the PEFA index,[3] and lost one point in its CPIA score between 2005 and 2010, but had the highest score on the UCS index.[4] Burundi was selected because it fell in the group of countries for which improvement in PFM was measured, but for which commensurate increases in UCS did not occur. Burundi scored only 27 on the UCS index, despite improving its CPIA score by half a point and having a PEFA index score of 78.1. Table 1 provides the relevant factors by long-list country.[5]

Table 1: Long-list of case study countries by selection criteria

	ODA volume (USD million)	ODA as % of GDP	PEFA index[4]	Change in CPIA	UCS index	Change in PD Indicator 5	Admin. heritage	Region
Tanzania	22 915	7%	79.8	-1	72	13	Anglo	East
Ghana	32 175	3%	77.6	0	67	-2	Anglo	West
Mozambique	9 209	15%	89.2	0.5	65	11	Luso	South
Malawi	5 054	10%	87.4	0	59	11	Anglo	South
Uganda	17 197	6%	79.5	-0.5	56	6	Anglo	East
Ethiopia	29 684	6%	95.1	0	53	24	Other	East
Burkina Faso	8 825	5%	95.8	0.5	53	8	Franco	West
Rwanda	5 624	10%	100.0	0.5	52	11	Franco	East
Cape Verde	1 659	15%	91.6	0.5	47	-35	Luso	Island
Kenya	32 198	4%	76.1	0	45	11	Anglo	East
Mali	9 422	7%	87.3	-0.5	34	3	Franco	West
Sierra Leone	1 910	10%	78.8	0	33	37	Anglo	West
São Tomé & Principe	201	16%	60.2	0	31	7	Luso	Island
Liberia	988	71%	63.1	2.5	28	42	Anglo	West
Burundi	2 027	14%	78.1	0.5	27	-1	Franco	West
Congo, Dem. Rep.	13 110	18%	54.0	0	10	0	Franco	Central

Source: Paris Declaration Survey database, accessed 5 December 2012; DAC2a database, accessed 27 November 2012; World Bank Development Indicators, accessed 27 November 2012; various PEFA assessments; CABRI website

3 Constructed using the average PEFA score for each country, where the best performing country was equalled to 100. The average PEFA score was calculated on all main dimensions (except for the donor dimensions) for the latest available PEFA converted to numerical values.

4 The UCS index was calculated for the research. It comprises four components, namely the country's performance on PD Indicator 3a, 5a, 5b and 6. For indicators 5a and b the index uses the percentage of funds that used country systems in 2010, expressed as a fraction of 35. For Indicator 3, the calculation used the deviation (positive or negative) on the c=a/b form (i.e. country budget ODA as a percentage of country disbursements to the government sector) from 100 per cent (which would be perfectly reliable and comprehensive). This score was then expressed as a fraction of 15. As a proxy for country use of PIUs given the volume of ODA, for indicator 6 the number of project management units in 2010 was divided by the total ODA disbursed to the government sector. The country for which the highest amount was disbursed by PIU was then equalled to 100, and index scores calculated for the other countries, in order to provide a ranking for the composite score. This index ranking was then expressed as a fraction of 15.

5 Tanzania 2010, Ghana 2010, Mozambique 2008, Malawi, 2008, Uganda 2012, Ethiopia 2010, Burkina Faso 2010, Rwanda 2010, Cape Verde 2008, Kenya 2012, Mali 2010, Sierra Leone 2010, São Tomé & Principe 2010, Liberia 2009, Burundi 2012, Democratic Republic of Congo 2008.

Country fieldwork occurred in April and May 2013, and was one week in duration. The fieldwork focused on UCS and PIUs in practice, utilising a common research framework (see Annex 1). The Tanzania and Burundi case studies are published separately from this publication and available on CABRI's website (www.cabri-sbo.org).

Additional country cases were selected from this list. For these, the team perused available literature on public financial and aid management, to deepen the evidence base provided by the two country case studies. For these cases, the team also used the research framework, but did not try to construct a coherent case study; rather, data relevant to the overall research questions were extracted from the literature as further examples or counter-examples. The selected countries were Mozambique, Burkina Faso, Malawi, Uganda, Mali, Sierra Leone and the Democratic Republic of Congo (DRC).

Donor review

Donors were selected on the basis of the overall volume of aid provided in Africa in 2010 (see Table 2). In addition to 2010 being the latest year for which data were available at the start of research, it is also the year for which the most recent Paris Declaration Monitoring Survey (PDMS) data were available. Overall, the study uses donor and country data between 2005 and 2010, to match the PDMSs. Table 2 provides the value of net disbursements by the selected top 15 donors for 2010.[6] Within this group, the team secured interviews with four of the top five donors (the World Bank, the European Union, USAID and the DFID), and researched the practices of the top ten donors through a literature review. Data for all 15 selected donors were used in the data analysis.

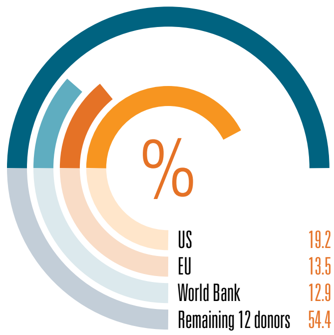
Donors were selected on the basis of the overall volume of aid provided in Africa in 2010.

Table 2: Top 15 donors to Africa by value of net disbursements, 2010

USD million (current prices)	2010
United States	7 763
EU institutions	5 443
World Bank	5 196
France	4 187
United Kingdom	3 075
Germany	1 948
Global Fund	1 914
Japan	1 888
African Development Bank	1 760
Canada	1 535
Netherlands	1 369
Spain	1 245
Belgium	1 212
Norway	947
Denmark	860

Source: OECD-DAC2a, Disbursements to countries and regions, accessed 28 November 2012

Top three donors to Africa out of the top fifteen



6 The International Monetary Fund (IMF) was replaced by Denmark, on the basis of their respective practices, Denmark's significant aggregate financial contribution and high performance on PD indicators.

A REVIEW OF USE OF COUNTRY SYSTEMS IN AFRICA

The study analyses the reflection of aid on budget, UCS, PFM performance and use of PIUs for countries in Africa, as well as for the 15 top contributors to ODA resources flowing to Africa. For the former, the study looked at both the Paris Declaration indicators and the Busan Global Partnership indicators (as provided in the 2014 Global Partnership Monitoring Report (GPMR 2014). For the latter, it focused on the Paris Declaration indicators. Table 3 summarises the indicators used.

This section discusses trends for samples of African countries in the PDMS and the GPMR in some detail, and provides an overview of donor data.

Table 3: Indicators used to review data on UCS in Africa

Aspect	Paris Declaration indicators	Busan Global Partnership indicators
Quality of PFM systems	Indicator 2a of the PDMS and Indicator 9a of the GPMR measure change in the quality of country systems, as reflected in the selected components of the World Bank's Country Policy and Institutional Assessment (CPIA) framework.	
Reflection of aid on budget	Indicator 3 is calculated as the ratio between ODA recorded on budget, and ODA actually disbursed. It calculates performance either: • as ODA on budget as a percentage of ODA disbursed to general government (fiscal year, the c=a/b calculation in the Paris Declaration Survey); or • as ODA disbursed to general government as a percentage of ODA on budget (fiscal year, the c=b/a calculation in the Paris Declaration Survey). In this form, the indicator shows whether budgets are reliable predictors of actual donor disbursements.	Indicator 6 is also calculated as ODA recorded on budget as a ratio of ODA scheduled (not disbursed as for the PDMS indicator), in two components: • ratio A shows what proportion of scheduled disbursements, across all co-operation providers, was recorded on budget; and • ratio B shows the sum of funds recorded on budget beyond or more than scheduled disbursements, as a proportion of scheduled disbursements in cases where funding recorded on budget by the government is greater than disbursements scheduled by providers. In this form, the indicator shows whether budgets are reliable reflections of donor disbursement schedules.
Use of country systems	Indicator 5a and 5b measure the proportion of aid disbursed to the general government sector that uses country financial management (5a) and procurement (5b) systems. Country financial management systems comprise budget execution, financial reporting and audit systems, and the indicator calculates the average of funds using these systems, divided by ODA disbursed to the government sector.	Indicator 9b includes procurement systems in the composite measure, which is calculated as the average of ODA using country budget execution, financial reporting, audit and procurement systems, divided by ODA disbursed to the government sector.
Use of PIUs	Indicator 6 counts the number of PIUs by donor by country, and reports the totals. Note that the data do not indicate whether units are integrated into country systems or whether they are donor-managed units.	No indicator.

Analysis by country

Reflection of aid on budget

No cross-country data are available to assess the volume of aid for which donors physically use country systems to plan and budget. However, having good information on aid is essential for effective and efficient planning of a country's own resources.

Budget documents are highly unreliable predictors of ODA disbursements. Table 4 sets out the 2010 scores for high-aid-receiving countries in Africa on Indicator 3 (c=a/b). Country scores range from 5 per cent to 187 per cent of disbursed funds having been on budget, with a percentage higher than 100 indicating that fewer funds were disbursed than had been recorded on budget. However, country scores in the Paris Declaration Survey reports are not the weighted average of donor performance within the countries. These scores are calculated by dividing the aggregate ODA reported on budget by aggregate ODA disbursed, with over-reporting of ODA for some donors cancelled out by the under-reporting for others. Table 4, therefore, also shows the lowest and highest percentages reported in the 2010 survey for donors, as well as the weighted average and the standard deviation. These data make it clear is how unreliable budget documents are as a predictor of aid disbursements and, by extension, how little is known about ODA during the budget preparation process.

Table 4: Reliability of country budget documentation – Paris Declaration Indicator 3 (c=a/b) for selected African countries[7]

	Using aggregate data for country (2010)	Lowest donor score (donor in brackets)	Highest donor score (donor in brackets)	Weighted average score	Standard deviation
Burkina Faso	84	20 (Canada)	161 (US)	76	41
Burundi	52	0 (several donors)	104 (World Bank)	33	37
Cape Verde	51	0 (Global Fund)	115 (Spain)	57	38
Congo, Dem. Rep.	187	0 (several donors)	96 772 (UK)	13 406	31 379
Ethiopia	48	0 (Sweden, Spain)	217 (Germany)	42	53
Ghana	93	33 (Japan)	401 (Switzerland)	108	83
Kenya	139	0 (AfDB and Canada)	929 (IFAD)	157	212
Liberia	5	0 (all donors except EU)	52 (EU)	6	16
Malawi	90	0 (Japan)	159 (AfDB)	84	47
Mali	66	0 (Italy)	199 (AfDB)	68	60
Mozambique	90	5 (Global Fund)	268 (AfDB)	98	55
Rwanda	71	0 (US)	192 (IFAD)	72	45
São Tomé & Principe	110	0 (Global Fund, World Bank)	2 112 (AfDB)	316	685
Sierra Leone	52	0 (Global Fund, Japan, US)	113 (AfDB)	35	39
Tanzania	108	0 (Spain)	327 (France)	128	73
Uganda	104	0 (France)	215 (AfDB)	94	49

Source: OECD Paris Declaration Evaluation Dataset, accessed 5 December 2012; author calculations

7 Using individual donor data (for 2010) for country.

When the weighted average is used, in only three countries (Mozambique, Uganda and Ghana) was the amount of aid on budget between 90 and 110 per cent of the amount of resources disbursed. From the donor perspective, country budgets in the 16 selected countries recorded between 90 and 110 per cent of disbursed resources for only three of the 15 selected high-aid-volume donors to Africa (Sweden, Denmark and the World Bank). For the remainder, the differences between aid recorded on budget and aid disbursed were larger than 10 percentage points. The DRC is the outlier, with very little of the aid that was recorded on budget disbursed, as well as high variation in the performance of donors. According to survey data, the United Kingdom disbursed only USD0.35 million, whereas the budget estimates predicted USD340 million.

The budgets of African countries monitored in the 2014 GPMR appear to be better reflectors of donor disbursement schedules than of actual disbursements, as reflected in the Table 5. The aid on budget indicator for the GPMR switched to scheduled disbursements rather than actual disbursements as the denominator. While 81 per cent of scheduled aid was reflected on budget, only 75 per cent of disbursed aid was. At the same time, an amount equal to 20 per cent of actually disbursed aid was over-reflected, compared to 17 per cent of scheduled aid. Poor *ex-ante* data represents one of the major risks for partner countries associated with UCS.

Table 5: Budgets reflect disbursement schedules better than disbursements

	Donor disbursements to African countries (GPMR 2014)
Funds recorded on budget	USD million 16 706
Scheduled disbursements	USD million 16 957
Actual disbursements	USD million 13 210
Scheduled disbursements on budget (ratio *a*)	81%
Actual disbursements on budget (ratio *a* calculation applied to actual disbursements)	75%
Budgeted ODA beyond scheduled disbursements (ratio *b*)	17%
Budgeted ODA beyond scheduled disbursements (ratio *b*) calculation applied to actual disbursements	20%

Source: GPMR (2014)

However, some improvement occurred in the reliability of budgets as reflectors of disbursement schedules. If the country scores for 2013 for the countries within the group of African GPMR countries, for which 2010 data are also available, are averaged for the A and B forms of the indicator, and compared to their average 2010 scores, there is an improvement of 11 percentage points in the proportion of scheduled disbursements that were recorded on budget, but also a higher incidence of overestimation of resources, with overestimation equalling 28 per cent of scheduled disbursements in 2013 compared to 2010 (see Table 6).

Of the 46 countries covered in the 2014 GPMR, budgets in African countries are better reflectors of donors' disbursement schedules than are the budgets of non-African countries. Across the 22 African countries measured, in total 81 per cent of donor scheduled disbursements were reflected in country budgets (compared to 70 per cent for non-African countries). However, budgets in GPMR African countries reflected a total of 17 per cent of resources beyond or more than scheduled disbursements, compared to only 6.1 per cent in non-African countries.

Table 6: Aid recorded on budget in African and non-African countries

	Funds recorded in government budget	Scheduled disbursements to the government sector	2013 A	2013 B
All African countries in GPMR 2014	16 706	16 957	81%	17%
All other countries in GPMR 2014	11 723	15 466	70%	6%

Potentially, UCS can improve the quality of aid data, as the incentives change for countries to ensure they have proper information. However, based on the PDMS data for high-volume donors, donors using country systems do not appear to provide better data up-front. For donors that provided more than 60 per cent of their resources on average across the selected African countries using country budget execution systems in 2010 (PDMS Indicator 5a, Budget execution),[8] the budgeted disbursements for only three – Denmark, the World Bank and the Netherlands – were between 85 and 115 per cent of disbursed resources (see Annex 3), which is indicative of the high risk involved for countries when donors use country systems. A deviation of more than 15 per cent from budgeted expenditure and revenue would result in a D score on the PEFA indicator for budget credibility.

Use of PFM systems

Use of PFM and procurement systems increased between 2005 and 2010 for high-aid-volume African countries. Analysis of the PDSM data for all three PD surveys shows that while there are wide disparities in the use of country systems by country, most countries have experienced an increase in the use of both PFM and procurement systems (see Figure 2 and Figure 3).[9]

Potentially, UCS can improve the quality of aid data, as the incentives change for countries to ensure they have proper information.

Indicator 5a, measuring performance by partner country, reflects wide disparities, from Tanzania, which reported in the 2010 survey that 79 per cent of ODA disbursed for the general government was managed through country PFM systems, to the DRC, in which 13 per cent of ODA disbursed was managed through country PFM systems. At the same time, almost all 16 countries, with the exception of Ghana, Cape Verde and Burundi, received more aid resources in 2010 than in 2005 through the use of country PFM systems. Mali received fewer resources through PFM systems in 2010 than in 2007, but still more than in 2005.

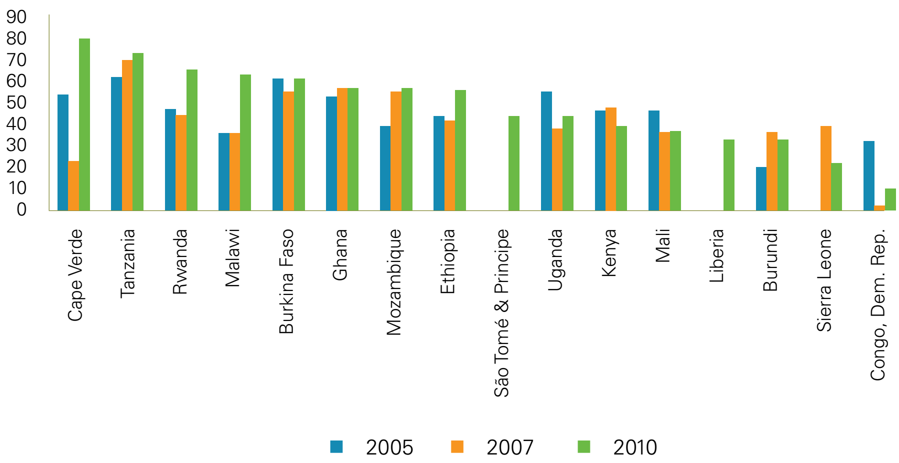
Most countries experienced an increase in the use of country procurement systems between 2005 and 2010, with the largest increases in São Tomé & Principe, Liberia and Malawi, but the DRC, Burkina Faso, Uganda, Kenya, Mali and Sierra Leone reported a decrease in UCS. In the group of countries selected, Tanzania is amongst the top three performers.

8 For this calculation, the data for the Democratic Republic of Congo were not included, as the Indicator 3 data are highly distorting due to the very poor quality of ODA data on budget.

9 Note that Liberia, São Tomé & Principe and Sierra Leone are not reflected for 2005 and 2007, as these three countries were not surveyed in those years. In some cases, data for 2007 were included in the 2010 Paris Declaration Survey Report. For all other countries, no data indicate a 0 score.

Countries that are more reliant on aid experience lower UCS.

Figure 2: Percentage of ODA managed through country procurement systems for selected African countries, 2005, 2007 and 2010

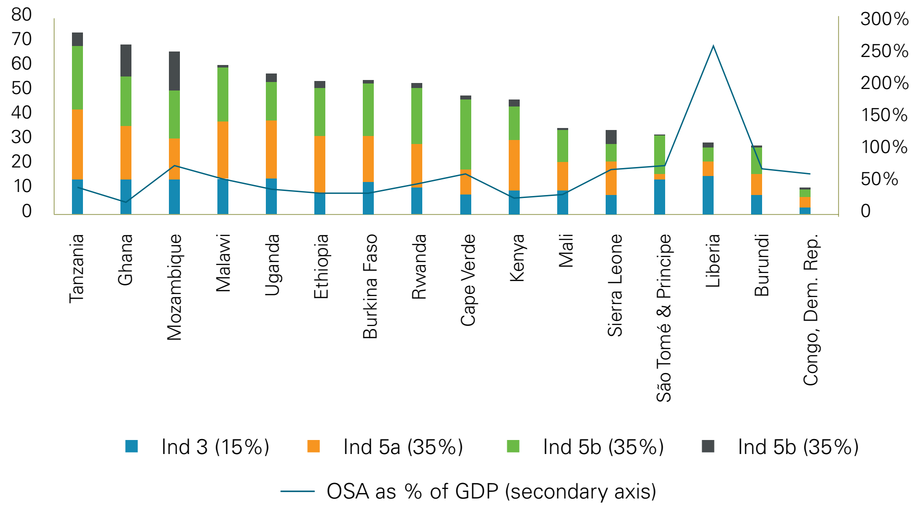


The 16 selected countries outperformed their African counterparts overall in the use of country PFM and procurement systems in 2010. Whereas, on average, 52 per cent of ODA resources used PFM and 54 per cent of resources used procurement systems in these countries for the top 15 donors, across Africa the comparative percentages for all donors were 38 per cent and 37 per cent. The data also show that donors used PFM and procurement systems more in the African sub-group of the 32 survey countries, than in all survey countries in Africa in 2010.

Countries that are more reliant on aid experience lower UCS, as illustrated by Figure 3, which utilises the index explained above as a composite measure of UCS. While the ranking of countries is interesting, it is notable that countries for which ODA equals a higher percentage of GDP are clustered more towards the right hand side of the figure, with very little UCS, with the exception of Mozambique (relatively high ODA-GDP ratio and high UCS) and Kenya and Mali (relatively low ODA-GDP ratio and low UCS).

In contrast to the increase experienced, on average, between 2006 and 2010, the 2014 GPMR indicates that in Africa, UCS across PFM and procurement systems may have declined between 2010 and 2013. The GPMR provides comparative data for 2010 for some African countries in the sample. When the range and distribution of the average UCS is calculated for these countries, for each of the two years, using the PDMS methodology, it shows that they received fewer resources in 2013 through country systems than in 2010. Also, African countries received fewer resources through country systems than non-African countries.

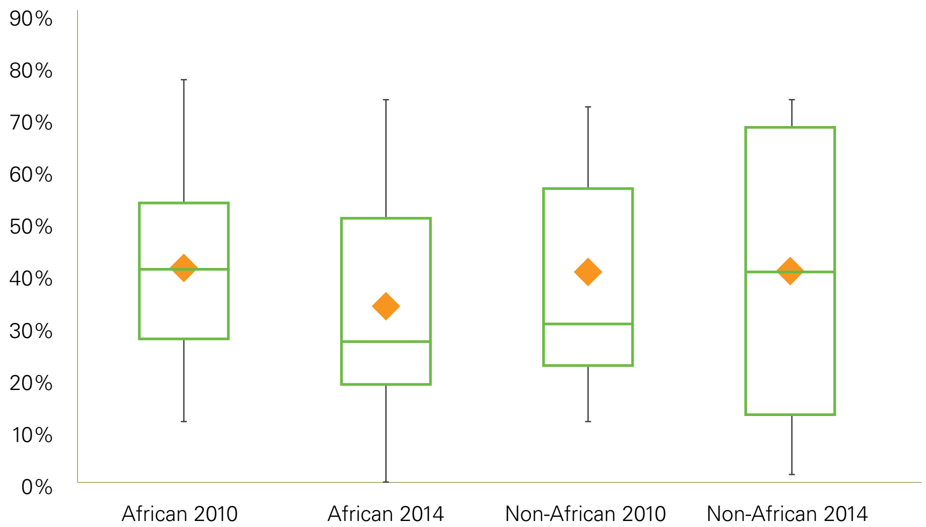
Figure 3: Composite index of UCS, and ODA as a percentage of GDP, for selected African countries, 2010



Source: OECD Paris Declaration Evaluation Dataset; UNdata; own calculations

This is illustrated in the 'box and whiskers' Figure 4. In 2010, the top 50 per cent of African countries in which donors used country systems received 41 per cent and more of their resources through country systems. In 2013, the top 50 per cent of countries received only 28 per cent and more of their resources using country systems. In contrast, elsewhere the percentage increased from 31 to 42 per cent. Overall in Africa, the distribution shifted downwards, even if the top value remained fairly constant. The 50 per cent of African countries between the 1st and 3rd quartiles shifted from between 27 per cent and 53 per cent of their resources received using country PFM systems in 2010, to between 19 per cent and 50 per cent in 2013.

