



**Mokoro Seminar**  
Oxford, 8 July 2008

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# **Risks and Rewards in Using Country Systems**

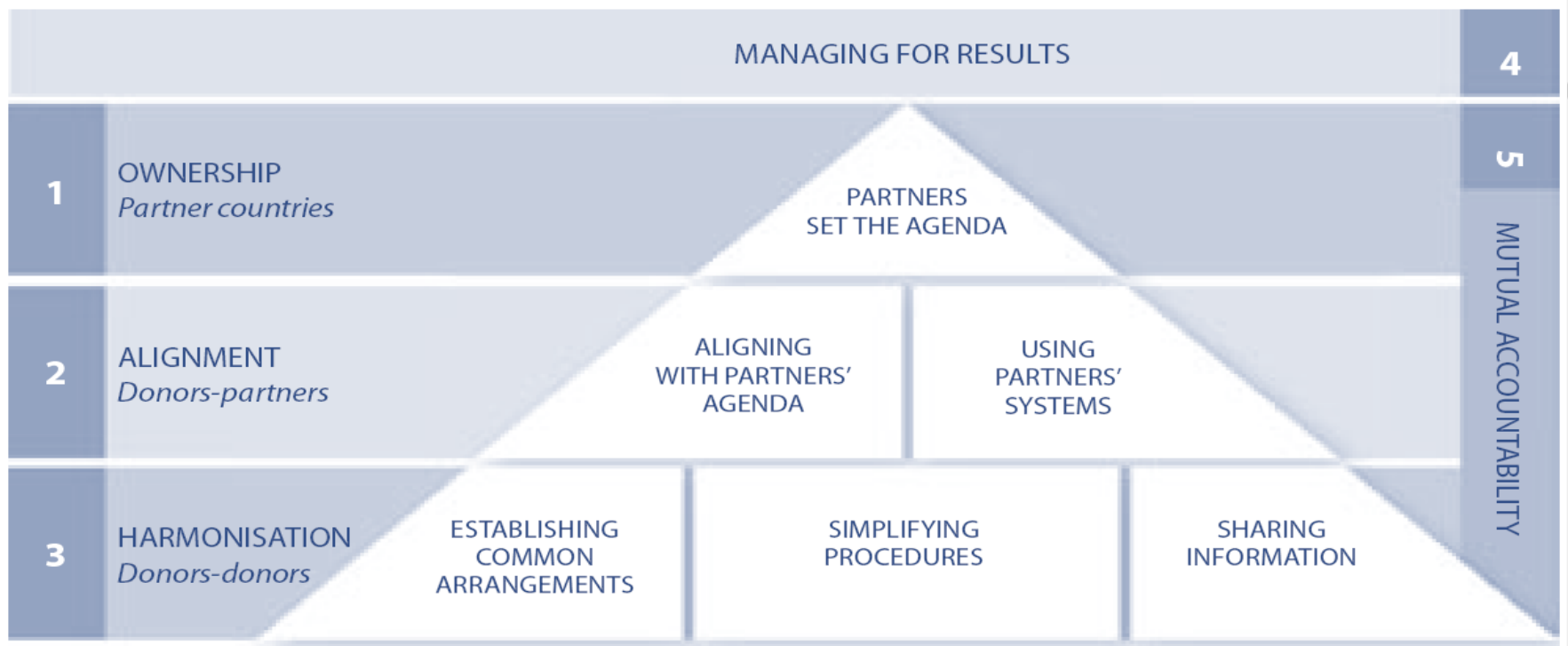
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# Overview of Presentation

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- Why such slow progress in using country systems?
  - JV PFM: there has been no significant progress towards the achievement of the Paris Declaration targets relating to the strengthening and use of country PFM systems.
- Overview of two Mokoro studies:
  - **Putting Aid On Budget**
  - **Stocktake of Donor Approaches to Risk when Using Country Systems**
- Common threads and issues

# Partnership Commitments (a reminder)



# The Two Studies

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## □ Putting Aid on Budget

### ■ for CABRI and SPA:

- 10 African Case studies (Ghana, Mali, Mozambique, Rwanda, Uganda; Burkina Faso, Ethiopia, Kenya, South Africa, Tanzania)
- Literature Review
- Synthesis Report
- Good Practice Note

## □ Risk Stocktake

### ■ For DFID and OECD DAC Joint Venture on PFM

- Comparison of 6 bilaterals (Canada, France, Germany, Netherlands, Sweden and UK) and 3 multilaterals (Asian Development Bank, World Bank, European Commission)