Figure 4: Range and distribution of use of PFM systems in African and non-African countries, 2010 and 2013



Source: GPMR (2014)

Donors use country PFM systems for a higher proportion of their resources in non-African than in African countries, in each of the phases of the budget cycle.

The GPMR calculates aggregate scores across countries. At this aggregate rather than country level for the full complement of 22 African countries surveyed, donors put 42 per cent of disbursements to the government sector through country systems. This contrasts with the 57 per cent performance in 24 non-African GPMR (2014) countries. The contribution of the different phases of the PFM cycle to the aggregates is illustrated in Figure 5.

Figure 5: Performance of African and non-African countries on the use of public financial management systems in the 2014 GPMR

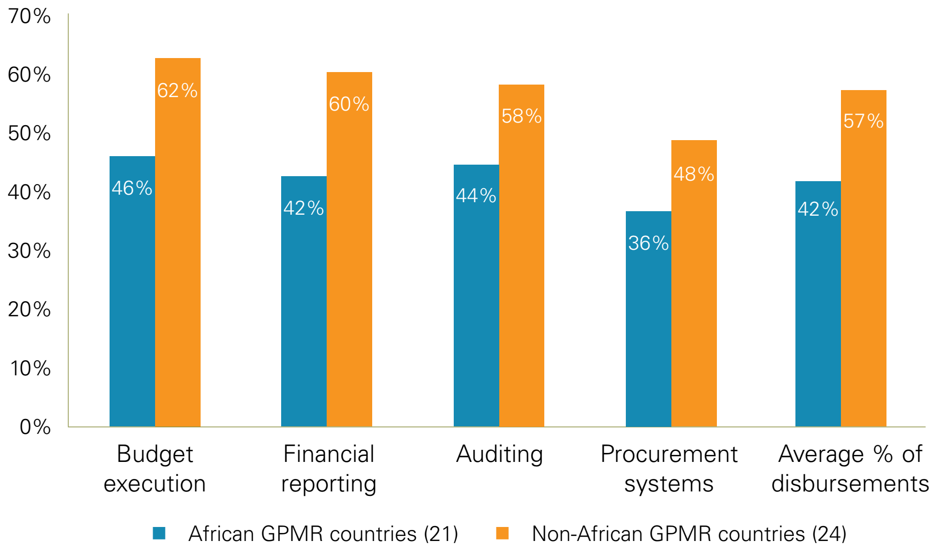


Figure 5 shows that donors use country PFM systems for a higher proportion of their resources in non-African than in African countries, in each of the phases of the budget cycle. It also shows that in Africa, donors use budget execution and auditing systems more frequently than financial reporting and procurement systems, with procurement systems used the least (at 36 per cent of resources disbursed). This aligns with case study findings in this report, particularly with regard to audit systems. It is a similar pattern to countries elsewhere, except that financial reporting systems are used almost as often as budget execution systems and more than auditing systems in countries monitored outside of Africa.

The difference in UCS between African and other countries in the GPMR is starker when considered at the country level for all countries, rather than at the aggregate level or only for the countries with comparable 2010 data. We calculated the mean, lowest value and highest value for the full African, and non-African group of countries (see Table 7). Interestingly, while the non-African group's lowest value is close to that of the African, the median and highest values are significantly higher. On average, 50 per cent of the African countries monitored across the PFM cycle had less than 26 per cent of resources disbursed using country systems. Elsewhere this value was 60 per cent.

Table 7: Median use of country financial management systems in African and non-African GPMR countries

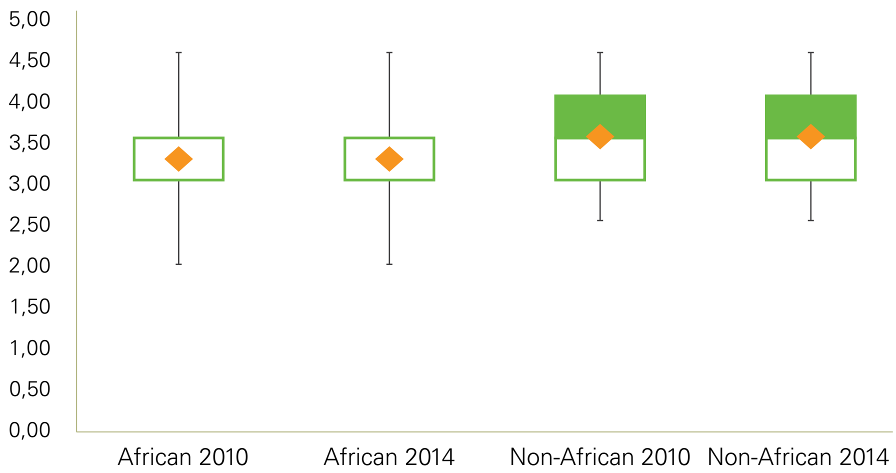
	African GPMR countries	Non-African GPMR countries
Lowest value	0%	1%
Median	26%	60%
Highest value	73%	94%

Source: GPMR (2014)

Quality of PFM systems and use of country resources

The lower UCS in Africa reflects weaker performance on the quality of PFM systems. Altogether, 20 of the 22 African GPMR countries were scored on indicator 9a for 2010 and 2013, compared to 12 non-African GPMR countries. On average, the African countries scored lower on this indicator than their peers elsewhere. Figure 6 shows the range and distribution of scores in both cases. While in both cases 50 per cent of countries had a score of 3.5 and above, registered maximum scores of 4.5 and 25 per cent of countries scored between 3 and 3.5, in the case of the African countries, all countries in the 3rd quartile also had a score of 3.5. In the case of non-African countries, the 3rd quartile was between 3.5 and 4 inclusive. Also, the lowest score for African countries was lower, and the range of scores therefore larger.

Figure 6: Range and distribution of quality of PFM system scores for African and non-African GPMR countries, 2010 and 2013



Source: GPMR (2014)

For the countries monitored, UCS in 2013 seemed more weakly aligned with changes in the quality of country systems between 2010 and 2013, than UCS in 2010 did with changes between 2005 and 2010. While the data and samples for the two surveys are not comparable, the trends indicate a shift away from UCS.

Table 8 shows the relative change in CPIA scores and Indicator 5a, which measures the use of PFM systems. The shaded blocks indicate the strongest correlation between changes in country system performance and changes in UCS between 2005 and 2010. Countries were rated 'UCS stable' when their Indicator 5a score changed by less than 5 percentage points. 'CPIA stable' indicates no change in the CPIA score.

Table 8: Correlation between improvements in CPIA and use of country systems in 16 selected African countries, 2005–2010

	UCS increased	UCS stable	UCS decreased
CPIA increased	Liberia*, Rwanda, Mozambique, Burkina Faso	Burundi	Cape Verde
CPIA stable	Sierra Leone, Ethiopia, Malawi, Kenya, São Tomé	Ghana, DRC	
CPIA decreased	Tanzania, Uganda	Mali	

*Note: * 2005 and 2007 CPIA not reported; for Liberia, the 2012 PEFA shows improvement over the 2010 assessment*

Source: OECD Paris Declaration Evaluation Dataset, accessed 5 December 2012

While UCS and PFM performance do not correlate in ten out of the 16 cases, in the selected African countries, the data suggest that donors are more inclined to use country systems even if PFM systems are stagnant than vice versa. Out of the 16 countries, in six cases, decisions on UCS correlate to change in those systems. Interestingly, however, it was more common for UCS to increase despite lack of improvement or deterioration in systems than it was for UCS to decrease despite systems improving or remaining stable. Only three countries fell in the latter category, while in eight countries, UCS increased without a corresponding CPIA score improvement.

For the 2010 to 2013 sample (GPMR African countries with comparable data on both indicator 9a and 9b), this trend is reversed: countries experienced a decrease in UCS even when CPIA scores remained stable or improved. Of the 20 African GPMR countries for which both 2010 and 2013 data are available (and have an Indicator 9a score), only two showed a deterioration in CPIA scores (by -0.5 each), and one an increase (of 0.5). How this relates to changes in UCS on a country-by-country basis, is set out in Table 9.

While UCS and PFM performance do not correlate in ten out of the 16 cases, in the selected African countries, the data suggest that donors are more inclined to use country systems even if PFM systems are stagnant than vice versa.

Compared to the analysis for the PDMS dataset (see Table 8) and using the same definition of 'UCS stable' (a change of less than 5 percentage points on indicator 9b), only one out of 19 countries shows a correlation between changes in its PFM system and use of country systems, based on the GPMR dataset and indicators (see Table 9). In the PDMS set of high-aid African countries analysed above, six of 16 countries fell within the shaded blocks (see Table 8).

It is also notable that whereas the majority of countries were clustered in the 'UCS increased' column of Table 8 (11 out of 16), 12 out of 19 are now in the 'UCS decreased' column, despite the quality of PFM systems predominantly remaining stable in both. The degree of the swing is also illustrated by the fact that out of the 11 high-aid-receiving countries (in italics) that saw UCS increase between 2005 and 2010, eight saw it decline between 2010 and 2013.

While GPMR Indicator 9b is not fully compatible with Indicator 5a of the PDMS, insofar as it includes procurement systems, our analysis shows that it does not make a significant difference to shifts demonstrated by a comparison between the two tables. The only movement would be of Mozambique (shifting to UCS stable when the Indicator 5a method of calculation is used).

Table 9: Changes in UCS relative to changes in CPIA 2010–2013 for African GPMR countries

	UCS increased	UCS stable	UCS decreased
CPIA increased			Sudan
CPIA stable	Cameroon, *Kenya*, *Rwanda*, Niger	Benin	Lesotho, *Mali*, *Cape Verde*, *Ethiopia*, *Malawi*, *DRC*, Togo, Senegal, *Burkina Faso*, *Burundi*, *Mozambique*
CPIA decreased		*Tanzania*, Madagascar	

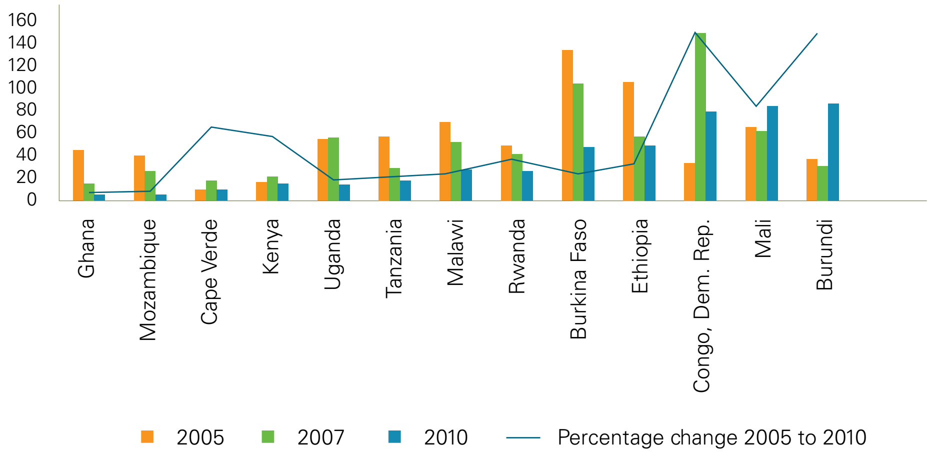
Source: GPMR (2014)

Use of project implementation units

More aid-reliant countries have a higher prevalence of PIUs and no or smaller decreases in their use. For all African countries in the 32 countries surveyed in 2005, 2007 and 2010, on average the number of PIUs declined from 49 to 37. For the countries selected for this survey, this decline was even steeper, from an average of 56 units per country in 2005, to 35 in 2010. The decrease was greater still for non-African countries, which on average had 60 units per country in 2005, declining to 35 in 2010. Figure 7 shows the number of PIUs in the selected countries. The three countries with the highest number of units in 2010 (the DRC, Mali and Burundi) also experienced an increase in units, contrary to the global trend. On the other hand, the countries with the largest decline in units (Ghana and Mozambique) also had the fewest units by 2010.

More aid-reliant countries have a higher prevalence of PIUs and no or smaller decreases in their use.

Figure 7: Number of project implementation units in selected African countries, 2005, 2007 and 2010

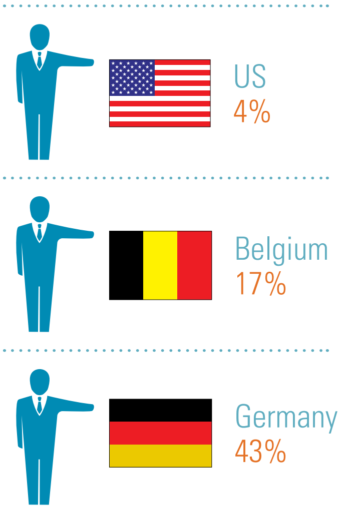


Source: OECD Paris Declaration Evaluation Dataset, accessed 5 December 2012

Performance by high-aid-providing donors to Africa

The 15 high-aid-providing donors to Africa performed well in 2010 across the world in the use of country PFM and procurement systems. On average, for the 32 PDMS countries, only five of the top donors to Africa used country PFM systems (5a) for less than 50 per cent of their ODA to general government (see Table 10). These were the United States, Belgium, the African Development Bank (AfDB), Germany and France. For the 32 survey countries, only three of the top donors to Africa used country procurement systems (5b) for less than 50 per cent of their ODA to general government. These were the United States, Belgium and the AfDB.

Top PDMS countries using country PFM systems for less than 50 per cent of their ODA, 2010



However, while on average the Paris Declaration Surveys did not show a significant difference in the use of PFM systems for the 16 selected African countries for the high-volume donors to Africa compared to the full set of 32 survey countries, there was a difference in the use of procurement systems, with these donors less inclined to use them in Africa than elsewhere on average. It is particularly Japan, Spain, France and Canada that use procurement systems more commonly elsewhere than in the 16 selected African countries. It is also worth highlighting that Belgium and the United States use country PFM systems more in the selected African countries than elsewhere. At the same time, however, the high-volume donors to Africa use country systems more in the selected African countries than do all donors in all surveyed African countries (on average, there is 38 per cent use of PFM systems and 37 per cent use of procurement systems in all surveyed African countries).

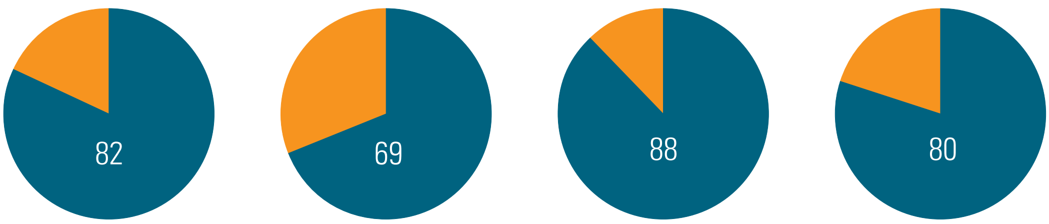
Table 10: Weighted average UCS for selected high-volume donors to Africa

	Public financial management		Procurement	
	For 32 survey countries (a)	For 16 selected African countries (b)	For 32 survey countries (c)	For 16 selected African countries (d)
AfDB	39	47	33	39
Belgium	17	33	44	56
Canada	72	69	77	60
Denmark	62	71	80	77
EU institutions	56	57	55	56
France	48	43	78	58
Germany	43	50	61	56
Global Fund	61	59	70	56
Japan	60	28	61	29
Netherlands	68	59	82	74
Norway	82	69	88	80
Spain	54	54	65	42
United Kingdom	73	65	75	63
United States	4	10	4	14
World Bank	69	67	54	51
Average for selected donors	54	52	62	54

Note: 100 = full use of country systems

Source: OECD Paris Declaration Evaluation Dataset, accessed 5 December 2012, OECD Paris Declaration Survey Report 2012

Norway scores highest with its use of both country procurement and PFM systems



WAYS IN WHICH COUNTRY SYSTEMS ARE USED

This section provides a description of how, according to the CABRI typology, country systems are used in different modalities. The section also highlights common patterns, and the ways in which donors have additional requirements, necessitating a derogation from existing rules, or additional processes and mechanisms. Box 1 provides definitions of how the study uses key UCS terms.

Use of key terms

These boxes set out how terms are used for the purposes of this report. For many of the terms used, there is no agreed definition (even if they are used commonly). Others have been formally defined, particularly if used in tracking international agreements such as the Paris Declaration.

Aid modalities and aid instruments: The term 'aid modality' is used to refer to different forms of aid that bring together characteristics of what the aid supports, how it is channelled and how it is managed. An 'aid instrument' refers to the mechanisms and procedures through which donors channel resources. Aid instruments are used in the report as a broad category of overlapping mechanisms and procedures.

Budget support: Direct budget support is defined as a method of financing a partner country's budget through a transfer of resources from a donor to the partner government's national Treasury. The funds thus transferred are managed in accordance with the recipient's budgetary procedures. Funds are not earmarked in any way.

Sector-wide approaches (SWAps): A sector-wide approach is an approach or process in which funding for the sector, whether internal or from donors, supports a single policy and expenditure programme, under government leadership, and the adoption of common approaches across the sector. It is generally accompanied by efforts to strengthen government procedures for disbursement and accountability.

Additionality: Additionality refers to the requirement that funds should not replace the government's own funding for a particular purpose, but should be additional to that funding.

Project support: This describes earmarked funds provided to implement a specific and predefined set of development activities over a specified period of time. Project support is characterised by narrow, detailed objectives, activities and expenditures.

Programme support: The term programme support equates with programme-based approaches, designating a donor supporting a locally owned programme of development, such as a national development strategy, a sector programme, a thematic programme or the programme of a specific institution.

Sector budget support: The OECD defines sector budget support narrowly as a form of budget support in which the dialogue is focused on sector issues, but which does not include earmarking of funds. Studies, however, have recognised that, in practice, the term 'sector budget support' covers a wide spectrum of practices with various derogations from country systems, including earmarking. Consequently, in order to describe these practices, the report uses a much wider definition of sector budget support: in order to qualify as sector budget support, funding must be disbursed to the government in support of a sector programme.

Traceability: Traceability refers to the requirement that development partner funds should be traceable through the PFM system. Earmarking requirements often go together with traceability requirements.

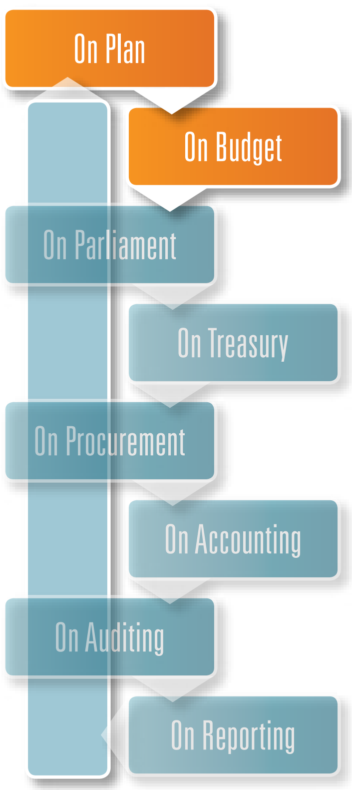
Earmarking: Earmarking refers to the practice of requiring official development assistance to be used for specific purposes.

Additional requirements and derogations: These terms are used interchangeably in the literature and this report, depending on sentence structure. They refer to the donor requirements necessitating any deviation from how the government's own funds are planned, managed, reported and audited in the PFM system. The report, however, distinguishes between different types of additional requirements/derogations, including process requirements and safeguards.

Process requirements: Process requirements are a specific form of additional requirement. When a development partner requires a specific process in order to use country systems that would not otherwise have been part of the country's budget planning, implementation, accounting, reporting and audit systems, it is a process requirement.

Safeguards: Safeguards are a specific form of donor requirement in which a development partner requests a derogation that will reduce the risk that its funds will be used for purposes other than those intended or desired by the donor. Safeguards can refer both to additional processes, reports or controls, and to different practices to tag funds such as earmarking and traceability.

Pooled funds and basket funds: There is no common, formal definition of pooled and basket funds. A 'pooled fund' is commonly used to refer to instances where funds from different sources are combined in an account to be used for a common purpose. This report uses the term 'basket fund' to refer to a specific type of pooled funding that includes only donor resources, separately from government resources for the same purpose. Note that, in principle, a basket fund can be held within the central bank or in the government's name if in a commercial bank, or it can be managed completely outside of government systems. While this report refers mostly to basket funds of the former type, where the latter is described it will be clear in the context. The context of the paper will also make it clear when a pooled fund includes government resources.



When country systems are defined as comprising all systems across the budget cycle, from planning to audit, review and evaluation, there are no aid modalities for which some special requirements on country systems are not in place. Even for pure general budget support, dialogue and reporting requirements are additional requirements. However, it is commonly accepted in the literature that the degree to which country systems are used, and with which derogations or additional requirements, is related to the choice of aid modality and instrument. It is, however, also accepted that there is no reason, in principle, why project aid cannot use country systems in full.

On plan and on budget

The study found that compared to other modalities, project support uses country planning and budgeting systems to programme aid the least, beyond the use of sector plans and SWAp arrangements to align project objectives to government priorities. For the most part and for all donors, projects are planned and budgeted using donor systems.[10]

At the other end of the spectrum, per definition, country planning and budgeting systems are used in full for general budget support. Two forms of additional requirements in budget support arrangements are common: additional financial management safeguards, and requirements with regard to planning and budgeting processes to ensure that

10 An exception, although in effect a series of projects, is the US assistance delivered through the Millennium Challenge Corporation, which, within the framework of the compact, allows countries to plan and budget for the use of funds. This, however, is usually done through specific units, and processes are separate from governments' core planning and budgeting systems.

budget support funds are used for development purposes. Requirements with regard to earmarking, additionality and traceability of sector budget support funds, also ensure that funds are used for the intended purposes.

Earmarking happens when general budget support is merged with national funds at the level of the finance ministry and allocated across the budget using country systems. When earmarking occurs within budget support, it becomes sector budget support.

Earmarking happens when general budget support is merged with national funds at the level of the finance ministry and allocated across the budget using country systems.

The study found different practices with regard to sector budget support in terms of earmarking. The OECD-DAC guidelines for sector budget support describe it narrowly as budget support, but with the focus of the dialogue on sector-specific concerns (OECD-DAC 2006). Thus, in principle, sector budget support should use country planning and budgeting systems fully and should not be earmarked.

In practice, however, many have recognised that sector budget support describes a spectrum of practices with different types and degrees of earmarking (see, for example, Handley 2009). Handley highlights three characteristics as determining whether an aid instrument amounts to sector budget support: (a) the channel of disbursement; (b) the degree of earmarking; and (c) the nature of dialogue. Handley agrees with ODI and Mokoro (2008) that in order for an aid instrument to count as sector budget support (rather than as a contribution to a pooled fund), it needs to follow the same channel as national funds, and needs to have a sector focus in dialogue. The degree of earmarking, however, can be variable.

At one end of the spectrum is the sector budget support arrangement in the Mozambique health sector, the PROSAUDE II fund, in which case a common pool of donor funds (which are disbursed to the sector via the Treasury) are planned and budgeted for at the sector level, in line with sector and national strategic plans. The memorandum of understanding that governs PROSAUDE II is explicit in not allowing donors to earmark their contributions to the common pool in any way (Visser-Valfrey & Umarji 2009). At the other end of the spectrum is the education sector budget support programme in Mali (Thunnissen 2009), where funding is earmarked for specific purposes (such as school building), or the UNICEF contribution to the education sector support programme in Rwanda (Chiche 2009).

In the case of the Mali education sector budget support, even if funds are broadly earmarked (e.g. 30 per cent of sector budget support funds for school construction), their use within the parameters of the earmarking is determined by country processes. These are, however, not 'clean' processes, as Thunnissen (2009) notes: in-depth donor engagement with annual work plans, in itself, entails derogation from country procedures. In some cases, earmarking can be donor-specific, which takes UCS for planning and budgeting further into donor systems. For example, in the Mozambique agriculture sector budget support instrument, some of the participating donors earmark funds in line with their agencies' priorities, although these priorities fit within the overall sector priorities (Cabral 2009).

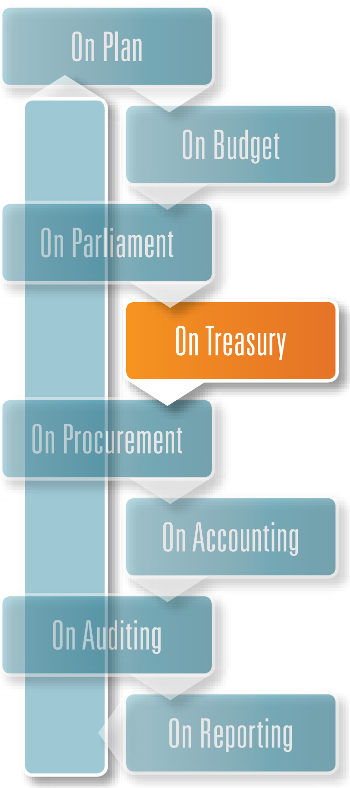
A further requirement that often occurs in the planning and budgeting phase is that funds should be additional. When additionality and high specificity of earmarking are combined, it implies in practice that, except for the smaller details, planning and budgeting for the funds are done by the donors – the education sector support in Benin is an example of this (Ecorys

2008). Requiring that funds are traceable often adds a safeguard layer, but is necessarily associated with earmarking. In order for donor funds to be traceable when using country systems, the funds need to be coded separately from preparation to accounting.

The Sector Budget Support in Practice study (Williamson & Dom 2010) found that in two-thirds of the cases reviewed, funds were required to be traceable. In some cases, donors may require a degree of traceability, even if not earmarking beyond the sector level. In the Mozambique development budget, some PROSAUDE II inflows are identified separately in the budget document as external funds to the sector, even in the absence of earmarking. Traceability may be very specific: in the earlier forms of the Tanzania primary education sector budget support, funds were both specifically earmarked and traceable.

Similarly, in Rwanda, UNICEF's contribution to sector funds is channelled through government systems, but is earmarked for specific capacity-building activities and is required to be traceable. In the Mali education sector budget support, funds are earmarked specifically (e.g. not for salaries), and also are required to be traceable, as contributing donors wanted unused sector budget support funds to roll over. This requirement can be operationalised only if funds are tracked. The result is that what were supposed to be unearmarked funds to support the implementation of sector plans were reflected as additional external funds on budget, and were treated separately throughout the budget process (Thunnissen 2009).

Of the two country case studies undertaken for this research, only Tanzania has sector budget support arrangements. The fieldwork found that donor partners do not engage directly in the allocation of resources in any of the sector support programmes (health, education and agriculture), but in the health sector the framework for sector support does stipulate that a portion of resources must be released at the lower levels of government (Smith 2009; Bartholomew 2014).



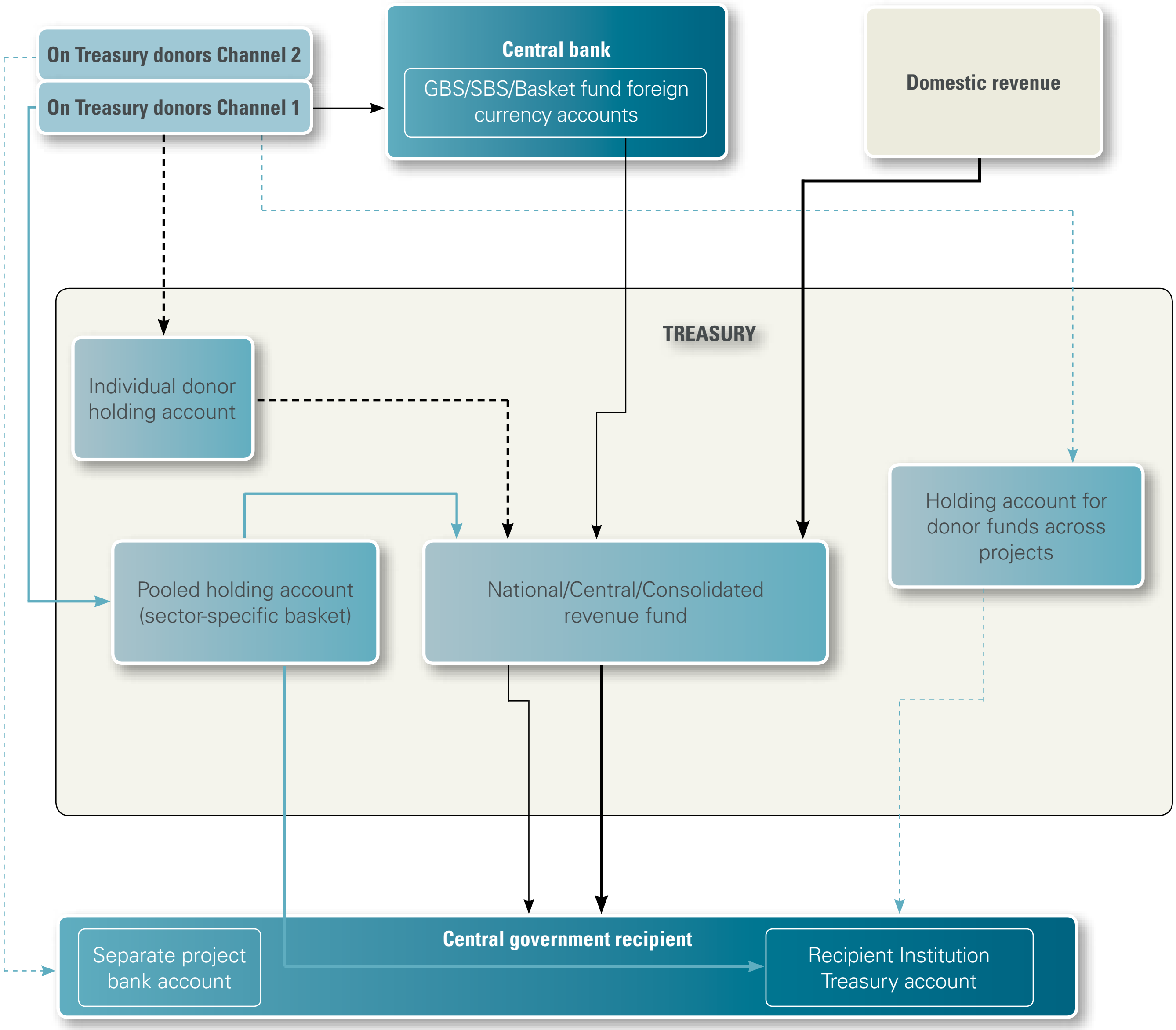
Burundi does not have sector budget support. Besides funds that are provided as budget support, which are not earmarked at all and carry no traceability requirements, there is one basket fund, which operates in the education sector. All flows to the basket are pre-planned and budgeted by donors (Minford 2014). As basket funds, they are also required to be traceable. Thus, these funds are both earmarked and traceable.

Across all sector support and pooled fund arrangements, dialogue with the government on how the funds are to be used (when not pre-earmarked) and managed is a common requirement. While, for donors, this dialogue is an essential part of the budget support/pooled fund approach to providing development assistance, from the country perspective, it can be viewed as an additional requirement affecting budget preparation processes. In Uganda, for example, an annual sector planning and budgeting workshop is held in February/March to discuss the education budget framework paper. In Tanzania, council and regional health plans are discussed at an annual meeting of the sector basket partners and the government. However, such local sector groups and processes provide a safeguard not only for development partners in terms of how funds that use country systems will be employed (particularly if the funds are not earmarked or traceable), but also for countries as a mechanism for aligning donor support with country plans and budgets.

On Treasury

'On Treasury' broadly refers to the disbursement of donor financial aid via government-managed bank accounts. There are, however, many variations within this broad category. Figure 8 summarises the different ways in which donors use government disbursement channels to finance activities in recipient national ministries, as discussed in the subsequent paragraphs.

Figure 8: Channelling money through government-controlled disbursement mechanisms



Overall, having a separate account for donor funds allows for different procedures to apply from that point forward.

Disbursement via the ministry of finance

One set of practices consists of donors disbursing their funds to funds controlled by finance ministries, for further disbursement to the implementing agencies. For general budget support funds, this means disbursement first to a general budget support fund held at the central bank, and then to the main national fund into which tax and other forms of domestic government revenue are paid. This is the practice for general budget support in Tanzania (Smith 2009). Pooled sector support funds and basket funds can be managed in the same way, as is the case with the agriculture basket in Mozambique, which has a foreign currency account at the central bank from which disbursements to the Treasury single account are made (Cabral 2009).

For most sector support and basket funds, however, disbursement via the ministry of finance means disbursement (in local currency) into a separate holding account controlled by the finance ministry, from where it is disbursed into the main revenue fund. For common fund arrangements – for example, in the Tanzania sector baskets in health, education and agriculture – multiple donors disburse to the same common account. The Burundi education sector basket fund follows the same practice. This allows donors to know or control when funds from a common basket go into the main national revenue fund for disbursement to implementing agencies. Some donors, however, even when belonging to a common pool or basket fund, require a donor-specific holding account, which enables knowing specifically when their funds are disbursed (e.g. in the Tanzania health common fund).

In South Africa, no donor funds pass through the central revenue fund. All donor financial aid that is disbursed through country systems utilises an account set up for this purpose, with its own procedures for disbursing to recipient institutions. This is a government choice. Similar arrangements were in place in Benin, Burkina Faso and Cameroon, where a dedicated treasury account (knows as a CAST), rather than the central revenue fund, was used to channel donor funds.

Another example of country-driven special requirements for disbursement comes from Uganda, where the finance ministry made a commitment to disburse budgeted expenditures in full during the financial year for priority poverty-reducing expenditures, which included primary education (Hedger et al. 2010). This provides assurance to budget support donors in the sector, and is enabled through Uganda's commitment-control and cash-management system (see Wokadala & Davies 2012).

Overall, having a separate account for donor funds allows for different procedures to apply from that point forward. Donors can also choose to apply additional safeguards in this process, such as requiring co-signing for releases to the main revenue fund (e.g. the health basket in Liberia) or being informed by letter when disbursements occur (e.g. the DFID in the earlier iterations of its sector support for health in Zambia).

Disbursement directly to government-controlled sector-level accounts

Disbursements directly to ministry- or local authority-controlled bank accounts are common where strict single Treasury account regimes are not in place. The Tanzania case study reports that much aid to local authorities is disbursed directly to bank accounts controlled by local governments, with the result that neither the relevant line ministries nor the finance or local government ministry know about the projects (Bartholomew 2014).

This is, however, not the only case in which 'on Treasury' aid to local government does not equal using government channels for disbursing aid. Also in Tanzania, donor support in the health basket to local authorities is disbursed directly from the holding account to the authorities, rather than being passed through the local government ministry. In the Mali, education sector donors disbursed funds for school construction by local authorities through the national investment agency for local communities, on account of low capacity in the local authorities.

It is common for projects that are implemented through government structures (rather than by donors, themselves, NGOs or contracted donor PIUs) to be disbursed to government structures via government-controlled accounts. However, this is often not through the main Treasury account, but through separate accounts, which may be controlled either by the Treasury or by the recipient institution.

An early example of disbursement for donor projects through the national main Treasury account is from Mozambique, where the creation of a single Treasury account in the mid-2000s, together with transparent cash-management processes, resulted in donor support shifting to on Treasury, not only for basket funds such as the PROSAUDE fund, but also for stand-alone projects.

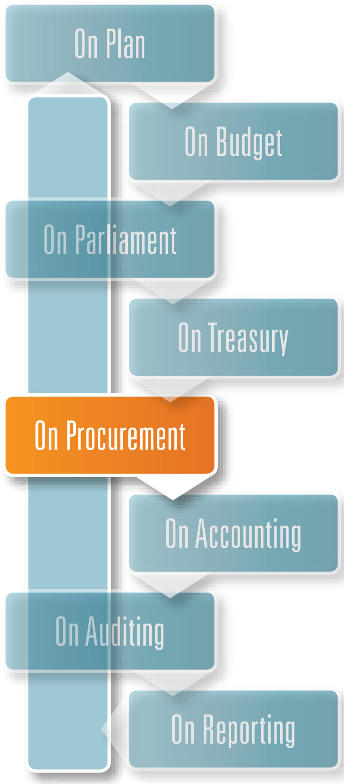
The PROSAUDE basket fund offers an interesting case study of the progression of a basket, with the funds first managed by one of the contributing donors, and then by the health ministry, ultimately being deposited in the central single Treasury account for disbursement to the health ministry. On deposit of the funds into the single Treasury account, they are coded either as internal or as external funds. Internal funds are not earmarked and are managed fully using country systems. External funds are earmarked with separate codes and are managed separately. Whether funds are treated as internal or external is a donor choice (Visser-Valfrey & Umarji 2009).

Finally, basket funds are not necessarily disbursed through Channel 1 or 2 (see Figure 8). In Uganda, for example, the Quality Education Initiative is a basket fund that was managed outside of government systems for consultancy and policy advice in the education sector (Hedger et al. 2010).

On execution and procurement

General and sector budget support aid instruments, as well as basket funds, are the most likely to use government expenditure control and procurement procedures (such as in the Burundi, Mali and Uganda education sector common funds). However, it is not guaranteed that sector support funds will use country procurement systems, even when they are disbursed through the main Treasury channel; in Zambia the roads sector budget support programme used alternative procedures (Williamson & Dom 2010). Even when country systems are used, additional requirements often apply.

It is a common requirement (e.g. for both the World Bank and the AfDB) that international procurement be done using donor procedures. Funds for international procurement in shared sector support pools are then kept in a pooled foreign currency account for the support, which is held by the finance ministry for this procurement, as occurs in Tanzania.

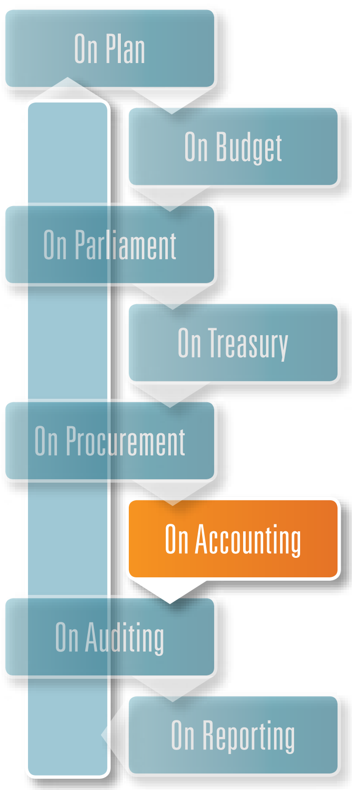


However, this practice may not be limited to international procurement. In Burundi, all procurement for the World Bank is done through its own systems (Minford 2014). Such a requirement by one donor of common funds may mean that all funds in a sector support common programme are affected. In Mozambique, for example, the Paris Declaration Evaluation found that as the World Bank could not use country procurement procedures, all procurement in the common education sector fund was done through World Bank procedures (KPMG Mozambique 2010). In the case of Malawi, this requirement extended to government funds in the common pools in the education and health sectors (Fölscher, Mkandawire & Faragher 2012).

Another safeguard is to require donor co-signature or no-objection process for procurement using country systems. This is used in Burkina Faso, for example, where the AfDB requires a no-objection process for all of its projects (Lanser 2008), and in Malawi (for all funds in the health and education sector pools).

Belgium recently developed an interesting way of using country procurement systems (while strengthening them) in the implementation of projects in fragile states in Africa. According to the DAC Peer Review of Belgium (OECD-DAC 2010a), the Belgian aid agency deployed in Burundi the co-management of project aid as a form of shadow alignment that allows for use of the partner's procurement regulations, while the aid agency approves all expenditures. While the review concedes that this process, with 'double signature' by the partner and the Belgian agency, can lead to delays in disbursement and implementation, the review notes that it can also provide some scope for strengthening institutional capacity through the technical assistance provided by Belgium to the partner institution.

In Tanzania, the health sector budget support memorandum of understanding allowed for additional procurement audits to be undertaken. After some delays in these audits, and in order to keep funds in the sector support rather than in the general budget support programme, the Tanzanian health ministry committed in the late 2000s to deploying additional officers in the procurement division to examine procurement payments with the intention of ensuring accuracy and compliance with procurement plans (Smith 2009). Similarly, in the Mozambican health sector fund, procurement of medicines had an additional auditing requirement (Visser-Valfrey & Umarji 2009).



On account

In most cases where donors disburse their funds via main Treasury channels, the funds are accounted for using government systems. Furthermore, there are cases where funds are not disbursed through the main Treasury account, but still use government accounting systems (e.g. the UNICEF contribution in the education sector in Malawi, or projects that are managed by the government but through separate bank accounts).

A common additional requirement for traceable funds is that the funds are not co-mingled in government accounts, but are coded separately as donor funds. The Sector Budget Support in Practice study found that in more than half of the programmes looked at, there were some requirements for the funds to be traceable (Williamson & Dom 2010), which meant either disbursing funds separately and/or coding them in the system as donor funds. In the Mali health sector in the 2006, this went as far as coding funds for each donor (where donors required their funds to be traceable as external funds), but this practice was abandoned subsequently and funds were coded as pooled sector funds (Thunnissen 2009); a further requirement that sector support funds be rolled over if not used by individual donors resulted in the funds being coded separately, even though they were not necessarily earmarked or required to be traceable.

In practice, coding funds throughout the system as donor funds means that the funds are treated as a separate pool of funding. For example, once coded separately, co-mingling donor and government funds for a specific procurement can be problematic, or, put differently, when committing funds to a payment, government officials will choose either the donor funds or the government's own funds, even if there is no earmarking of the donor funds.

On the other hand, specific requirements on donor funds using country systems in any one part of the budget cycle often results in separately coding funds and their separate treatment throughout the budget cycle. Such requirements include earmarking, the roll-over of funds and special financial reporting for specific donors.

In most cases where donors disburse their funds via main Treasury channels, the funds are accounted for using government systems.

On report and on audit

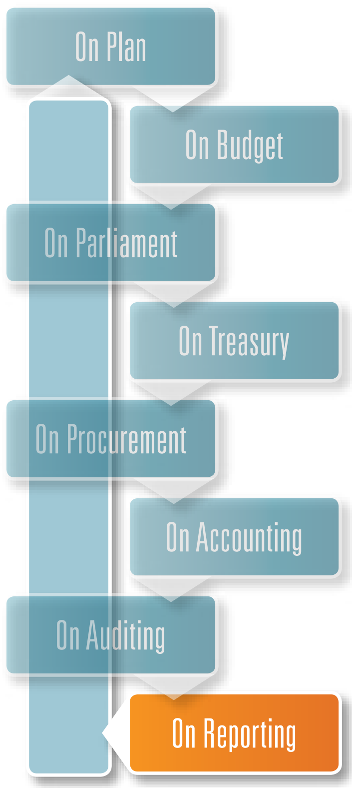
Williamson and Dom (2010) found that derogations from reporting and auditing donor funds using country systems, compared to other parts of the cycle, were the most common in the sector budget support case studies reviewed. For sector support and basket fund programmes, reporting on sector performance through common performance assessment frameworks, in itself, is an additional requirement over countries' own reporting systems; this is the case in the agriculture sector in Mozambique (Cabral 2009). Additional process requirements, such as joint annual reviews, are usually in place in SWAps (whether funded through sector support or basket funding arrangements).