## □ Both have fed into JV PFM report for the Accra High Level Forum

# Common Threads

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- ❑ Different donor and country approaches in practice
- ❑ Poor correlation between quality of PFM and donors' use of country systems
- ❑ Importance of definitions, detail and context
- ❑ Relevance of all aid modalities, and their design
- ❑ Importance of incentives and political economy

# Dimensions of Budget Systems

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<b>Term</b>	<b>Definition</b>
On plan	Programme and project aid spending is integrated into spending agencies' strategic planning and supporting documentation for policy intentions behind the budget submissions.
On budget	External financing, including programme and project financing, and its intended use are reported in the budget documentation.
On parliament	External financing is included in the revenue and appropriations approved by parliament.
On treasury	External financing is disbursed into the main revenue funds of government and managed through government's systems.
On procurement	Externally-financed procurement follows the government's standard procurement procedures
On accounting	External financing is recorded and accounted for in the government's accounting system, in line with the government's classification system.
On audit	External financing is audited by the government's auditing system.
On report	External financing is included in ex post reports by government.

# Different Approaches and Misconceptions

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- Donor spectrum from “reporters” to “integrators”
  
- Misconceptions:
  - “Aid on budget” is not a synonym for budget support
  - “Sector Budget Support” often a misused term
  - Projects are not necessarily off-budget
  - Bringing aid on budget is not just about donors providing information to governments

# Donor perspectives and incentives

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- Likelihood of putting aid on budget depends on:
  - Form of aid (grant, loan, TA, other aid in-kind)
  - Modality (budget support, project aid)
  - Aid partner (central/local government, NGO)
  
- But also depends on donor characteristics:
  - “reflectors” vs. “integrators”
  - Importance of “visibility”
  - Attitude to quality of public finance management
  - Flexibility
  
- Other factors:
  - HQ vs. in-country perspective
  - General vs. sector perspective
  - Career incentives of staff



# Government perspectives and incentives

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- Often conflicting interests and incentives on the government side, e.g.:
  - Finance vs. sector ministries
  - Centre vs. local government
  - Vested interests of project management units.
- Concerns may be about:
  - discretion over resources
  - reliability of disbursement through treasury
- An example: perverse incentives (for government and donors) when aid is included in sector budget ceilings.

# Key “Aid on Budget” Messages

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- ❑ Look for integration on all dimensions.
- ❑ Using country systems is relevant for all aid modalities. Need to look at project aid too.
- ❑ Quality of integration is crucial.
- ❑ “On treasury” is a pivotal dimension.
- ❑ Understand institutional framework and incentives of all parties.
- ❑ Incremental progress is possible, but be careful about safeguards and wary of hybrids.
- ❑ Aid effectiveness and PFM strategies must be closely linked.
- ❑ There is most progress when donors collaborate under government leadership.
- ❑ Country-level work must be complemented by donor HQ review of policy and practice.