On report

In two cases – Mali education sector support and Tanzania health sector support – the special requirements for disbursement of sector budget support funds to sub-national authorities meant that specific reporting systems had to be put in place. In Tanzania, sector support to local authorities was transferred not via the local government ministry, like all other local government transfers, but via the health ministry. In Mali, municipal school construction support funds in the education sector were transferred via a national agency, outside of normal channels and requiring additional reporting procedures to be set up. In the case of Tanzania, this parallel disbursement channel, however, did ensure that resources reached local authorities transparently (Smith 2009).

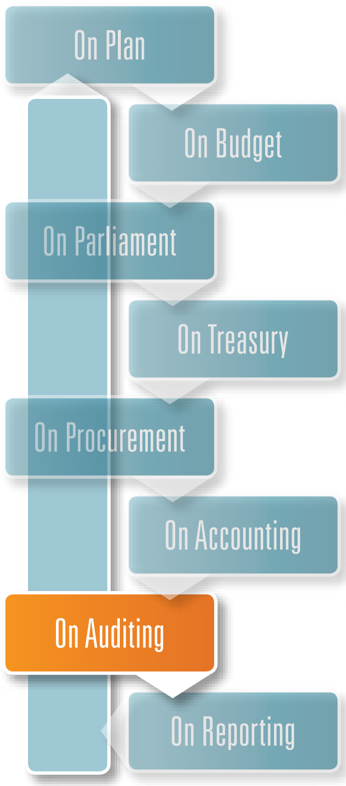
European Commission (EC) budget support programmes required additional reporting for tranche releases – in some cases, financial reporting, such as in the Zambia road sector (Bartholomew 2009), in others, additional performance indicators over and above those tracked in the sector strategic plan and/or common assessment framework.

In the Rwanda education sector in the 2000s, specific donors (even though they contributed to the education sector support common fund) still required reports in their own formats, despite using the same information as for the overall sector support – e.g. the AfDB and, at the time, the Fast Track Initiative, a vertical fund in the education sector. In the case of both of these donors, however, the requirement was not for specific



reporting on earmarking and traceable funds, but for overall sector funds with specific requirements on the type of information presented, such as on budget execution and its alignment with requirements for non-traceable sector support funds (Chiche 2009).

Not all specific requirements are donor-driven, however. The reporting requirements for the Poverty Action Fund in Uganda, supported by donor general budget support and sector budget support funds from the late 1990s, can be seen as specific requirements in exchange for putting donor support through country systems.



On audit

While the study found several examples of derogations from country systems with regard to audit processes when donor funds use country systems, it also found that project support that otherwise does not use country systems may use the national audit office to audit project expenditures. In both Tanzania and Burundi, the fieldwork case studies, for example, sector basket funds are audited through country systems. In Burundi, the use of other systems is limited. In Tanzania, USAID audits three reimbursable grants in their governance and democracy programme through the Auditor-General, even though these are not disbursed through Treasury systems.

Common additional requirements are: agreement in respect of the terms of reference for audits with the donor(s); the use of international or private audit firms to support the country supreme audit institution (SAI); that specific fund flows or specific transactions be included in the national audit; provisions for additional audits at the discretion of the donors; and, in the case of the AfDB, that audit reports be countersigned by its headquarters (AfDB OED 2011). It is also useful to make a distinction between donors being satisfied with the country SAI undertaking the audit of a specific project (such as the USAID case above) and donors not requiring audits other than the routine audits done by the SAI (such as in the case of sector support), with or without additional requirements.

In the case of sector budget support to the Mali education sector, for example, donor requirements were that the terms of reference for audits were to be agreed upon with the sector donors, and that an international audit firm would support the national audit office. The agreement also affected the scope of the audit, with the specific requirement that tenders of the ministry of education be included in the audit (Thunnissen 2009).

Impact of derogations

Additional requirements or safeguard mechanisms for funds that otherwise use country systems often impact negatively on budget management and sector processes.

Williamson and Dom (2010) note that requiring traceability means significant derogation from country procedures: in effect, it means that funds are treated as a separate revenue flow throughout the process. Funds that are not required to be traceable are pooled with government resources and are disbursed as national funds through the cash management systems of the government. When this occurs, it has the effect of turning donor budget support into a large development project or a series of development projects from a government management perspective, if earmarking is specific and differs by donor. For example, where funds are required to be traceable, governments disburse funds for utilisation by line agencies only when donors disburse.

Williamson and Dom (2010) also argue that requiring funds to be traceable is usually about ensuring that the funds will be used only for traditional development expenditures, such as infrastructure development and maintenance, and the purchase of specific goods and services. This undermines the likelihood that development expenditure will lead to better quality service delivery, as it perpetuates the same distortions in sector expenditure as in project aid (e.g. supporting school construction but not the recurrent cost of staffing and supplying the school).

Earmarking funds in budgeting also affects budget execution. In the Zambian health sector, the health ministry saw earmarked sector support funds as project funds and did not execute the activities for which the funds were earmarked until the funds were disbursed (Bartholomew 2009). Furthermore, funds that are required to be traceable and/or earmarked are associated with sector dialogue processes that are about specific programmes, projects and line items, with more donor engagement and say in the allocation of funds.

Williamson and Kizilbash (2009) found that in common fund arrangements, sector dialogue can be focused largely on the mechanisms for managing the funds, rather than on sector strategies, policies and priorities, thereby adding transaction costs to the budget cycle.

Overall, however, the clearest observation is that even if donors use country systems to plan and programme their support, the additional processes that their requirements entail mean not the cessation of parallel systems, as such, but rather a shift of the operation of parallel systems from donors and contracted third parties to the government.

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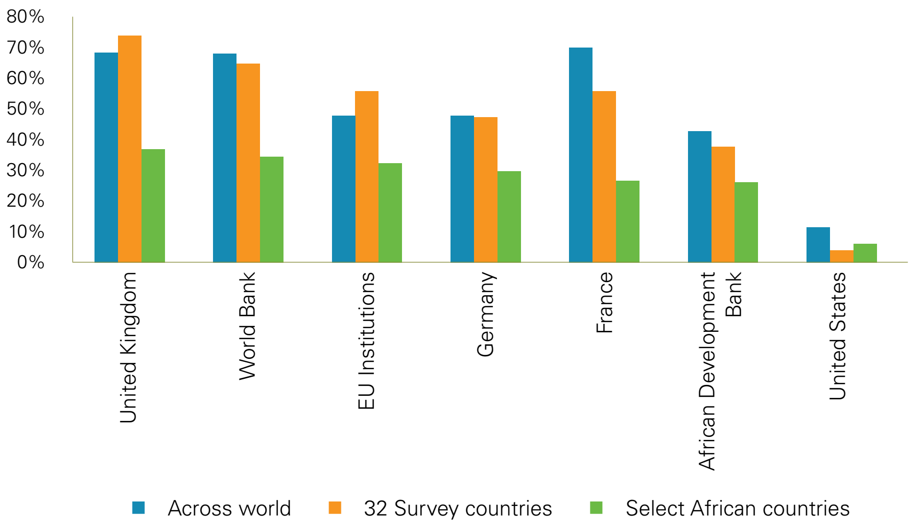
DONOR APPROACHES TO USING COUNTRY SYSTEMS

This section looks in greater depth at the use of systems by seven high-volume donors to Africa, namely the World Bank, the United States (USAID), the EU, the AfDB, France, the United Kingdom and Germany. Together, they contributed more than USD30 billion in aid to Africa in 2010, or almost 60 per cent of total ODA to Africa.

Figure 9 shows the average percentage use in 2010 by these donors worldwide of budget execution, financial reporting, procurement and auditing systems in the 32 Paris Declaration Survey countries and in the 16 selected high-aid-receiving African countries. For the EU, AfDB, Germany and the United States, UCS in the selected African countries outperformed or equalled their use in the 32 Paris Declaration Survey countries and/or worldwide. For France, it was significantly lower, and for the United Kingdom and the World Bank, somewhat lower.

Figure 9: UCS by seven review donors



Types of use of country systems: A donor perspective

Donor systems often do not employ language that explicitly refers to the 'use of country systems'. However, it is identified as an available aid instrument, in a series of instruments that moves from general budget support through harmonised procedures, to donor-specific funding. Table 11 draws on the notes by donors (see Annex 2) to provide a snapshot of donor approaches to UCS.

Table 11: Summary of donor approaches to UCS

Donor and relevant policies	How is UCS located?
World Bank Operation policy and bank procedures (OP/BP) documents 8.6; 9; 10; 11. All updated 2013.	The World Bank (IBRD and IDA) has three primary lending instruments: development policy lending (budget support instrument), investment lending (investment projects and programmes), and programme for results financing (new, approved in 2012). Public financial management systems are used in all three instruments. Only in the case of investment lending, however, might these systems not be used, after 'due consideration of the capacity of…institutions'. All three instruments are used with appropriate risk-mitigation measures. Procurement systems are used for development policy and programme for results financing, with risk-mitigation measures. For investment lending, procurement systems are only used for local competitive bidding for most countries. Where countries have joined the pilot procurement programme, country procurement systems may be used for all procurement, with risk-mitigation measures.
USAID 2012 Policy 'Use of Reliable Country Systems for Direct Management and Implementation of Assistance'	There are three generic means whereby USAID may use country PFM systems: (1) to finance inputs leading to defined outputs; (2) to finance the outputs once they are complete; and (3) to provide financial resources, i.e. resources that are converted into cash, or commodities that otherwise would have been purchased with cash to support the budget of the country or a sector. All specifically defined mechanisms, such as 'Fixed Amount Reimbursement Agreements' or 'Cash Transfers' fall under one of these three categories.
EU 2012 Budget support guidelines	EuropeAid (the directorate-general responsible for the management of most aid to Africa) provides for three aid instruments: budget support (good governance and development contracts or state building contracts), sector support and project support. Budget support uses country systems in full. Sector support only uses country systems when aid is provided as sector budget support (or sector reform contracts), otherwise it uses harmonised approaches (pooled or basket funding managed by a donor) or EU procedures. Project support uses EU procedures, except for part use of country procurement systems in some circumstances. The EU does not have any provision for the use of country systems outside of general or sector budget support, but favours these modalities when circumstances are right.
AfDB Bank group policy on programme-based approaches (2012) Road map for improving performance on aid effectiveness	The AfDB provides general, sector or crisis-response budget support. It can also use country systems in its project support, and has targeted higher use of country systems as a priority in its road map for implementing the Paris Declaration (2011). When using country systems the AfDB has high reporting and auditing requirements.
France Policy on fiduciary risk in foreign states (2008)	The fiduciary risk policy sets out different approaches: non-targeted budget support, monitored through the implementation of country sector plans and reports; pooled funding, where resources are targeted at a specific set of expenditure and channelled through an account managed by the government; or common non-budgetary funding that is pooled outside of government systems and is managed by a donor. Budget support is to be used when risk is low, but when it is moderate to high, country systems should be used with capacity-building interventions, safeguards or additional controls.
UK Implementing DFID's strengthened approach to budget support (2011) Managing fiduciary risk when providing financial aid (2011)	For DFID, the use of country systems is not named as a separate aid instrument, but included in the category of financial aid. This can be budget support financial aid, or non-budget support financial aid. Budget support financial aid can take one of four forms: (1) general (growth and poverty reduction grant); (2) sector (service delivery grant); (3) general budget support in fragile contexts (state-building grant); and (4) earmarked support for cash transfer grants called social protection grants. A new instrument, 'payment by results', which uses country systems in full and disburses when agreed results have been delivered, has been added recently.
Germany Budget support in the framework of programme-oriented joint financing (2010) Guidelines for financial and technical co-operation (2007)	Until 2007, Germany could only provide budget support if linked to a World Bank poverty-reduction support credit. Since 2007, however, Germany can provide budget support in other circumstances too (through KfW). If there is no strong joint-programming experience, or fiduciary risk is high, Germany prefers using basket funds managed by the country or a donor for financial support. The 2007 Guidelines for Financial and Technical Bilateral Co-operation also allowed for using development partners' procedures when Germany is the silent partner. KfW can provide financial loans using country disbursement systems, but usually with significant additional requirements. GIZ provides most off-budget technical assistance.

Donor frameworks are better developed for budget support UCS, than for non-budget support UCS.

Most of the reviewed donors have updated their policies/technical guidance with regard to budget support and/or non-budget support UCS in the last few years. In fact, France is the only reviewed donor operating with a framework dated before 2010. However, in three cases (DFID, EU, Germany), the bar to accessing budget support has been raised over time due to additional criteria or procedures. The DFID and EU have both added eligibility criteria related to budget transparency/domestic accountability.

At the same time, however, three other donors (the World Bank, USAID and AfDB) have issued guidelines to enable greater use of country systems, with USAID issuing its first set of guidelines, AfDB streamlining its guidelines for programme-based approaches and the World Bank setting in place a process through which countries can graduate to greater use of their own procurement procedures.

Budget support for fragile contexts is now a separate instrument. The frameworks of the EU, DFID and AfDB now include specific provision for the use of budget support in fragile contexts, often applying eligibility criteria less stringently.

The emergence of results-based disbursement instruments is positive for UCS. The World Bank, USAID and DFID have approved disbursement on results financing instruments where the full budget cycle of the programme uses country systems, and disbursement only occurs when agreed results have been achieved. In the case of the World Bank and DFID, these instruments use country systems by default, as the process involves reimbursing the use of the government's own funds (through government systems) for government programmes.

All donors provide for risk-mitigation measures in their policy frameworks/technical guidance. Assessments of risk are conducted by all donors when using country systems, and their risk-management frameworks require the use of mitigation measures when risks are identified. These measures, however, do not necessarily mean derogations from country systems. Other options frequently provided for are: the use of dialogue with the country to address risk areas through reform programmes; complementary technical assistance to address risk; the use of conditionality related to risk areas on the disbursement of funds; and support for country systems' safeguards, such as strengthening of oversight and accountability institutions.

Donor frameworks are better developed for budget support UCS, than for non-budget support UCS. With the exception of France, the donors reviewed (the World Bank, EU, DFID, Germany and the AfDB) had clear frameworks and technical guidelines for the use of budget support. USAID is unique insofar as its framework does not provide for budget support as such, or for pooled funding modalities, but rather sets out clearly the circumstances under which aid can be channelled through country systems for its own projects and programmes.

The EU only had budget support (sector or general budget support) frameworks, but no provision for non-budget support UCS. The remaining five donors included in their guidelines options for non-budget support UCS. France and Germany identified pooled funding, using a government account for disbursement, as a second option if budget support cannot be provided.

Besides USAID, only two of the seven donors (the DFID and the World Bank) had included in their guidelines options for UCS for official development assistance, which is neither budget support nor a pooled funding aid instrument. For the latter, however, with the exception of a few countries, this does not include the use of country procedures for international competitive bidding. The remaining donor, the AfDB, has targeted the development of frameworks to increase the non-budget support UCS, but this is still in development. Therefore, while budget support is clearly defined and enabled with systematic procedures for UCS, this is far less the case for non-budget support UCS.

FACTORS THAT DRIVE USE OF COUNTRY SYSTEMS

There is no evidence of circumstances in which donors moved from not using country systems to using them fully, except in fragile state situations.

Modalities

Increases in UCS are associated with a gradual shift from donor-managed projects to the delivery of financial aid through UCS, with no derogations and only the use of dialogue-based safeguards. This is evident in both the country fieldwork case studies and other countries reviewed. There is no evidence of circumstances in which donors moved from not using country systems to using them fully, except in fragile state situations where the provision of fiscal support was deemed necessary to restore public services and rebuild the state.

Rather, there is significant evidence that the shift is a gradual one, which occurs as donors gain confidence and experience in using country systems in each context. Take the following examples:

- In Mozambique, donors first worked through basket funds managed by donors, allowing for experience in harmonised approaches and building up country-donor co-ordination mechanisms. The management of these funds then shifted to country systems, with derogations and exceptions decreasing over time (Cabral 2009; Visser-Valfrey & Umarji 2009).
- In Uganda, donors shifted from pooled funding sector mechanisms, to sector budget support to general budget support (Hedger et al. 2010) In agriculture, earlier requirements for independent audits undertaken by third parties were dropped and government audit capacity was used.
- In Tanzania, the current state of affairs reflected in the country case study (Bartholomew 2014), with significant UCS in sector support programmes and through general budget support, was preceded by a history of shifting from basket-funded SWAps, to sector budget support with derogations, to sector support with fewer derogations (Smith 2009).
- In Zambia, earlier forms of sector budget support in the health sector had many more donor requirements for safeguards than later forms (Bartholomew 2009).

The shift can occur in three ways:

- firstly, from project through to pooled funding mechanisms, to sector support, to full budget support modalities;
- secondly, by fewer derogations from country systems required by donors (e.g. not requiring earmarking any longer, or using country capacity in sub-systems such as audit rather than third party capacity); and
- thirdly, by more donors joining pooled funding mechanisms using country systems, thereby increasing the volume of aid and number of partners using country systems.

However, when donors encounter problems using country systems, reversals down the modality chain or the reintroduction of derogations can occur. Examples are Uganda, where donors reintroduced safeguards after a World Bank public expenditure review showed inefficiencies in the education sector (Hedger et al. 2010), and Rwanda, where the use of funds for unintended purposes was discovered in the education sector capacity-building pooled fund, which led to additional donor signatures being required on the use of funds (Chiche 2009). The Tanzania case study also refers to donors losing appetite for sector budget support as a central modality of support, given deterioration in PFM systems. The expectation is that funds would move from this modality to a programme-based modality using country systems, but with additional safeguards to compensate for the change (Bartholomew 2014).

The relatively low attention paid in donor frameworks to UCS for donor project modalities becomes problematic in this context, as discussed above. If donors are reluctant to join pooled funding mechanisms (or are unable to due to headquarters accountability requirements), the capacity of countries to offer country systems for project funding as an entry point for UCS is limited, unless donor frameworks enable country offices to do so. Some donors do have explicit frameworks for this (e.g. the DFID and World Bank), and others are in the process of developing them (e.g. Belgium, see OECD-DAC 2010a); thus, it is not without precedent that such frameworks should exist.

The benefits of using (or risk of not using) country systems are developmental, long-term and general.

Risk, risk avoidance and risk management

In making decisions about UCS, most donors place more emphasis on short-term fiduciary and performance risk than on long-term developmental risk. Donors who use country systems forfeit some degree of control over their development assistance, which can be perceived to increase the risk of activities not being implemented, or of funds not being used as intended. These risks are short-term and donor-specific. The benefits of using (or risk of not using) country systems, however, are developmental, long-term and general.

Glennie et al. (2012) stress that all development instruments carry risks, but do so differently across instruments. The way in which trade-offs between different types of risk are made in practice works against UCS (see Box 2): 'Incentives in aid agencies to minimise risk rather than manage it are profound, as is the tendency to seek out short-term and tangible results to report, rather than to work on the harder task of promoting long-term development and capacity' (Glennie et al. 2012: 8).

Box 1: A typology of risk

Glennie et al. (2012) categorise risks broadly as: (a) risks involving loss or diversion of funds; and (b) risks that funds will not produce the desired results. This distinction echoes the earlier work on donor approaches to risk by Mokoro Limited and CIPFA on behalf of the OECD-DAC (Cant, Carter & Lister 2008), which separated fiduciary and procurement risks from developmental risks. In this study, the terms were defined as follows:

- fiduciary risks are equal to financial risks and include the risk that funds are not used for their intended purposes, are not properly accounted for, or do not achieve value for money;
- procurement risk is the risk that the effective and efficient use of aid is compromised by procurement standards; and
- Developmental risk is the risk that poverty-reduction objectives are not achieved.

In addition to these, the stocktake identified a set of non-financial risks (the risk of macroeconomic and governance issues undermining the achievement of poverty-reduction objectives, as well as the risk of government action compromising partnership) and reputational risk (the risk that government action will threaten the donor's reputation) as additional risks that donors consider when making decisions on UCS.

Fiduciary risk remains a key factor in deciding whether to use country systems, but other risk factors also count. The close linkage between risk and UCS is to be expected. In the survey undertaken for the Practitioners' Guide on the Use of Country Systems (OECD 2011b), most donors identified fiduciary risk as a key factor in their decision-making on UCS. The Paris Declaration Evaluation Report (Wood et al. 2011) further found that the lack of progress in UCS is explained mainly by donors' lack of confidence in the systems or fear of corruption, or by concerns that country systems are slower and more cumbersome than donor systems.

However, donors vary significantly in the way that they define, assess, manage and monitor the ensuing risks of using country systems, as well as the potential benefits. The Stocktake on Donor Approaches to Managing Risk identified four factors that drive donors' appetite for risk: (a) different legal frameworks and, more generally, external accountability relations; (b) different internal incentives; (c) different knowledge; and (d) different experiences (Cant et al. 2008).

Fiduciary risk is the key determinant of the degree to which country systems will be used and how (and, in some cases, whether they will be used), as shown by the review of donor frameworks for UCS. Table 12 provides a summary of donor risk factors considered when assessing whether to engage in budget support and/or non-budget support UCS.

Many donors use a two-stage risk assessment, where countries are vetted first at a higher level in terms of fiduciary, political and developmental risk factors, after which more detailed programme and/or fiduciary risk-specific assessments are done. OECD (2011b) found that a decision is first made at the country level on the feasibility of using country systems. For almost all donors, this decision is taken by headquarters staff or, in the case of bilateral donors, the relevant political authority. Subsequent decisions are then taken for each programme and/or project. For half of the 17 survey respondents for the Practitioners' Guide, headquarters staff are still involved at this level.