# Risk Stocktake Overview

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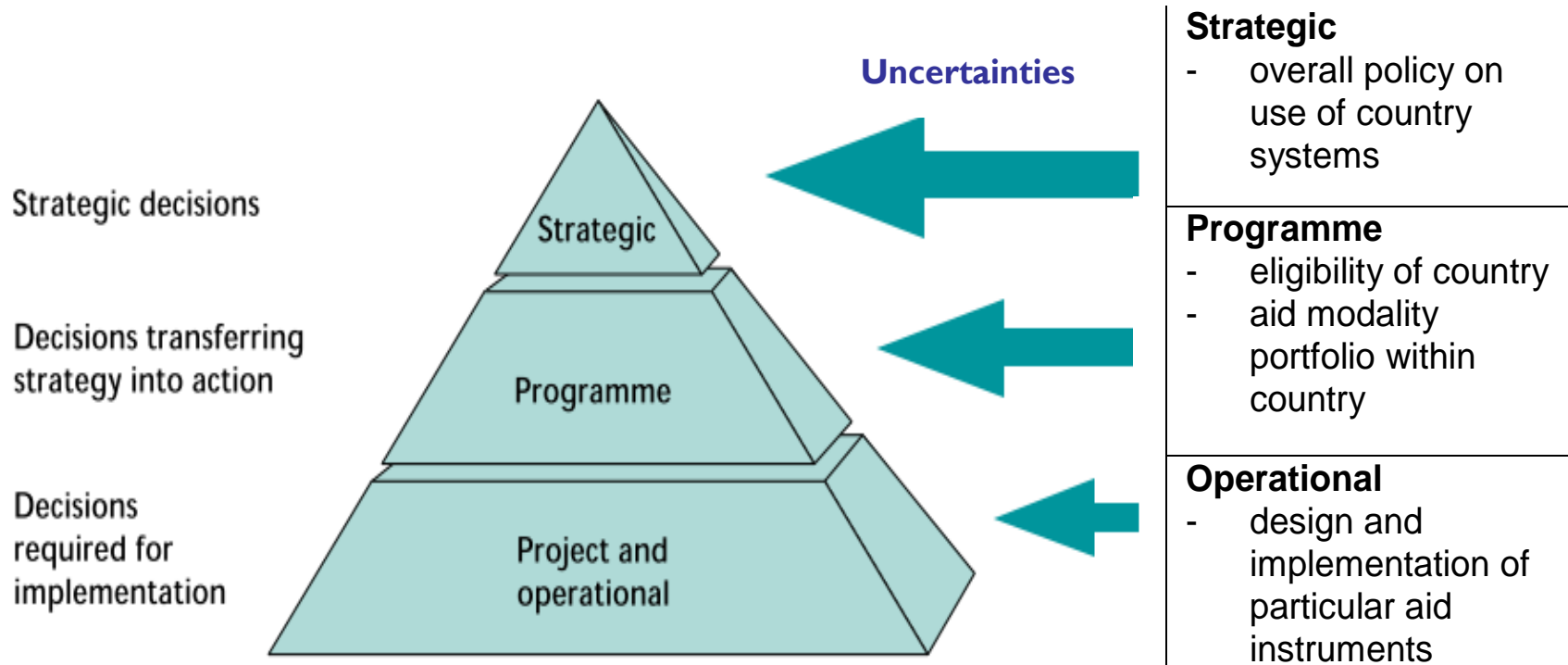
- All donors in principle committed to using country systems, but big differences in strength and detail of their guidelines.
  
- All donors concerned about risks. Broad categories:
  - Fiduciary risk
  - Development risk
  - Reputational risk
  - Corruption aggravates all risks.

# Challenges

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- Assumption (often unquestioned) that avoiding country systems minimises risk.
- Asymmetry of benefits and risks
  - Specific and short-term risks against general and long-term benefits may create built-in tendency towards sub-optimal use of country systems.
- Asymmetry may apply within as well as between organisations (see hierarchy of risk management)

# Hierarchy of Risk Management



**Source:** adapted from HM Treasury, 2004.

# Assessing and Monitoring Risk

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- Assessments to inform the use of country systems:
  - at the programme level – to inform country and sector strategy
  - at the operational level – individual instrument preparation
  - not only entry-level decision tools – donors continuously monitor risks and update their risk assessments.
- Surge in the number and the breadth of various assessments being undertaken by donors in connection with efforts to follow up the PD commitments on using country systems.
- Evidence base
  - Financial risk assessments: use of PEFA
  - Governance and macroeconomic risk assessments: shared evidence

# Summary of Opportunities

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## For donors

- **Scope for clarifying definitions, and joint learning from developing shared terminology.**
- **Scope for collaboration on developing assessment methodologies and assessment tools.**
- **Scope for joint learning concerning better design of aid instruments, and in using different aid instruments in ways that reduce and spread risks.**
- **Scope for donor collaboration to reduce risks each donor faces and combine forces in strengthening country systems (avoiding multiplication of separate donor conditions and safeguards).**
- **Review consistency in donor policy and practices on addressing risks at different levels of the institution. Feed policy into design of aid instruments.**

## For governments:

- **Strengthen PFM**
- **Design aid instruments that address donor concerns on all types of risk.**

# Outlook

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- Reasons for optimism
  - More consensus on PFM (cf. PEFA) and how to reform it
  - Progress in strengthening PFM
  - Paris Declaration consensus....
  
- Reasons for pessimism
  - Weak donor commitment to using country systems (variations among donors)
  - Few partner countries taking the lead and seeing aid effectiveness link to PFM
  
- Perspective on Accra
  - Paris Declaration diagnosis still valid
  - Peer pressure among donors / mutual accountability is one of few incentives available
  - Public pressure on donors is also important, but needs to be smart (cf. the risks in sector targets, information system fixes)