This high involvement of headquarters staff could slow down UCS. In Burundi, while country donor staff expressed a willingness to use country systems more often, headquarters policies and resistance were cited as reasons why this does not occur (Minford 2014). On the other hand, donors may argue that it is necessary to ensure that appropriate caution is exercised when using country systems, in line with key accountability requirements of donor agencies.

Common non-fiduciary risk factors are:

- Democracy (USAID, Germany, EU)
- Political stability (AfDB, UK)
- Macroeconomic stability (France, EU, AfDB, World Bank)
- Quality of policies/pro-poor commitment (Germany, EU, France, AfDB, UK)
- Development co-operation (Germany, France)
- Human rights (EU, UK)
- Domestic transparency and accountability (UK, EU)

In almost all cases, however, the concern is less with a specific threshold of country systems to be eligible for budget support or UCS than it is with the direction of change. Overall, donors are concerned about the commitment of governments to reform programmes in terms of PFM risks, as well as commitment to other factors. For the most part, therefore, the policy frameworks provide decision-making rules with regard to the use of budget support/non-budget support country systems, but also rules for monitoring risks and adjusting programmes should circumstances deteriorate.

Donor interviews and the country fieldwork indicated that with political change in many of the bilateral aid providers and fiscal pressure, donors' appetite for risk has decreased.

In the case of all seven donors, the PEFA framework was the core of fiduciary risk assessment. However, some required that the processes looked beyond PEFA indicators, by drilling down with additional tools, such as the OECD Methodology for Assessing Procurement Systems (MAPS),[11] by doing sector, level of government or programme specific assessments of systems, or by using additional information besides PEFA to assess national systems.

These findings at the donor level were echoed at the country level in the case studies reviewed, but with variations:

- The Burundi case highlighted that donor concerns were about the weakness of public finances and the risk of corruption, as well as the weak capacity of government officers. Furthermore, the perceived risk was related not only to public finances or to political risk, but also to perceptions of weak reform in the justice system and the low capacity of judges and the police force.
- The Tanzania case study noted that the main perceived risks were weak PFM and procurement processes, as well as the capacity of the government to manage funds and implement aid activities. Staffing levels in line ministries and implementing agencies were noted as an issue.

While the fiduciary assessments pay indirect attention to staffing and capacity issues (by measuring whether systems are in place), they do not directly address this concern on the ground in either of the country case studies.

Risk-mitigation measures are common, and focus on addressing the underlying causes of risk (through technical assistance, dialogue and criteria for disbursement), but also consider safeguards and/or additional donor-specific procedures to mitigate risk for the aid activity itself. In the two country case studies, as well as the other countries studied, both types of risk-mitigation measures were present.

Donor interviews and the country fieldwork indicated that with political change in many of the bilateral aid providers and fiscal pressure, donors' appetite for risk has decreased, coinciding with higher pressure on accountability for funds used, coupled with pressure to demonstrate the direct results of funds spent. This is likely to reduce the inclination towards UCS, generally, and for budget support modalities specifically.

11 The MAPS provides a common tool that developing countries and donors can use to assess the quality and effectiveness of procurement systems.

Table 12: Donor risk factors

Donor	Risk factors assessed
World Bank	For budget support (development policy support), the bank assesses fiduciary risk in public financial management and procurement systems. It also looks at the macroeconomic context. For investment lending, in order to use country systems, the bank assesses the adequacy of budgeted expenditures and budget execution, the maintenance of records and financial reporting, the availability of funds for the project, the quality of control over project funds and the quality of audit arrangements.
USAID	Managing fiduciary risk is very important to USAID, given accountability requirements. It has a two-phase risk-assessment process. It first assesses fiduciary risk and then undertakes a democracy and governance assessment, to assess whether a country qualifies for UCS. This is followed by a full assessment, identifying specific risk factors in respect of which the assessment will drill down in the target sector for a programme or project.
EU	The EU has a two stage process, with countries first being declared eligible for general budget support on the basis of fundamental partnership values, namely democracy, rule of law, human rights and pro-poor policy stance. Then, countries – including those in which only sector budget support can be used – are assessed against a risk framework that includes political governance, developmental risks, macroeconomic risks, public financial management and corruption/fraud risks. The second tier assessment allows the identification of specific risks that should be mitigated. The approach to the assessment is dynamic (i.e. about the direction of change).
AfDB	The AfDB also has eligibility criteria for budget support (government commitment to poverty reduction, political stability, macroeconomic stability and a fiduciary risk assessment). The fiduciary risk assessment involves four pillars (budget, procurement, audit and reporting). The bank takes a dynamic approach in terms of eligibility and uses the risk assessment to identify mitigation measures.
UK	Before the DFID can consider budget support or non-budget support financial aid, it has to assess four partnership principles on: poverty reduction and MDGs; commitment to human rights; PFM reform, transparency and anti-corruption measures; and domestic accountability to citizens. The DFID identifies fiduciary, political and governance risk. Fiduciary risk is assessed in a two-stage process, with frequent country assessments being supplemented with specific aid activity assessments where activities exceed a threshold and use systems significantly different to national systems. Governance and political risks are assessed through country governance analyses and macro-level political economy analyses.
Germany	Germany identifies fiduciary, macroeconomic, political and implementation risks associated with using country systems. It undertakes a PEFA-based fiduciary risk assessment to assess financial risk, and a structured governance assessment to assess governance factors and policy quality. It also looks at macroeconomic risks and risks associated with the underlying relationship between it and the partner country. Germany will undertake budget support in countries with a dynamic reform process, and with an adequate co-ordination framework.
France	France uses a fiduciary risk assessment as the key determinant of whether country systems can be used. For budget support, other factors, such as the quality of policies, the macro-fiscal context and the quality of development co-operation, must also be assessed. However, if fiduciary risk is low, budget support can be used; if it is moderate to high, country systems can be used but with additional measures. The direction of change must be taken into account when the assessment is done.

Quality of PFM systems

UCS is closely associated with the assessment of and strength of country systems (at least in theory), and with efforts to strengthen countries' core systems to plan, budget, manage, account for, report on and audit domestic revenue. The commitments made at the Paris, Accra and Busan High Level Forums in relation to UCS bind:

- donors to put in place additional safeguards and measures to strengthen rather than undermine country systems if not using them (Paris, Accra);
- countries and donors to jointly assess the quality of country systems, countries to lead in defining reform programmes and priorities, and donors to support the reforms and provide capacity development assistance (Accra); and
- donors, when not using country systems, to explain the reason for not using country systems and to discuss with the government what would be required to move to full UCS, including any assistance or changes for the strengthening of systems (Busan).

Overall, there is evidence in the country case studies and donor reviews that while PFM systems are an important factor in whether country systems are used, they are not the only or even determining factor. More precisely, while quality (or improvement) of PFM systems may contribute to donors deciding to use country systems, it is not a sufficient reason for this to occur. Other technical systems (such as the judicial, statistical and human resources management systems), country capacity, as well as the wider political economy context, are also crucial factors in donors' decision-making processes.

While quality (or improvement) of PFM systems may contribute to donors deciding to use country systems, it is not a sufficient reason for this to occur.

That being said, there is also evidence that PFM system reforms can trigger donors willingness to shift to or increase UCS in aid delivery. In Mozambique, for example, the government's efforts to introduce a single Treasury account system and to reform cash management and disbursement systems led to sector pooled funding shifting from being managed outside of country systems to being managed through country systems (Cabral 2009; Visser-Valfrey & Umarji 2009; KPMG Mozambique 2010). In Tanzania, reforms to the procurement system and procedures prompted increased use of these systems by donors (Bartholomew 2014).

The Burundi case, where there have been effective reforms of PFM systems, suggests that such reforms have a positive effect on UCS only when there are strong donor co-ordination structures in place, and a history of engagement with the government in joint sector approaches. While Burundi donors highlighted concerns about corruption and judicial systems as preventing UCS despite PFM improvements, such factors were also present in many other countries, including Mozambique and Tanzania, that saw UCS increase with improved PFM. However, a key factor that is still relatively weakly developed in Burundi, compared with other countries reviewed, is practices and institutions for donor engagement, co-ordination and harmonisation (Minford 2014). This point is supported by the role that the development of working donor co-ordination and engagement institutions in countries has played in shifting aid into country systems.

It goes without saying that strong country policies support UCS, particularly for budget support.

Country capacity

The strength of donor co-ordination institutions and the quality of engagement are, therefore, key factors. The Mozambique case emphasises how the development of means of co-ordination helped establish budget support modalities:

> *It seems that a group of like-minded donors and a number of senior government officials in the ministry of Planning and Finance (before the split in 2005 into Ministry of Finance and Ministry of Planning and Development) worked together in the early 2000s to shape a new type of aid relationship centred on GBS, developing co-ordination mechanisms and a mutual accountability framework and instituting many of the foundations of today's aid architecture.* (KPMG Mozambique 2010: 19)

In Uganda, similar efforts to develop donor co-ordination mechanisms paid off, at the sector and global levels (Jimat Development Consultants 2011). This case, however, also highlights the importance of aid-oriented mechanisms within the PFM system. For example, Uganda has integrated sector-donor co-ordination into its budget preparation process, and has gone to some lengths to integrate donor funding (whether through country systems or not) into its medium-term expenditure and budget framework, reducing incentives for line ministries not to use country systems. The creation of the virtual Poverty Action Fund, and the guaranteeing of the pro-poor expenditures included in the fund (effectively a classification earmarking in the state budget for analytical purposes), also went a long way to providing donors with the confidence to use country systems (Hedger et al. 2010).

In Tanzania, too, the development of the Joint Assistance Strategy and associated country co-ordination structures, coupled with sector co-ordination structures, support UCS (Bartholomew 2014; Smith 2009). Similarly, in Burkina Faso, UCS was supported by country co-ordination mechanisms (OECD 2006).

As signalled in the discussion of Uganda above, the establishment of country systems to reflect all aid more completely on budget, and more transparently, to central government agencies, including through the development of budget process and framework mechanisms and country aid information management systems (AIMS), removes incentives at line ministry level to not use country systems. In Tanzania, also, the development of these systems has contributed to better integration of aid in budget processes.

The existence of aid management policies, and the highlighting of budget support modalities as the preferred aid delivery mechanism are common to the countries reviewed. While it could be argued that the moral suasion of making such policies explicit is important in getting donors to use country systems, it is not sufficient. In Burundi, these preferences are clearly stated, but not taken up by donors. Country officials acknowledged that such policies do not have a strong hold over donors, as it is their own domestic policies rather than partner country policies that are more decisive in directing how aid will be delivered.

Overall, strong donor dialogue opportunities and practices may be more important in providing donors with the confidence to use country systems. It goes without saying that strong country policies support UCS, particularly for budget support. In all the country cases reviewed, the existence of acceptable country policies was deemed an important factor supporting UCS. Also, for most donors, this is a precondition for considering budget support in any form.

The existence of clear technical guidance on when and how to use country systems is important to persuade donor staff to 'do things differently'.

While not explicitly present in the reviewed donors' assessment frameworks for budget support/UCS, the two fieldwork country case studies hinted at the importance to donors of the capacity of country officials in terms of staffing and capability for programme implementation.

- In Tanzania, the main risks of using country systems include 'the Government of Tanzania's capacity to manage funds effectively and co-ordinate implementation. There is a particular concern about risk at local government authority (LGA) level as a significant amount of funds flow to the local level (around 25% of the GoT budget), but capacity for financial management is weak. There are also inadequate levels of staffing at implementing agencies and line ministries'. (Bartholomew 2014)
- The capacity of ministries in Burundi is generally perceived to be very weak. Even central institutions such as the MFPDE and Ministry of Justice are perceived to have variable leadership and weak capacity, with only a handful of personnel capable of engaging in policy/PFM dialogue. The MFPDE has seconded staff to line ministries to improve their PFM functioning, but the general lack of capacity means that for nearly all projects, PIUs, secretariats or co-ordination units are established by donors to enhance capacity and ensure that activities are well managed. (Minford 2014)

In some cases – for example, in the education sector in Mali (Chiche 2010) – countries and donors are able to utilise the flow of donor funding through country systems to build these capacities, which is in keeping with the 'systems building' objectives of using country systems. Such arrangements, however, are linked to country-based institutions for donor engagement and co-ordination.

Donor capacity

Donor capacity for managing aid activities that are implemented through country systems is a significant determinant for UCS. The country fieldwork, donor reviews and literature studies highlighted the following:

- As would be expected, low skills levels hamper the degree to which donors can implement aid using country systems, even when policy frameworks exist (see AfDB 2011b).
- The existence of clear technical guidance on when and how to use country systems is important to persuade donor staff to 'do things differently' (e.g. AfDB, see Annex 2).
- The inclusion of UCS in donor strategic performance monitoring frameworks helps (e.g. DFID and Germany, see Annex 2).
- Most donors have instituted training programmes to capacitate staff on UCS (see donor review summaries in Annex 2). Two donors have dedicated support teams to support country-level staff (the EU and USAID, see Annex 2). The World Bank has an Africa region initiative to further UCS. Some also have working groups, learning networks and competency centres on implementing aid-effectiveness principles, which include attention to UCS (e.g. Germany and the EC, see Annex 2).

- More diverse staff profiles are required to manage risk assessments, undertake policy dialogue, negotiate modalities and safeguards, and monitor implementation of UCS programmes than are needed to implement aid activities through other channels. Larger donors or donors with decentralised decision-making and management structures are more likely to have these capacities on the ground (see, for example, KPMG Mozambique 2010; Jimat Development Consultants 2011; Bartholomew 2014; Minford 2014). On the other hand, Donors are constrained in implementing UCS targets due to limited deployment of economists and other necessary programme staff at country level (AfDB 2011).
- Overall decentralisation of decision-making supports UCS by shortening decision-making chains and allowing greater concentration on partner country factors rather than development partner headquarters incentives. For example, in USAID, the decision rests with the country director even if a lengthy assessment process is prescribed with central oversight of the quality of the work. However, some donors have increased central control over decisions on budget support/UCS: for example, Germany (requiring parliamentary approval on a case-by-case basis), the DFID (secretary of state level for financial aid above a certain threshold) and the EU (requiring high-level political sign-off on budget support cases, approval at director-general level, in principle, for general budget support, and agreement by a cross-agency committee on general budget support in high-risk cases). The 2010 Paris Declaration Survey Evaluation found that there was still a high tendency to centralisation in the AfDB, with only 10 per cent of projects under preparation being overseen at the field office level.
- There are cases where donors have adjusted their staffing to facilitate increased UCS (see, for example, KPMG Mozambique 2010), also by increasing the number of PFM specialists at country level. However, there are also cases where the human resources cost of implementing aid through UCS is underestimated and there are insufficient numbers of the right staff located at the country level (e.g. AfDB and Germany).
- Staff rotation may hinder greater use of country systems, as the relationships that are required to manage aid in this way are interrupted in a three-year rotational cycle just when they start to bear fruit (e.g. in Mozambique; see also Annex 2).

Donor incentives

Donor incentives and attitudes are also important. In both country case studies, as well as in the donor reviews, the potential impact of changing political attitudes towards ODA (less risk, more concrete results) was highlighted. While multilateral donors do not have this direct pressure from domestic taxpayers or political overseers, they are constrained, in turn, by the articles of incorporation or standing agreements underpinning their institutions.

Nevertheless, all donors have had positive incentives since the mid-2000s for UCS, generated by official commitment to aid effectiveness, Paris Declaration principles and UCS with donor-specific provisos. This commitment was expressed in signing the Declaration, the Accra Agenda for Action and, more recently, the Busan document. All donors reviewed had strong follow-up actions, including aid-effectiveness action plans, road maps and the like (see summaries in Annex 2). Some also included Paris Declaration commitments, targets and indicators in their strategic and monitoring and evaluation framework, at the institutional and/or individual level.

Donor staff, however, often face competing incentives in respect of using country systems. In the case of Germany, for example, the inclusion of targets for the implementation of Paris Declaration and aid-effectiveness principles is counter-weighed by institutional self-interest and requirements for aid to be visible (see Annex 2). Similarly, while the EU institutions have prioritised budget support modalities as important long-term development instruments, and have the associated monitoring and evaluation frameworks in place to incentivise more use of these modalities, in practice high requirements for accountability and bureaucratic oversight keep a brake on progress.

The countries and donors reviewed for this study confirmed the existence of negative donor incentives for using country systems associated with pressure on country programmes to disburse aid, to avoid reputation risk and have visible attributable results in the short term (bilateral donors reviewed), rather than to ensure long-term country system strengthening and development. This finding is confirmed by Glennie et al. (2013) in their assessment of the role that risk plays in donors 'localising' aid (see also McKechnie & Davies 2013), and in incentives for UCS: 'More localising of aid may make it harder for donors to plant their flags on particular projects, and is likely to mean extra time and resources invested in achieving the same results that project aid might have achieved faster and cheaper but without the system-strengthening gains' (Glennie et al. 2013: 37). The focus on short-term results has become more pertinent in the recent period for some bilateral donors, but for others (e.g. USAID) the need to tie every unit of aid funds spent to a specific output has long hindered progress in UCS.

The focus on short-term results has become more pertinent in the recent period for some bilateral donors, but for others (e.g. USAID) the need to tie every unit of aid funds spent to a specific output has long hindered progress in UCS.

Country incentives

Negative incentives for country institutions associated with UCS largely concern the risk associated with low predictability of financing for projects and programmes that are fully integrated with government activities. The risk is particularly high in budget support programmes, and higher still when derogations to country systems in these programmes mean that donor funds are still treated separately, even if they are nominally budget support. In Zambia, for example, as donors required earmarking of sector support funds, the health ministry did not proceed with the supported activities until the donor funds were disbursed, causing delays in government programmes, despite the funds, in principle, being fungible with country funds (Bartholomew 2010).

Also, at the line ministry level the picture is different. Line ministries, in some cases, prefer common fund arrangements to budget support arrangements (even if the latter come with more freedom and fewer derogations), because such funds are earmarked for the sector and are managed at sector level. In Mali, for example:

> *during the transition to the sector approach, specific procedures have been developed to encourage the donors to put their funds in the various accounts of the program. These procedures are largely based on national procedures of the State, but are more flexible than them with more freedom given to structures of the Ministry of Health in the management of their funds. Health officials continue to favour this mode rather than ABS (sector budget support), which is managed by the finance ministry and therefore falls within the Treasury.* (Paul 2011)

In Zambia, too, the health ministry saw donors moving to sector budget support as a negative shift, with the potential to fragment the unified funding through the health basket (Bartholomew 2010).

Hedger et al. (2010) mention that the introduction in Uganda of measures to ensure that donor financing is fully reflected in budget documentation and processes reduced incentives for line ministries to keep funding off budget. Desk studies also provide some evidence of donor systems at times being preferred, both by donors and by country representatives, for implementing aid activities, as they present a quicker way of getting things done – in South Africa, for example (Fölscher et al. 2011).

In neither of the country case studies, however, did central ministries highlight negative incentives on the part of partner countries to UCS. The case studies also did not pick up significant differences between line ministry and central ministry incentives.

THE USE OF PROJECT IMPLEMENTATION UNITS

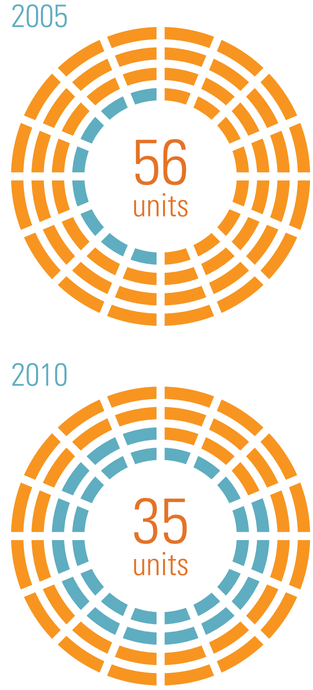
A final area of concern for the study was the use of PIUs, particularly the ways in which they can be used that are more beneficial and how their use interacts with UCS. A concern for CABRI was that blind removal of PIUs might put significant pressure on country capacity to manage donor funds, which would distract again from the strengthening of systems to manage countries' own revenues.

The commitment in the Paris Declaration to reduce the number of PIUs is captured in Indicator 6, which measures the reduction in these units. Using Paris Declaration Survey data for 2005 through to 2010, it is possible the track to degree to which this commitment has been realised.

The more aid-reliant countries in Africa have experienced a greater decline in the use of PIUs than all African countries in the PDMS group of 32. For all African countries in the 32 countries surveyed in 2005, 2007 and 2010, the number of PIUs declined, on average, from 49 to 37. For the countries selected for the purpose of this survey, this decline was even steeper, from an average of 56 units per country in 2005, to 35 in 2010. However, the three countries amongst the 16 countries with the highest number of units in 2010 – DRC, Mali and Burundi – experienced an increase in units.

Furthermore, all the high-volume donors to Africa used fewer PIUs in 2010 than in 2005 in the 32 Paris Declaration countries. The World Bank and the EU have shown the largest reduction. While the use of PIUs declined for the United States, the reduction was small (by 7 units), and it still used 180 units in 2010.

Decline in the use of PIUs 2005–2010 in survey countries



Case study evidence on PIUs

The Burundi case study (see Minford 2014) shows up some of the negative effects of PIUs. In Burundi, donors justify the use of PIUs as necessary because of low capacity in the government. The basket funds – the only examples of UCS outside of the general budget support programme – are managed through donor-supported units. These units manage and co-ordinate activities, but do not implement them.

The government argues that these units are harmful, insofar as they:

- are costly and reduce the value for money of donor programmes;
- forego the opportunity to build sustainable capacity and skills in the government; and
- reduce government capacity, as better skilled staff are attracted to these units by higher salaries and improved opportunities.

The prospect of such staff being reincorporated into government structures once projects have ended is also unlikely.

Line ministries, however, reported that removing traditional PIUs when using country systems (with high donor-specific requirements) places pressure on their workload.

In Tanzania (see Bartholomew 2014), PIUs were reduced drastically between 2005 and 2010, from 56 to 18, as a result of government policy and donor commitment to the Paris Declaration targets. The official government policy is for donors to support the policy and planning departments of line ministries – through the provision of technical assistance, if necessary – rather than to create parallel units.

The Ministry of Finance has been providing additional training to these departments, so that they are sufficiently skilled to co-ordinate donor programmes that use country systems. In practice, donors use government staff entirely, but there are cases where additional staff have been hired by donors to fill posts, or where the salaries of ministry staff are topped up (e.g. agriculture, rural water and sanitation, which receive AfDB support, and for the PFM reform programme in the finance ministry). These arrangements were made because of donor concerns about the capacity of staff within line ministries to manage and co-ordinate the programmes. In Tanzania, these units are not considered to be parallel PIUs (but rather are seen as co-ordination units or secretariats), as they are integrated with government structures. The topping up of salaries, however, has been an issue, as reintegrating staff once donor support comes to a close is a problem.

Given this scenario, the government's view is that donors should use government staff and institutions unless there is no need for a project to be sustainable, since it will come to a predetermined end (such as the Millennium Challenge Account, which operates a PIU). Donors reported that units need to be in place in order to strike a balance between using country systems and achieving implementation and results. Line ministries, however, reported that removing traditional PIUs when using country systems (with high donor-specific requirements) places pressure on their workload. This does not necessarily strengthen country systems to run the government's own revenue; instead, it ties up country capacity in complying with donor requirements.

These cases raise a number of issues. It needs to be better understood under which circumstances units that are associated with government programmes are harmful and should be avoided, as their long-term costs outweigh their short-term benefits.

The two case studies show confusion at the country level as to when units can officially be counted as parallel PIUs according to the indicator definition. Investigation during the country case study showed that the increase in units in Burundi may be a classification error in the 2010 survey. The aid management unit in the finance ministry – which operates fully within country systems and with country funding – was classified in the 2010 survey as a parallel PIU, presumably because it fulfilled at least three of the four criteria to be regarded as parallel, including that the salaries of some of its staff were donor-supported. This would qualify it as a parallel unit (under the Paris Declaration Survey guidelines), but not as a PIU. In order to be considered a parallel PIU, a unit of government needs to be both parallel and merely undertaking the subsidiary tasks of a donor project for the life of the project.

On the other hand, respondents in the Tanzania case study argued that the project co-ordination units or secretariats embedded in government structures were not parallel PIUs because they dealt with administrative arrangements rather than with implementation.

The Paris Declaration indicator, however, is clear that in order to be considered parallel PIUs, these units must:

- exist in order to implement donor projects (implementation includes not only undertaking principal implementation tasks, but also subsidiary tasks such as administration of programmes, which means that the Tanzanian units, on the face of it, would be implementation units, whereas the Burundi aid co-ordination unit is not such a unit); and
- be parallel, which means complying with at least three of the following four criteria – whether they are accountable to the donor(s); whether terms of reference for external staff are set by the donor(s); whether most professional staff are appointed by the donor(s); and whether the salary structure of staff is higher than in the civil service.

From the case studies, which resonate with the criteria set for the Paris Declaration indicator, it is possible to identify specific elements that could be used to distinguish between harmful rather than neutral or beneficial units.

- In both case studies, with government staff earning higher salaries in units, this means that once moved to a unit, in all likelihood, they are lost to core government systems. This depletes government capacity, as the more able staff members are likely to be absorbed into the units; it also create disparities in pay between unit staff, their peers and, potentially, even the officials they are reporting to (when accountable to the government). In whichever way units relate to government structures (integrated or parallel), paying civil servants higher salaries than their peers or topping up their salaries is a harmful practice aimed at attracting better staff to the units, in donors' short-term rather than countries' long-term interests. It is possible to set up units and support staff without topping up salaries. The 2011 Paris Declaration Survey includes two cases, in South Africa and Cape Verde, where the units are donor project specific but not parallel, and are paid for in terms of government staff structures.
- Accountability to donors rather than partner country structures, coupled with appointments in terms of donor contracts mean that units are managed with a view to alleviating donor short-term fiduciary risk and result concerns (and potentially reflecting donor funding priorities), with insufficient concern for the long-term impact on sustainability of results or strengthening of country systems.
- The nature of projects and programmes, and how they are being implemented, needs to be taken into account. The government of Tanzania's greater willingness to allow PIUs for projects with a limited time frame, as the management of these projects is of limited duration and not an ongoing function of government, draws a legitimate distinction – governments across the world utilise specific-purpose units to implement programmes. The notion of not allowing units just because the purpose is donor funded, does not make sense.
- However, this also works the other way. Where specific aspects of programme administration are tied to the duration of donor funds only (such as complying with specific financial management or reporting procedures that derogate from country systems), there is sense in assigning these tasks to a unit that can focus on them, without drawing on the scarce capacity of core government staff.

- It is difficult to see how the appointment of international staff as technical assistants to support country staff in integrated units can be particularly harmful. If such technical assistants are highly skilled, it could create opportunities for skills-transfer that would not be present without such appointments. As the staff are not expected to be transferred back into government service, salary differentials will not cause the same degree of harm. However, such technical assistance would need to be managed with a focus on skills-transfer for the long-term effectiveness and sustainability of the results of such technical assistance.

Other case studies reviewed for this research offered further insights:

- Strong sector co-ordination structures and effective engagement of donors incentivise not only UCS but also donor willingness to implement programmes through country systems without implementation units, as the opportunities for engagement and dialogue provide sufficient safeguards (see the Mali 2006 Paris Declaration Monitoring Survey, where the government recognised that donors feel less need to set up structures where sector co-ordination is strong).
- On the other hand, as is to be expected, the same incentives that discourage UCS, namely pressure to disburse, avoidance of fiduciary risk and pressure to achieve results, discourage a reduction in the use of PIUs.
- Country capacity for implementation can be strengthened through means other than the creation of separate units. The Belgian model of 'co-management' allows for the secondment of Belgian technical assistants into government structures to assist with the implementation of projects, but using country systems. The technical assistants work alongside their country counterparts, with the dual mandate of helping to oversee project implementation and capacity-building (OECD-DAC 2010a).
- The earlier study by Williamson and Kizilbash (2009) highlighted the incentives that are created through better remunerated implementation units associated with basket funding: fearing that they would lose their privileges, government staff associated with these programmes were incentivised to work against the graduation to less costly sector and general budget support modalities.

It is not within the scope of this study to come to definitive findings or conclusions on the use of units to manage aid programmes. The brief discussion above, however, highlights some parameters that it may be useful to explore in a study focused on donor-supported units in partner countries as the unit of analysis, taking different country contexts into account. As donors' need for dedicated capacity to ensure that their programmes are implemented and fiduciary risk is managed is unlikely to diminish, and as the aid architecture shifts with more non-traditional donors supporting partner governments, the need for such a focused study that can highlight less harmful solutions to providing capacity for aid-sensitive implementation of programmes is likely to grow.

CONCLUSION AND RECOMMENDATIONS

This study has confirmed, to some extent, existing knowledge of the forms in which donors use country systems, the safeguards (including derogations from country systems) that are required and factors that drive UCS and PIUs. In conclusion, it is useful to highlight findings that are new, that indicate changes in the UCS arena, or which are particularly noteworthy for African countries.

Forms and extent of use of country systems

While there was a greater willingness and momentum towards increased UCS evidenced by data from the Paris Declaration Surveys of 2005 to 2010, data from the 2014 GPMR show that this commitment is in decline in Africa. It is also worrying that there is lower UCS in African countries that are more reliant on aid. As these are often fragile-state contexts, it is hoped that specific donor frameworks for the use of budget support type modalities in such contexts will reverse the trend.

Over the last few years, two 'new' aid instruments have emerged that will contribute to UCS: (a) programme for results type funding flows where the donors support countries' own programmes implemented through countries' own systems, and disburse once agreed-upon results have been achieved (the risk of disbursed funds being used irregularly accrues to the partner country in such cases); and (b) new budget support instruments for fragile states that waive some of the requirements applicable in other states, in the interest of restoring public services and building states.

Apart from cases of un-earmarked sector budget support and general budget support, the least used systems are those for planning and budget preparation. Country planning and budgeting systems are used very rarely for projects, except for new modalities of reimbursable aid or for support provided by emerging donors, but, even then, donors may use their own systems for programming. It is more common for donors to request derogations from planning and budgeting systems (such as dialogue safeguards), as they are using country systems elsewhere in the cycle (e.g. in joint sector plans).

There is some evidence that audit systems are the first to be used by donors that traditionally use their own systems (e.g. USAID and AfDB). This may be related to willingness to allow a country's supreme audit institutions to audit donor flows when there are already parallel system safeguards in place for such flows. Similarly, the case studies show that when country execution, accounting and reporting systems are used, audit safeguard measures are often in place, including reserving the right to undertake additional audits, and requiring flow-specific audits, the terms of reference to be co-signed, and the audits to be undertaken jointly (or to be co-signed).

Derogations come at higher transaction cost than using systems as they are, and derogations from one part of a system have a domino effect on others (e.g. the requirement to roll over donor sector support funds necessitating the tagging of these funds through the execution and accounting system). It seems counterproductive for countries to have a policy to reduce the number of PIUs (which could take on some of the burden of complying with derogations), and then to allow significant derogations.

While there was a greater willingness and momentum towards increased UCS evidenced by data from the Paris Declaration Surveys of 2005 to 2010, data from the 2014 GPMR show that this commitment is in decline in Africa.

Some key donors to Africa (e.g. USAID and the World Bank) have recently updated their policies. These policies have reiterated their commitment to UCS and have simplified their procedures for programmes and projects to use country systems.

The impact on the workload of officials implementing countries' own revenue streams can be significant.

It seems important to make a distinction between using country capacity to manage donor resources (e.g. using country supreme audit institutions to audit donor projects) and using country systems (allowing projects to be audited as part of routine audits). While the former will most likely contribute to strengthening country systems (particularly if strengthening is targeted in a linked programme), the latter is more desirable as it does not drain capacity away from countries' own revenue flows. In the literature these are often conflated.

Factors influencing use of country systems

Recent shifts in donor attitudes suggest that changes in domestic political contexts pose a danger to the further increase, and even the maintenance, of UCS. Budget support modalities, especially, are under scrutiny. It would appear to be prudent for countries to shift funding flows that are no longer provided through budget support to programme-based approaches financed through pooled funding instruments that are managed through country systems.

Some key donors to Africa (e.g. USAID and the World Bank) have recently updated their policies. These policies have reiterated their commitment to UCS and have simplified their procedures for programmes and projects to use country systems. Others, such as the EU and DFID, have raised the bar, particularly on budget support. However, there remains a gap in many donors' technical guidance on clear procedures to use country systems in non-budget support or pooled funding cases.

The country case studies suggest that there is a threshold effect, with donors tolerating deterioration in country PFM systems when already using the systems, but being slow to switch to UCS when there is improvement in PFM. However, the evidence points to other country context factors that may play a role, including donors' trust in non-PFM systems, such as the justice system, and the availability and strength of country co-ordination mechanisms.

The willingness to shift to country systems may require a donor taking on a 'trailblazer' or anchoring role, which provides other donors with confidence to follow the path forged.

There is also evidence that donors 'grow into' UCS. Across the cases reviewed, there is evidence of a graduation from pooled funding mechanisms managed outside of the government to government-managed pooled funds, to budget support arrangements, to a shift from more to fewer derogations within an instrument, and to more donors joining as experience within specific countries develops.

However, there is also evidence of gains being reversed when issues arise, not only in respect of outright irregular use of funds but also with regard to inefficiencies. Increases in UCS are often preceded by specific (and effective) reforms of PFM system sub-components (e.g. the procurement system in Tanzania, and disbursement through country systems in Mozambique).

While UCS hinges on donors' fiduciary risk assessments, PFM systems are not necessarily the only determining factor. Other factors, such as the strength of donor co-ordination mechanisms, country capacity for implementation (beyond the financial management of funds) and other government systems may be critical factors that detract from or add to PFM system improvements. Even when the fiduciary risk is acceptable, specific donor accountability requirements may mean derogations from country systems, such as the need to link every unit of money spent to outputs.

Donor policy frameworks are important in enabling line staff to implement UCS commitments. Limited clear donor frameworks for UCS outside of budget support and programme-based modalities are, therefore, of concern for African countries, where project support continues to comprise a significant, if not the major, proportion of ODA flows.

While donor commitment to aid-effectiveness principles and UCS is clear, donor line staff often face conflicting incentives to operationalise the commitment. Common disincentives are the pressure to disburse, pressure for aid to be visible, pressure to avoid reputational risk and pressure to show short-term project-specific results.

Decentralised, unified donor systems have higher potential for increases in UCS, as country-specific objectives have a greater likelihood of overcoming headquarters fiduciary and reputational risk concerns; and risk can be more easily managed across modalities in a country programme. Most donors, however, have centralised decision-making procedures for UCS, and many deliver bilateral assistance through more than one institution.

Recommendations

Country recommendations

Acknowledging that donors gradually shift their aid 'upwards' through instruments that make increasing use of country systems, **countries should create entry points for donors to shift to UCS** (e.g. by creating specific capacity to manage projects using country systems). An entry point for many donors may be the use of country audit systems, also because strengthening these systems allows for discrete interventions with some likelihood of success.

It would be in the interests of ministries of finance to **ensure that strong country-donor co-ordination systems are in place**, or are being developed, to provide a platform for donors to move to UCS. This includes the development of systems to make all aid 'budget transparent' at the centre (such as aid information management systems and processes), sector-based groups that are integrated into the budget process and sector review processes. These are important mechanisms not only for donors, but for countries too, which support UCS, aid transparency and donor harmonisation. The link between the introduction of effective reforms and an increase in UCS in reform areas should be exploited by countries in the development of their reform programmes.

Countries should recognise that allowing donors to specify derogations from country systems programme by programme (in a sector or across sectors) creates a common pool problem. Neither the country nor the donor will take full account of the cost of individual derogations from country systems, but will see each as making only a marginal difference. It is only when all the derogations are pooled (during implementation) that the full cost becomes visible. Therefore, it would be in the interests of countries to **use joint**

While 'global light, country heavy' has become a mantra for the implementation of aid-effectiveness measures, this study shows that there may be cause to challenge this catchphrase.

processes (such as joined-up country strategy preparation of the EU member states, or multi-donor groups at the national and sector level) **to pool donor required derogations** and limit their extent and impact using country system capacity and strengthening as a benchmark.

Countries should **develop principles for the intelligent use of donor PIUs**: assistance by donors in implementing donor programmes through the UCS can be utilised to strengthen country capacity, or to protect country capacity in cases of high derogations from country systems. The study includes some evidence that dedicated implementation capacity, including implementation units, in themselves, are not necessarily harmful. The key is how they are designed and integrated into country systems.

African countries, as a group, should **renew pressure on donors to harmonise not only fiduciary risk assessments, but also fiduciary risk-management frameworks and mitigation measures**. Some of this can and must occur at the global level. While 'global light, country heavy' has become a mantra for the implementation of aid-effectiveness measures, this study shows that there may be cause to challenge this catchphrase.

The review of donor risk-management frameworks confirmed findings in previous studies that there are large similarities between how donors define risk, what types of risk they assess and how they seek to mitigate risks. Under current convention, pressure is on the country – even after harmonisation of approaches between donors – to accommodate slightly different donor requirements, which are immutable given the stance of donor headquarters, despite the mounting cost for countries and reduction in long-term development impact. With the necessary advocacy to persuade donor-domestic audiences as to the cost to development of continuing with such disparate frameworks, some potential for bringing donor headquarters accountability requirements closer together can be opened up. Without such work, it is likely that the positive impact of UCS on partner countries will remain limited (see Glennie et al. 2013 for a discussion of the impact of 'localising' aid).

Recommendations for donors

Donors should **pay closer attention to guidance on UCS outside of budget support modalities and programme-based approaches**, to provide clear pathways for country staff to shift aid onto country systems. This is particularly true for providing project support through country systems: for most donors, UCS is associated with programme-based approaches, if not budget support. However, there are examples of specific projects delivered through country systems (e.g. in Rwanda where government-controlled projects use country systems) (Chiche 2009).

Donors should **use derogations from country systems as a safeguard only in the last resort**. Other safeguards that strengthen country systems, such as technical assistance to address areas of weakness, coupled with the use of reform targets as disbursement triggers, should be prioritised.

'Like-minded' donors, or donors with high interest in implementing UCS, should explore the possibility of harmonising headquarters requirements around derogations from country systems to address identified risks.

Donor rotational policies, which were developed when almost all aid was provided as donor-managed projects, may need to change to **allow for longer in-country postings** so as to develop and maintain the relationships with partner governments and other donors needed to support UCS.

Donors should **refrain from creating project implementation capacity that offers higher remuneration to country officials**.

ANNEX 1: RESEARCH FRAMEWORKS

Framework for cross-country donor research

Use of country systems	
History of use of country systems	To what degree does the donor use country systems (analysis using Paris Declaration Survey data)? Have there been significant shifts in the use of country systems, when and why?
Policy frameworks	What policy frameworks exist? Are there decision-making rules, and if so, in what form? Are policy frameworks and rules applied?
Donor processes	How are decisions made on the use of country systems? At the country or programme level? In the field or at headquarters? What political oversight is required?
Approaches to risk	What are donor approaches to risk, formally and in practice? What risks are emphasised? Is the assessment of risk modified by an assessment of benefits? Does it differ between countries? In other words, do some types of risk weigh more heavily in some countries rather than in others? How do donors manage risk? Is the approach focused on risk management or risk avoidance? What is the correlation between managing risks and deciding on how country systems will be used? In other words, what safeguards or limited use of country systems are related to risk?
Incentives for using country systems	What incentives impact on the use of country systems? What drives incentives? Do incentives differ between headquarters and country-level staff, how and why?
Donor capacity for using country systems	What efforts have been made to build capacity to shift the management of resources to the use of country systems? What funding backs use of country systems?
Barriers to using country systems	What barriers to using country systems exist (legal, political, policy, operational, capacity)? How important are they?
Budget support	What are donor approaches to using budget support? How much of the shift to country systems (if any) is driven by a shift to budget support?
PIUs	
Donor approaches to PIUs	What drives the use of PIUs by the donor? Are PIUs used by default, or under specific circumstances? Which circumstances? Are there requirements determining the institutional arrangements for PIUs? Are country preferences considered when PIUs are constituted?
Use of country systems	
Country history in respect of ODA and use of country systems	ODA volume, flow, type and predictability. What is the history of the use of country systems at the country level (data and narrative)? Have there been concentrated and/or significant shifts across donors, and what triggered such shifts? *The research teams will not attempt to collect additional data on the use of country systems for each of the selected two country case studies, but will provide a thorough analysis of existing OECD-DAC and Paris Declaration data. The country fieldwork will collect qualitative information to construct a narrative on the use of country systems.*
Country PFM systems	Analysis of quality and change in quality of country PFM systems, using PEFA and other assessments (prior to country visit, standard analysis for focus countries).
Country PFM systems	Analysis of quality and change in quality of country PFM systems, using PEFA and other assessments (prior to country visit, standard analysis for focus countries).

Country research framework and questions

Use of country systems	
Actual use of country systems	What are the links between quality of PFM systems and use of country systems, if any? Across the budget cycle, is there a difference between the use of country systems by type of aid flow (grant/loan)? Across the budget cycle, which donors use which country systems in which ways? What are examples of additional safeguards? What are examples of partial use of country systems/hybrid use of country systems (e.g. with pooled funds) within a specific phase? How does this relate to risk assessments? Do the application of such additional safeguards and limited use impact on the benefit of the use of country systems for the country? How?
Budget support and other aid modalities	What budget support is provided, and how much of the shift to use of country systems is on account of budget support (Paris Declaration Survey Data, modified by country-level information, if readily available)? What drives the shift to budget support? What blocks a shift to budget support? How does this differ across donors (headquarters factors and country factors)? Were there shifts to other aid modalities or disbursement channels that contributed to the use of country systems (e.g. to programmatic rather than project, or basket funding rather than individually managed funding modalities)?
Country-level awareness and adherence to donor policy frameworks and processes	How aware are donor-country personnel of donor use of country systems policy frameworks? How well are they able to apply these? Are formal processes for use of country systems decisions followed?
Country policy frameworks and processes	What is the country's policy in terms of the use of country systems? Is this policy applied consistently across the government? What processes are driven by the country that have increased or could increase the use of country systems?
Risk as a factor at country level	How do donors view risk in the country concerned? Which risks count for which donors and why? How does it impact on the use of country systems? What risks does the country face when country systems are used? Do these feature in country decisions when requesting or agreeing to the use of country systems? Are these risks considered by donors? Is the assessment of risk modified by an assessment of possible benefits?
Incentives	What incentives do donor-country personnel face to use country systems? What drives these incentives? What incentives do country officials face to use country systems? Do these differ between central institutions, like the ministry of finance, and line departments? What drives the incentives?
Capacity at country level	What are donor and country personnel capacities for managing aid through the use of country systems?
Barriers and enablers	What barriers specific to the country impact on the use of country systems? Are there key country actions that may overcome such barriers? What factors enable the use of country systems? Are there country-donor partnership factors or institutions at country level that enable the use of country systems? Are there country actions – across donors or donor-specific – that have triggered increased use of country systems?
PIUs	
Use of PIUs	How many PIUs are in place and what is the history of the use of PIUs? Are there aid programmes that are managed through institutional arrangements that mimic PIUs, but are not defined as such? What are these and what has driven their establishment?
Impact of PIUs	What is the impact of PIUs on aid sustainability at the country level? Are there instances where PIUs/similar arrangements arguably ensure the delivery of results or the safeguarding of funds, but do not affect long-term sustainability of programme outcomes or development?

ANNEX 2: SUMMARY OF DONOR APPROACHES TO USE OF COUNTRY SYSTEMS

	France			
UCS worldwide	2010 (PDMS)		2013 (GPMR)	
	Budget execution systems:	71%	Budget execution systems:	79%
	Procurement:	74%	Procurement:	89%
	Financial reporting:	71%	Financial reporting:	70%
	Auditing:	64%	Auditing:	75%
What policy frameworks exist	2006 French action plan for strengthening the effectiveness of aid and the implementation of the Paris Declaration 2007 Doctrine on the use of budget support 2008 Doctrine on fiduciary risk in foreign countries 2011 Framework for development co-operation partnerships (largely silent on use of country systems)			
Process for UCS decision	The French aid system is complex on account of ODA being provided through many government departments and agencies. Since 2004, however, at the country level, a Framework Partnership Document was prepared, which provided guidance over a period of five years to all government players. Such documents are prepared locally, under the co-ordination of the ambassador, and are co-signed by the partner-country government. These documents could allow for strategic engagement with France as a donor at the country level. Beyond this, decisions on specific aid instruments are made by the different agencies, including the French Development Agency (AFD, jointly overseen by several ministries, technical co-operation manages most bilateral aid including budgetary support), the General Directorate for International Co-operation and Development (part of the Ministry of Foreign Affairs, manages technical co-operation) and the Treasury (manages loans), according to their procedures. For the most part, however, decisions are centralised in Paris.			
What forms does UCS take?	The French action plan for strengthening the effectiveness of aid and the implementation of the Paris Declaration called for general and sector budget support to grow and for France to use country systems when conditions are met. The fiduciary risk policy sets out different approaches: non-targeted budget support, monitored through the implementation of country sector plans and reports; pooled funding, where resources are targeted at a specific set of expenditure and are channelled through an account managed by the government; or common non-budgetary funding that is pooled outside of government systems and is managed by a donor. The OECD-DAC Peer Review (2008) found that outside of budgetary aid, the AFD manages most of its resources itself, contracting local operators.			
What role does risk play? How is it assessed?	Fiduciary risk assessments focus on four dimensions: • D1. credibility of the budget; • D2. effectiveness of enforcement procedures and control expenses; • D3. reliability of accounting and financial reporting procedures; and • D4. quality audits and external audits. The assessment uses associated PEFA indicators. If these are not available, it uses CFAA, CPIA, ROSCs, CPAR, PERs and other existing tools. The tool is designed to construct an index, utilising PEFA indicators. The only indicative is that there is no strict relationship between high risk score and non-use of general or sector budget support. Other factors, including the quality of policies, the macro-fiscal context and the quality of development co-operation must also be assessed, as well as the direction of change.			

<table>
<tr><th colspan="2">France</th></tr>
<tr><td>What rules apply?</td><td>Budget support should be used when risk is low. When moderate or high, country systems can be used with the introduction of capacity-building interventions, safeguard measures and additional controls, including requiring that funds are traceable, managed through a trust fund, there are no-objection rights, and additional audits. These can be made conditional for disbursement of the support or renewal of contracts.</td></tr>
<tr><td>Support for shifting to UCS</td><td rowspan="2">The Paris Declaration evaluation report on France found that the lack of political impetus for the Paris Declaration hampered progress, and that the institutional framework of French aid, which involves multiple ministries and institutions, made it difficult for guidance to be implemented consistently. This is also because France implements aid through a wide framework of instruments, not all of which immediately seem applicable. The heads of the French development institutions supported the Paris Declaration.

Also, there is significant fragmentation of the management of French aid, which means that risk cannot be balanced across the country's portfolio, which makes the opportunity for using country systems less likely.</td></tr>
<tr><td>What incentives supported the shift?</td></tr>
</table>

Source: Cant et al. (2008); CICID (2008); OECD-DAC (2008); Wood et al. (2011)

Germany				
UCS worldwide (2010)	PDMS 2010		GPMR 2013	
	Budget execution systems:	42%	Budget execution systems:	43%
	Procurement:	60%	Procurement:	50%
	Financial reporting:	50%	Financial reporting:	45%
	Auditing:	41%	Auditing:	43%
What policy frameworks exist	Plan of operations (2005, updated 2009) for implementing the Paris Declaration. Commitment to use country systems 'where possible'. Manual for implementing the Paris Declaration, issued in 2006. Guidelines for financial and technical bilateral co-operation, issued in 2007. Budget Support in the Framework of programme-oriented joint financing guidelines, issued in 2008.			
Process for UCS decision	For budget support to be utilised, it must be approved by BMZ and, on an individual basis, by Parliament. Co-operation at country level is in the context of country strategies (lately, joint strategies) prepared by BMZ. Individual programmes and projects by GIZ, KfW and other agencies fit within this. Country programmes are managed through co-ordination at the country level between the agencies and institutions.			
What forms does UCS take?	Up to 2007, Germany could only provide budget support if linked to a World Bank poverty-reduction support credit. Since 2007 however, Germany can provide budget support in other circumstances. By 2007, Germany delivered 7% of its aid as budget support and by 2010 this had grown to 11%. Its other programme-based approaches had grown to 28% of all aid provided, from about 25%. Germany provides budget support only jointly with other donors. If there is not strong joint programming experience, or fiduciary risk is high, Germany prefers using basket funds managed by the country or a donor for financial support. Germany considers the provision of technical assistance in kind, when done within the context of the partner country's framework, as a programme-based approach. As most of its funding is channelled through GiZ, which provides technical support except in very few cases, the predominant model for German support is technical assistance. Budget support is predominantly provided by KfW (in Africa to Burkina Faso, Malawi, Ghana, Zambia and Morocco). Germany operationalises an approach of financial aid (through general or sector budget support provided by KfW) combined with technical assistance by GiZ and management by GiZ (e.g. in the Tanzania health common fund). The 2007 Guidelines for financial and technical bilateral co-operation also allowed for tolerance for partners' procedures when Germany is the silent partner. KfW extends financial loan project assistance, too (e.g. in Rwanda), which can be disbursed through accounts held at the central bank, but with project-specific procedures for disbursement and derogations across the budget cycle.			
What role does risk play? How is it assessed?	Germany identifies fiduciary, macroeconomic, political and implementation risks associated with using country systems. Fiduciary risk is addressed by reference to funds that are put at the partner country's disposal through programme-based joint funding. Specific definitions are given for 'not used for purposes intended', 'not properly accounted for' and 'did not achieve value for money'. Germany assesses fiduciary risk through a tool that comprises 5 PFM dimensions with 12 indicators, utilising 17 of the PEFA indicator set. A financial risk assessment, based on a detailed analysis of partner country PFM systems, is mandatory and is central to the pre-appraisal carried out upon a funding request from a partner country. Germany undertakes a governance assessment, too, requiring at last a medium score on the assessment, with one of the indicators rated as high. Groups of indicators are: pro-poor and sustainable policies, human rights, democracy and the rule of law; efficiency and transparency; and stance within the international community. Germany looks at the risk that macro-economic factors might have a negative effect on poverty-reduction results, and at risks associated with the underlying relationship between Germany and the partner country. Germany defines this risk as a risk of its support to the country if disbursed via country systems; in other words, the consequences should a programme and it is financial support be terminated. This includes progress on reforms.			

<table>
<tr><th colspan="2">Germany</th></tr>
<tr><td>What rules apply?</td><td>Germany will consider budget support in low-income countries with a dynamic reform process, and with an adequate co-ordination framework. If a reform process is not evident, it prefers contributing to basket funding or other forms of programme aid. BMZ has established three basic criteria for partner countries for providing budget support: sound macroeconomic and financial management; medium level of governance with a positive development trend (assessed on the basis of a BMZ catalogue of criteria); and a development-oriented national strategy. Germany uses a minimum score against the eligibility requirements for using country systems, but takes into account the development path of the country. It will consider budget support in fragile countries, or countries at risk of a crisis, but only if the country shows commitment to reforms and if jointly undertaken with other donors.</td></tr>
<tr><td>Support for shifting to UCS</td><td rowspan="2">Given the policy commitment to make more use of country systems, BMZ now monitors the use of programme-based approaches (integrated projects, basket funding, sector and general budget support), but these are not necessarily disbursed using country systems. Implementation of the Paris Declaration, including on the use of country systems, is incorporated into the corporate goals of the German implementation agencies (i.e. GIZ and KFW), and in organisational and personal targets. After the Paris Declaration, the implementing agencies undertook intensive dissemination of Paris Declaration documentation and guidelines, as well as training. For example, both GIZ and KFW set up working groups or competency centres on programme-based approaches, and developed frameworks and guidelines.

Capacity was found by the Paris Declaration evaluation to be a key constraint on Germany implementing the Paris Declaration overall, including human resources available at the country level. High workload and increased transaction costs associated with using country systems hampers its implementation.

While Germany is committed to the Paris Declaration and has integrated its goals into the management of its co-operation assistance, its policies and operational practices allow limited space for use of country systems, with a high bar for budget support (including, since 2007, case-by-case approval by Parliament), and no frameworks for nuanced forms of using country systems. Also, the institutional complexity of German aid provision is a factor. At country level, Germany's co-operation programme is managed by the embassy, the BMZ and the implementation agencies (GIZ and KfW, among others), with an institutional split between financial and technical co-operation. Further factors are the requirement for German aid to be visible, institutional self-interest and shortage of staff to manage the higher demands.</td></tr>
<tr><td>What incentives supported / prevented UCS?</td></tr>
</table>

Source: Cant et al. (2008); BMZ (2008, 2010); OECD-DAC (2010b); Wood et al. (2011)

USAID				
UCS worldwide	PDMS 2010		GPMR 2013	
	Budget execution:	13%	Budget execution:	22%
	Procurement:	13%	Procurement:	14%
	Financial reporting:	11%	Financial reporting:	24%
	Auditing:	9%	Auditing:	16%
What policy frameworks exist?	The shift to more use of country systems began soon after signing the Paris Declaration. In January 2007, the US inter-agency policy committee on development and humanitarian assistance established a sub-interagency policy committee on aid effectiveness for US government agencies. By October 2007, this committee had mapped an inter-agency aid-effectiveness action plan to revise policies and procedures to make them consistent with the Paris Declaration principles. In practice, USAID policy and practice on use of country systems have been shifting since 2009/10 in the USAID Forward reforms. The intent to 'promote sustainable development through high impact partnerships' is one of three pillars of these reforms, undertaken in the context of the US Presidential Policy Directive on Global Development. In 2012, the agency issued a policy, 'Use of Reliable Country Systems for Direct Management and Implementation of Assistance', that sets out under which circumstances, through which processes, and in which ways USAID assistance can use country systems. The USAID policy, however, operates within the framework set by the US Foreign Assistance Act (1961), which, according to the OECD-DAC peer review, now has 140 broad priorities and 400 specific directives for implementing the priorities. In 2009, USAID adapted its procurement practices, which meant that local procurement can take place through country systems.			
Process for UCS decision	The USAID policy on use of country systems sets out a specific process for deciding on the use of country systems. Mission directors in partner countries are responsible for initiating the process by undertaking a PFM system assessment in co-ordination with the partner country. A partner country systems team undertakes the risk assessment, using the PFM Risk Assessment Framework (PFMRAF) designed by USAID, for programmes over USD500 000. Smaller projects can use a less onerous process. The approval to use country systems is documented by the mission director in a formal approval of use of partner country systems (AUPCS) determination. The risk that is identified through the PFM assessment is documented in an AUPCS, with the identification of risk-mitigation measures. Once an AUPCS is approved, the mission director is responsible for negotiating the bilateral agreements with the partner country that will detail the use of country systems. Decisions to use country systems or not for US foreign assistance are taken by the individual agencies/entities managing the programmes. Washington-driven requirements, including those from Congress, usually mean that in practice very little is left to the discretion of country officers. However, since the 2010 policy directive, chiefs of mission have to produce a multi-year country strategy. This strategy could empower field offices in decision-making more aligned with partner countries' development priorities as against the priorities set in Washington, including for the use of country systems.			
What forms does UCS take?	Country systems can be used in three forms: (i) a reimbursement of inputs (costs); (ii) a fixed reimbursement of outputs; or (iii) a resource transfer (budget support). Reimbursement of fixed costs occurs with risk-mitigation measures, as set out in the AUPCS and the bilateral agreement. Up to the late 2000s, USAID (and most US assistance) rarely used country systems. For example, in 2010, 0.7% of USAID mission funding in Africa was spent using country systems (USAID 2013). By 2013, this had expanded to 1.38%, which is almost a doubling, but still low compared to other regions (e.g. 3.34% in Asia, and 6.67% for the agency overall). The US does provide budget support, but only to key strategic partners and, then, when driven by security or foreign policy interests. By 2011, the US had provided strategic budget support to nine partners altogether, including countries such as Egypt and Jordan. Use of country systems is 'encouraged' under USAID policy. Fixed-amount reimbursement contracts also allow for the use of country systems to implement USAID assistance. These contracts allow for fixed amounts to be reimbursed, upon proof that outputs have been achieved. If these contracts are already in place, and additional commitments of up to USD10 million is made, they do not require a PFMRAF assessment. However, if additional commitments are over USD10 million or a new contract is issued, a PFMRAF needs to be undertaken. They, however, are still subject to various rules, for example limits on the origin of goods that can be purchased using fixed-amount reimbursement funds.			

	USAID
What forms does UCS take?	USAID also looks at the use of joint-funding mechanisms with other donors, including through multi-donor trust funds. In some sectors, however, this may mean that the trustee would need to establish a single-donor trust fund within the overall umbrella trust fund, in order to meet USAID earmarking and other requirements for the management of its funds. Risk-mitigation measures may include agreeing to a technical assistance project to strengthen systems, additional audits, earmarking funding, tranche payments linked to PFM improvement thresholds, imposing risk-tolerance thresholds and requiring additional reporting. The monitoring framework for a USAID project using country systems will be part of the project design, imbedded in the bilateral agreement, and executed as part of the responsibility of the USAID mission director.
What role does risk play? How is it assessed?	Managing fiduciary risk when using partner country systems is very important for USAID, given accountability requirements. The main instrument to assess and manage risk is the PFMRAF, combined with the AUPCS and its implementation. Risk is assessed through the USAID framework – the only one approved to enable the use of country systems. The risk-assessment process comprises five stages, including a first rapid appraisal, which, in turn, includes a democracy and governance assessment, unless a country falls below some threshold, in which case it would also require an enhanced democracy and governance review. In the rapid assessment, country missions utilise existing information – such as PEFA assessments – to judge whether a country would qualify for use of country systems. This is done at the national level, as well as in sectors where the mission may want to use country systems. The stage-one rapid assessment includes looking at factors like the quality of PFM systems, fiduciary risk, transparency, the competitiveness of procurement systems, and democratic governance and political contexts. Unless the rapid assessment finds factors that disqualify a country for use of its systems, the process enters the next stage, which is a full PFMRAF assessment. It starts with the identification of specific risk factors by the team undertaking the assessment, with the support of the USAID CFO office support team. This assessment will use existing assessments by other donors or the partner country for specific components (e.g. audit) once these, and the systematic vertical assessment of other specific systems that will be used, have been validated. The purpose of the assessment is not to avoid risk (i.e. identify reasons why UCS cannot occur), but to identify the risks in order to design mitigating steps. After completion of the PFMRAF assessment, the next step is to design risk-mitigation measures, including risk-tolerance limits (e.g. thresholds for using country systems), specific to the country and then to draft the AUPCS. The next step is to draft the specific bilateral agreement detailing how country systems are to be used in each project/programme.
What rules apply?	From the highest policy level to operational guidance, USAID use of country systems is tied to instances where 'our partners set in place systems that reflect high standards of transparency, good governance, and accountability', including democratic accountability. USAID now is on a use of country systems by default system, and country mission directors have to initiate the process with the partner country government to have the necessary assessments done for projects using country systems to be approved.
Support for shifting to UCS. What incentives supported the shift?	USAID instituted training for all new staff on aid effectiveness; it changed its procurement practices in 2009 and, from 2010, undertook a major overhaul of its operational model. USAID created the Bureau for Policy, Planning and Learning, which heads up policy development, strategic capacity development, learning and evaluation, and donor engagement with regard to USAID's reforms, including using partner country institutions' systems. In support of the USAID policy on use of country systems, USAID has established a support team in the office of the financial controller, which will ensure quality and consistency across applications of its risk-assessment framework and monitoring exposure limits in UCS. This team, the Global Partner Country Systems Risk Management Team, supports country-specific Partner Country System teams, which undertake the PFM risk assessments. Despite explicit policy commitments in USAID Forward, incentives linked to the accountability requirements under US statutes still dominate how USAID provides ODA. The US Congress' earmarking of assistance, and requirements on accounting for the use of funds by contributing outputs to every dollar spent, focus on short-term results, visibility of US assistance, and tying aid to US service providers and goods, still weigh significantly. Usually the sum of these requirements coupled with Washington-driven priorities is that very little US assistance in any country is not pre-programmed (leaving little discretion to the local office). A further consideration is that from a US agency or programme-manager perspective, US foreign assistance is driven by the security aims of the US government and foreign policy aims – that aid-effectiveness principles apply (whether from international commitments or on the basis of reducing long-term development risk) may not be commonly accepted by individual managers and even consistently across agencies. The risk-assessment processes required to use country systems are also onerous.

Source: Blue and Eriksson (2011); USAID (2012)

	World Bank			
UCS worldwide	PDMS 2010		GPMR 2013	
	Budget execution:	74%	Budget execution:	56%
	Procurement:	55%	Procurement:	36%
	Financial reporting:	66%	Financial reporting:	52%
	Auditing:	72%	Auditing:	64%
What policy frameworks exist	The World Bank (IBRD and IDA) has three primary lending instruments: development policy lending, investment lending, and programme-for-results financing. These are governed by different, but linked, frameworks. Development policy lending and the rules for the use of country systems related to this lending is set out in the Operational Manual (OP) and Bank Procedures (BP) documents OP/BP8.6, but also are governed by, amongst others, the procurement OP/BPs. Investment lending is set out in OP/BP 10, the new framework of April 2013, but also subject to the procurement OP/BP 11. Programme-for-results financing is governed by OP/BP 9, and was approved as an instrument by the World Bank in 2012. In brief, the differences between the three are that development policy lending is the transfer of tranches of cash to support countries' policies through the country's systems (with risk-mitigation measures, in effect general and sector budget support), investment lending is project-tied and used for investment in roads or school building, for example, and programme-for-results financing is a reimbursement-type programme in which disbursements occur when agreed results have been achieved (measured through agreed indicators). This instrument also uses country systems, subject to assessments of country systems.			
Process for UCS decision	The World Bank's guidelines for country assistance strategies require that the strategies provide guidance on how the use of country systems is to be expanded. The decisions on whether country systems can be used, and with what limitations, are taken in the context of analytical work (CPIAs, using PEFA indicators, CPARs) undertaken for the country assistance strategy. Development policy lending and programme-for-results financing must undertake risk assessments and design the agreements for every operation based on these instruments, including mitigating measures or capacity-building support for specific systems. For investment lending, an appraisal is undertaken, during which risk assessments are done, leading to decisions on the use of country systems. All these are approved at headquarters level.			
What forms does UCS take?	The bank has a good track record in the use of country budget execution, financial reporting and auditing systems. For development policy, and now for programme-for-results financing, it uses country budget systems for the most part, but with additional requirements in terms of policy dialogue. Development policy lending, investment lending and programme-for-results financing use country disbursement and budget execution systems, with risk-mitigation measures , where deemed necessary – for example, requiring dedicated accounts for World Bank or counterpart funds, and having a right to request an audit of the dedicated accounts. It may also use earmarking, requiring funds to be spent only for specific purposes. This often means that accounting systems cannot be used fully, as countries' charts of account may not allow the specific recording of the use of funds in line with the earmarking, which means that parallel systems may be put in place to fulfil this function for bank reporting processes. Using procurement systems, however, has been more difficult for the World Bank. It is fairly common for local procurement in World Bank projects and programmes to use country systems and procedures, but for all international procurement to use World Bank procedures, even when managed by the country, particularly for investment lending. Development policy lending and programme-for-results lending are not subject to the World Bank's procurement procedures, except in the former when World Bank expenditures are earmarked. When World Bank investment loans co-finance a programme (e.g. a sector support programme), and World Bank funds are not managed separately, World Bank procedures are required to apply to all flows in the programme (e.g. in the Malawi sector support programmes, where even the government's own funding, as part of the pooled funding agreement, follows World Bank procedures. The bank undertook a pilot programme in the late-2000s to select countries whose procurement systems were assessed to be on a par with those of the World Bank, to implement programmes fully using their own systems and procedures. The pilot included the use of country procurement reviews and the OECD-DAC Methodology for Assessment of Procurement Systems (MAPS) to assess a country's systems, and to propose and support improvement measures. The bank will expand the number of countries that have gone through this process, but the second progress report found that take-up has been slow and the bank's own review of its implementation of the Paris Declaration found that the pilot was not fully successful. The bank is undertaking a full review of procurement in its operations on the back of the pilot.			

	World Bank
What role does risk play? How is it assessed?	The Bank undertakes periodic assessments of country systems through the Country Policy and Institutional Assessment (CPIA) and Country Procurement Assessment Report (CPAR) processes, which inform what types of assistance are chosen and how the bank will provide it. This is supplemented by operation-specific processes. For development policy lending, the bank assesses a country's financial management and procurement systems for fiduciary risk, and proposes mitigation measures. It will also only undertake and continue this form of operation if the macroeconomic policies of a country are adequate. The likely amount of development policy lending, given the outcome of these assessments, is determined through the country assistance strategy.
What role does risk play? How is it assessed?	For investment lending, the financial management assessment considers the degree to which: (a) the budgeted expenditures are realistic, prepared with due regard to relevant policies, and executed in an orderly and predictable manner; (b) reasonable records are maintained and financial reports produced and disseminated for decision-making, management and reporting; (c) adequate funds are available to finance the project; (d) there are reasonable controls over project funds; and (e) independent and competent audit arrangements are in place. For programme-for-results financing, the fiduciary systems assessment considers whether programme systems provide reasonable assurance that the financing proceeds will be used for the intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency and accountability. The programme procurement systems are assessed as to the degree to which the planning, bidding, evaluation, contract award and contract administration arrangements and practices provide reasonable assurance that the programme will achieve the intended results through its procurement processes and procedures. The financial management systems are assessed as to the degree to which the relevant planning, budgeting, accounting, internal controls, funds flow, financial reporting and auditing arrangements provide reasonable assurance on the appropriate use of programme funds and the safeguarding of its assets. The fiduciary assessment also considers how programme systems handle the risks of fraud and corruption, including by providing complaint mechanisms, and how such risks are managed and/or mitigated.
What rules apply?	The World Bank is required by its Articles of Agreement to 'make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations'. Within this framework, in effect, four related sets of rules exist for the use of country systems, a set of rules for development policy lending, for programme-for-results financing and for investment lending, and for procurement separately from financial management arrangements. For the bank, financial management systems refer to the planning, budgeting, accounting, internal control, financial reporting and auditing arrangements for a fund flow. For development policy lending – for example, budget support – the World Bank assesses a country's financial management and procurement systems for fiduciary risk, and proposes mitigation measures, but essentially uses country systems. For investment lending, while previously the World Bank's policy on financial management for IDA investment lending stated that country systems were to be used if they were adequate, the new formulation, since April 2013, is 'financial management arrangements rely on the borrower's existing institutions and systems, with due consideration of the capacity of those institutions'. For IDA investment lending, the World Bank requires that the borrower maintains financial management arrangements that are acceptable to the bank and that provide reasonable assurance that the financing is used for the purposes for which it was granted. By definition of the World Bank policy, financial management arrangements are the planning, budgeting, accounting, internal control, funds flow, financial reporting, and auditing arrangements of the borrower. Only if there are capacity constraints, as determined by the risk assessments during the project appraisal process, and at the request of the borrower, the bank may enter into agreements with relevant international agencies, including the United Nations, national agencies, private entities, or other third parties, or utilise part of the financing to set up its own arrangements, including through trust funds. These arrangements, however, are limited to the time necessary to restore the capacity of the borrower. Investment lending operations are subject to the bank's procurement policies, which means that they are subject to the Bank's Procurement and Consultant Guidelines. These guidelines set out different procedures for different types of procurement: overall local competitive bidding can be done using country systems and procedures, but international competitive bidding needs to use World Bank procedures, even if managed by the borrower, for activities financed or co-financed by World Bank funds. The thresholds for different procedures are determined on a country-by-country basis, depending on the periodic assessment of country procurement systems. Programme-for-result financing uses country systems, insofar as it supports country programmes through disbursements for agreed results achieved.

	World Bank
Support for shifting to UCS	To support use of country systems, the bank provides guidance to staff, including, for example, on: documenting in the CAS the strategy regarding use of country systems; developing an internal system to measure and monitor bank use of different country PFM system components; how to integrate PEFA assessments; disseminating good practices to help manage risk and enhance the use of country PFM systems in different contexts; and strengthening the competencies of financial management sector staff. Agreement in the Africa Region of the World Bank on actions to further the use of country systems.
What incentives supported the shift?	The bank's review of its implementation of the Paris Declaration found that the focus on bank operations was more on the specific project and the risks associated with the project itself, than on the long-term development risks at country level, providing disincentives for project staff to use country systems. The bank's policies on the default use of country systems appear strengthened in the latest policy documents (updated April 2013) in favour of default use of country systems. The guidelines on country assistance strategies require the outlining of strategies to strengthen and expand the use of country systems for public financial management and procurement, among others.

Source: World Bank (2008, 2011, 2012, 2013)

African Development Bank				
UCS worldwide	PDMS 2010		GPMR 2013	
	Budget execution systems:	43%	Budget execution systems:	47%
	Procurement systems:	31%	Procurement systems:	41%
	Financial reporting systems:	50%	Financial reporting systems:	52%
	Auditing systems:	49%	Auditing systems:	52%
What policy frameworks exist?	In 2012, the AfDB issued a new policy on programme-based operations. These guidelines replaced a number of separate guidelines on 'policy-based' instruments, and provide a framework for programme-based operations, such as budget support, sector budget support and budget support in crisis states. The guidelines are for programme-based operations, however, and not specifically for using country systems generally. The bank does not have specific policies for use of country systems, or an overall policy framework within which such policy guidance can be placed. While there were guidelines on development budget support lending (DBSL) (now superseded by the 2012 guidelines), none of the existing policies or strategies articulated a clear preference for more aligned aid modalities, such as budget support or other programme-based approaches over the period 2005 to 2013. There was no strategic framework or fiduciary risk-assessment framework which would help the bank decide on an appropriate aid modality mix. In 2011, in the run-up to the Busan Third High Level Forum, the bank produced a road map for improving performance on aid effectiveness and promoting effective development, setting out five areas for action, including on reviewing bank procedures, policies and actions and operationalising guidance on the same. Increasing the use of country systems was one of three priorities to be pursued. This included supporting the improvement of countries' systems, using budget support, using country systems even when not using budget support, and avoiding the use of project implementation units. The road map targeted the development of policies, including the integration of use of country systems into the bank's operational manual. This process is ongoing.			
Process for UCS decision	Bank country strategy papers (CSPs) set the framework for the use of different modalities in its operations. The bank uses the Country Policy and Institutional Assessment (CPIA) to assess country context and systems for different modalities. CSPs determine the degree to which country systems will be used, including setting limits for programme-based approaches. Programme-based approaches may also be used even if not programmed in the CSPs, under circumstances of approaching crisis or post-conflict situations. In addition, every programme-based operation must undertake a programme appraisal report, which will argue for the modality, documenting the analytical work that underpins the decision and the design of the programme.			
What forms does UCS take?	The AfDB has increased the use of budget support over time, increasing the percentage of its operations at the country level that can be delivered using budget support. It has also sought joining up with other donors in SWAps to use country systems. However, the AfDB has done more general or cross-sector programme-based operations through the African Development Fund than sector-based operations. The AfDB's own operations in contrast were more sector-based. In most cases, general budget support arrangements are through joint multi-donor programmes, while the AfDB also provides budget support under its fragile-states facility. As far as budget support is concerned, the AfDB provides general, sector, and crisis-response budget support. The Bank requires full disclosure on the use of funds through financial reporting as part of its audit requirements, backed by up-front assessment of audit systems in country CSPs, and appraisal and supervision mechanisms.			
What role does risk play? How is it assessed?	Programme-based approaches and the use of country systems for projects are considered against risk assessments of the four pillars of the Bank's Fiduciary Risk Management Framework (FRMF) for PBOs – budget, procurement, audit and reporting, and corruption – and against a full range of indicators, including transparency and comprehensiveness (PEFA indicators). An assessment that PFM is at least satisfactory or improving is a technical eligibility criterion to safeguard bank resources. The AfDB does not support the use of minimum standards of PFM, but rather looks for a positive trajectory of change indicating effective RMC commitment to reform. However, the bank would typically expect the country to have, at least, a transparent budget. The bank assesses fiduciary risks of PBOs at the level of the CSP, which will be updated during the preparation of the PBO design. The programme-based operations guidelines require the design of risk-mitigation measures where risks are identified. Mitigation measures include: (i) the mix of financing instruments, supporting technical assistance; (ii) support of reform programmes; and (iii) short-term fiduciary safeguards and indicators that can be monitored to track high-probability risks.			

	African Development Bank
What rules apply?	The bank sees budget support or programme-based approaches as the preferred modality of most RMCs, because this strengthens national ownership and leadership. General and sector budget support can be provided on the basis of criteria of: government commitment to poverty reduction; macroeconomic stability (signalled by an IMF programme or IMF assessments of macroeconomic policy); political stability; a fiduciary risk assessment using the four pillars; and harmonisation between donors as signalled by joint assessment frameworks or joint support agreements. Crisis-response budget support uses the same criteria, but the bank may waive economic and political stability criteria, depending on the extent of the crisis.
Support for shifting to UCS	Evaluations of AfDB systems and capacity for the implementation of the Paris Declaration and for policy-based operations have found that weak systems for such approaches and weak capacity have limited the use of country systems. The adoption of country systems depends on country capacity, which differs significantly across countries. The absence of guidance on the adoption of country systems has meant that staff have defaulted to known systems and procedures. The Paris Declaration implementation evaluation also found that inadequate resources are provided, with the bank underestimating the resources required. The bank's performance planning and appraisal processes also did not explicitly address aid-effectiveness concerns. The new guidelines on programme-based operations target the development of a training programme for staff once the full set of policy guidelines is complete.
What incentives supported the shift?	The bank's strong commitment to ownership has been an important factor, but this has been counterweighed to date by weak incentives (with financial targets mitigating against the use of country systems), weak capacity and weak integration of aid-effectiveness principles/orientation generally into the bank's work. The bank's programme-based lending policy states that this type of support builds institutions and systems, while providing financing for specific priority spending. However, consistent guidance on programme-based approaches was not available (prior to the 2012 policy), CSPs did not provide enough guidance either, how results were to be measured and monitored was not clear, and fiduciary risk procedures and the procedures for programme-based approaches were cumbersome. Staff appraisal systems up to 2011 did not include Paris Declaration measures, with speed of disbursement (and, therefore, operations that use familiar procedures) being at the centre of performance assessment.

Source: AfDB (2011a, 2011b, 2012)

European Union				
UCS worldwide (2010)	PDMS 2010		GPMR 2013	
	Budget execution:	50%	Budget execution:	45%
	Procurement:	47%	Procurement:	42%
	Financial reporting:	49%	Financial reporting:	44%
	Auditing:	47%	Auditing:	35%
What policy frameworks exist?	The EU institutions have created an operational framework for themselves and for member states to make their aid more effective, as well as a series of technical and practical tools to help achieve priorities. The use of country systems was one of the priority areas identified in the operational framework. This framework is linked in practice to action plans for each of the EU institutions. Use of country systems is also covered by the sector support guidance and the new guidance on budget support.			
Process for UCS decision	The Geographical Directors in EuropeAid in Brussels are responsible for all budget support operations in their regions. The decision in principle to provide budget support (the only modality for using country systems) is taken by the Director-General of EuropeAid after agreement by the Development Commissioner. Politically sensitive or high-risk operations are first discussed by the Budget Support Steering Committee in EuropeAid. Heads of Delegation, however, undertake the policy dialogue with partner countries, supported by the regional teams. The Geographical Directors may engage in the process, particularly in high-risk environments, in which case the Director takes over the chair of the dialogue (when in-country). Countries eligible for general budget support (i.e. meeting all the conditions) are preselected through an assessment against 'fundamental values' shared by the country and the EU (on democracy, human rights, the rule of law). This is the responsibility of the Director-General, after consulting the Budget Support Steering Committee. Once this decision is taken, the good governance and development contracts (see below) can be developed. Where the assessment shows concerns about, or deterioration in terms of, the fundamental values, delegations can propose sector budget support. Where political governance has 'severely' deteriorated, the delegation must reassess its overall co-operation with the country, including sector budget support. The guidance provides for 'minimal standards' when assessing the presence of shared fundamental values (i.e. commitment to international instruments, their translation into national legislation and their implementation). Also, in countries that the Geographical Directors judge to present high political sensitivity or general risk, the operation must be presented to the Budget Support Steering Committee for a decision. All budget support operations are agreed to by the Committee of Member States.			
What forms does UCS take?	In countries other than fragile states, EuropeAid (the EU institution through which most aid to African countries is delivered) provides aid through a project, sector or budget support approach. There is no allowance for project support to use country financial management systems, but it can, under specific circumstances, use country procurement systems. Sector support can come in one of three forms, namely sector budget support (now referred to as sector reform contracts), which uses country systems in full, sector pooled or basket funding, which uses harmonised procedures but which is managed by a donor, or sector support that is a programme-based support modality, but uses EC procedures and systems. Budget support – now referred to as 'Good Governance and Development Contracts' uses country systems in full. The EU favours the use of sector reform contracts where overall government conditions do not support the use of Good Governance and Development Contracts. In fragile states, the EU also provides 'state-building contracts', which is a budget support financing modality			
What role does risk play? How is it assessed?	A new risk-management framework was presented in 2012, in the new Budget Support Guidelines. The Commission defines a risk as 'any event or issue that could occur and adversely impact the achievement of the Commission's political, strategic, and operation objective'. Lost opportunities are also considered as risks. Therefore, the EU identifies five risk categories: political governance risks; developmental risks; macroeconomic risks; public financial management risks and risks of corruption/fraud. Each risk category comprises one or several risk dimensions. The risks and risk levels are identified and defined by a short questionnaire, which is based on existing assessments, in particular of the eligibility criteria, the fundamental values and the human rights strategies. Each question of the risk questionnaire has to be judged in terms of four risk ratings (low, moderate, substantial, high). The risk ratings for each question are averaged to generate risk levels for each risk dimension (human rights, rule of law, etc.), for each risk category (political governance, macroeconomic risks, etc.), and for overall country risk. The scoring is an important part of the assessment, as it supports the definition of a risk level for decision-making. Risk mitigation must be done where possible in harmonisation with other donors. Risk mitigation means joint efforts of the partner country and donors to respond to the identified risks, for example, by identifying safeguards, reform needs or short-term measures.			

	European Union
What rules apply?	Using country systems is possible in sector or budget support programmes. In sector support, country systems can be used through sector budget support programmes, which is the favoured 'financing modality' of the EU 'when conditions are right'. Budget support and sector budget support is provided under four criteria: when a stable macro-economic framework is present; when national/sector policies are in place; when the country is committed to public financial management reform (the dynamic approach) and is making progress; and (a new criterion since 2011) transparency and oversight of the budget. The guidance on budget support (which, therefore, covers the only means of using country systems available to EU delegations) sets out many specific rules to each of the three relevant modalities, depending on the modality and the country circumstances, both for deciding on the use of country systems and the implementation of the contract.
Support for shifting to UCS	The management of budget support is assisted by regional advisory budget support teams, with a mandate to assist delegations in preparing, submitting and managing budget support operations. These teams also provide advice to the Geographical Directors. The teams headed by a senior official and comprise full-time officials, as well as contracted support and local staff. They are particularly active in general budget support contracts, but also in sector budget support contracts judged to be of substantial or high risk.
What incentives supported the shift?	The EU institutions have had high-level commitment and priority setting for use of country systems, most notably in the European Commission. This commitment has paved the way for an operational framework and action plans that prioritise challenges and focus efforts and responsibilities. Staff were also substantially involved, with staff networks established in headquarters and the field to identify and address challenges. The EC has also integrated criteria to make aid more effective into existing monitoring and review processes. In addition, the EU institutions have been able to make more use of programmatic support.

Source: EuropeAid (2007, 2013); EC (2012); OECD-DAC (2012a)

United Kingdom		
UCS worldwide (2010)	PDMS 2019 Budget execution: 68% Procurement: 69% Financial reporting: 70% Auditing: 66%	GPMR 2013 Budget execution: 60% Procurement: 54% Financial reporting: 58% Auditing: 62%
What policy frameworks exist?	The DFID does not have a specific policy on use of country systems, or refer to it as a separate topic area. It also does not have an explicit encompassing policy on the provision of financial aid, which would include forms of the use of country systems. Instead, the use of country systems is covered from different angles in various policy and guidance documents. Key ones are the technical note on budget support (2011); the how-to note on fiduciary risk assessments (2011); and the primer on result-based aid (2010, currently being updated). Financial aid is also subject to overall guidance on designing, approving, monitoring and evaluating DFID programmes and projects, as set out in the DFID Blue Book.	
Process for UCS decision	Country offices prepare submissions on financial aid instruments. The fiduciary risk assessments that underpin these submissions are subject to review. Decisions on budget support operations over GBP20 million are taken at the ministerial level. Between GBP5 and 20 million, the secretary of state must approve. Below that, approval occurs within the administration. Other budget support operations are prepared by the country office, but the decision is made by the secretary of state.	
What forms does UCS take?	For the DFID, the use of country systems is not named as a separate aid instrument, but is included in the category of financial aid. This can be budget support financial aid, or non-budget support financial aid. Budget support financial aid can take one of four forms, (i) general (growth and poverty-reduction grant); (ii) sector (service-delivery grant); (iii) general budget support in fragile contexts (state-building grant); and (iv) earmarked support for cash transfer grants called social-protection grant. Budget support operations are also now designed to include two types of result-oriented conditionality: (i) a performance tranche, which tracks performance against indicators agreed in a common assessment framework; and (ii) a results compact, which disburses when agreed results are achieved, in line with the EU Millennium Development Goals (MDG) tranche. A recent addition to financial aid instruments is the 'payment-by-result' aid instrument, in which case cash disbursements are made when pre-agreed results are achieved, which were originally financed by government money. When payment-by-result instruments are used for government-to-government aid, the DFID calls it results-based aid. Non-budget support financial aid is defined by the DFID as financial aid that uses only some government systems, as compared to budget support that uses only government systems. All forms of financial aid can come with specific requirements, but these are the most likely to apply to non-budget support financial aid, where such safeguard measures (e.g. earmarking or additional reporting and auditing) are an integral part of the design and part of the distinction from budget support in order to reduce risk. The fiduciary risk-assessment framework sets out guidelines for designing safeguards when using financial aid; it notes that safeguards should not set up parallel systems and should contribute to system strengthening in the long term. It also advises that safeguards should be harmonised between donors, to minimise the impact of combined donor safeguards on country systems. It requires the design of safeguards that work with transparency, accountability and participation principles, to mitigate fiduciary risk, for example, the use of external audit expertise to work with country auditors in auditing funds that use country systems, or external agents who support country parliamentary committees to scrutinise spending. In 2011, 15% of the UK's bilateral aid budget was delivered through budget support, and a further 13% through other forms of financial aid. The UK's willingness to lead in the use of direct budget support has contributed, in part, to its strong performance against the Paris Declaration indicators.	
What role does risk play? How is it assessed?	The DFID identifies fiduciary risk, political risk and governance risk. An updated policy framework for fiduciary risk assessment was set in 2011. Fiduciary risk is described as the risk of funds not being used for the intended purposes, not achieving value for money and/or not being properly accounted for. The DFID undertakes country fiduciary risk assessments every three years, or when the use of financial aid is considered. Fiduciary risk is required to be monitored, and an annual statement of progress needs to be submitted. The framework requires the assessment of risk at two levels – national PFM system risk, and the risk associated with the specific aid instrument, which can be sector or sub-national PFM system related. The standard fiduciary risk assessment, which is done every three years, must be supplemented by specific assessments if the aid activity involves more than GBP10 million and uses PFM systems significantly different from national systems.	

	United Kingdom
What role does risk play? How is it assessed?	The DFID's fiduciary risk assessments draw from PEFA assessments, where these are done, and use the PEFA scores to make judgements on the degree of risk, in order to propose risk-mitigation measures. DFID offices are instructed to also look beyond PEFA assessments for supplementary information on specific areas. The risk-assessment framework also advises the use of the OECD MAPS methodology – which may have been used to assess procurement systems for national PEFAs – to assess procurement systems in sectors or at sub-national level where these do not use central systems. Officers are also guided to look at the risk of corruption as a complementary exercise to assessing PFM system risk. A framework is provided, which includes issues such as the overall governance context, the strength of preventative measures, the extent of criminalisation and enforcement, international drivers of corruption, and the extent of international assistance to combat corruption. A format is prescribed for the fiduciary risk-assessment report. Governance and political risk is assessed through country governance analyses and macro-level political economy analyses. Recently, the fiduciary risk-assessment requirements for budget support were upped with the introduction of a second risk assessment (over and above the national one) for budget support operations above GBP10 million where the funds are managed by sub-national units. In other cases, the national risk assessment still suffices. Budget support submissions also have to be clear on how the budget support operation will strengthen audit functions and legislative scrutiny. The updated budget support policy also requires shifting to sector budget support or other forms of financial aid to manage political risk, where required, and in budget support itself to disburse in four quarterly payments to minimise the fiduciary and political risk that the UK government is exposed to at any one time.
What rules apply?	Before the DFID can consider budget support or non-budget support financial aid, it has to assess four partnership principles, including on: poverty reduction and MDGs; commitment to human rights; PFM reform, transparency and anti-corruption measures; and domestic accountability to citizens. The assessment against these criteria does not work with thresholds, but looks at the direction in which a country is headed. At the second level, when these criteria are fulfilled, a financial aid operation must consider whether the operation will have better results and value for money over other aid instruments. The updated risk and budget support policies place new and specific emphasis on the existence of a credible programme of support to audit institutions and the legislature, and a country commitment to undertaking PEFA assessments at least once every five years. The DFID's policy on budget support proposes that if the equation indicates too high a risk for budget support, the shift should be to non-budget support financial aid. The policy obliges it to continuously monitor the risks faced in financial aid operations against the expected long-term development benefits, as the operation unfolds.
Support for shifting to UCS	The Paris Declaration is a corporate priority for the DFID. One of its departmental strategic objectives (DSOs) for 2008–2011 was 'Paris Declaration commitments implemented and targets met corporately and in country offices'. The DFID has put in effort to raise awareness on aid effectiveness and the use of country systems, resulting in 72% of DFID staff at country and regional level saying in 2009 that they are encouraged to use country PFM and procurement systems.
What incentives supported the shift?	Implementation of the Paris Declaration has been incorporated into DFID strategic objectives. All bilateral country assistance plans are expected to include an assessment of aid-effectiveness issues. The inherent flexibility of its decentralised model enables it to mainstream the Paris principles significantly in its work at the country level. Evidence on the degree of understanding of, and incentives for, aid effectiveness across the DFID is positive. A recent pilot self-assessment of incentives for aid effectiveness within the DFID pointed to its strong internal communication on aid-effectiveness issues – including incorporating aid-effectiveness language in top-level policy documents – and familiarity with aid-effectiveness concepts among advisory staff. Staff rotation was identified as a possible challenge to supporting aid effectiveness, as was lack of public understanding of the importance of aid effectiveness. A recent challenge to increasing the proportion of bilateral UK aid that is provided through financial aid is the increased pressure to demonstrate results, which will affect particularly the proportion of UK aid that is delivered through budget support. This, however, can shift to other forms of financial aid.

Source: OECD-DAC (2010c); DFID (2011a, 2011b, 2013); ICAI (2012)

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