

Following the Government Playbook?

Channeling Development Assistance
for Health through Country Systems

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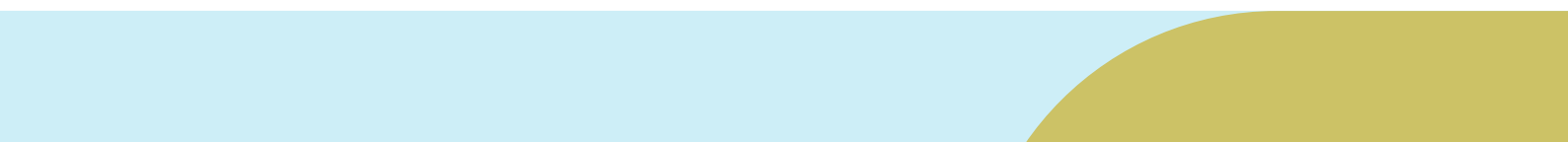
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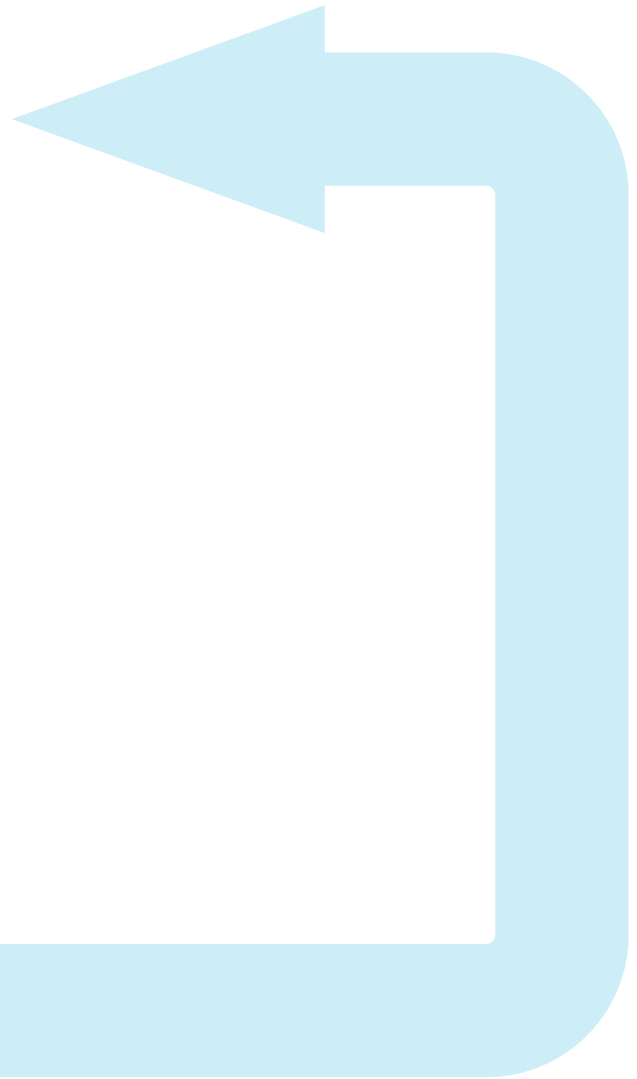
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Abbreviations

CABRI	Collaborative African Budget Initiative
DAH	Development Assistance for Health
DP	Development partner
FMIS	Financial Management Information System
Gavi	Gavi, the Vaccine Alliance
GPEDC	Global Partnership for Effective Development Co-operation
MDG	Millennium Development Goals
MTEF	Medium-term expenditure framework
NGO	Nongovernmental Organization
OECD	Organisation for Economic Co-operation and Development
PIU	Project Implementation Unit
PFM	public financial management
PEFA	Public Expenditure and Financial Accountability
SAI	Supreme Audit Institution
SDG	Sustainable Development Goals
SPA	Strategic Partnership with Africa
SWAP	sectorwide approach
TSA	treasury single account
UHC	universal health coverage
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
USAID	U.S. Agency for International Development
WHO	World Health Organization

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Executive Summary

Development partners (DPs) contribute to a significant share of total health financing, especially in low-income countries, and support the achievement of universal health coverage (UHC). However, if DP support is not well aligned with government systems, it can lead to inefficiencies, such as poor prioritization, fragmentation, and duplication of activities, and inhibit the government's ability to maintain effective stewardship over sector activities.

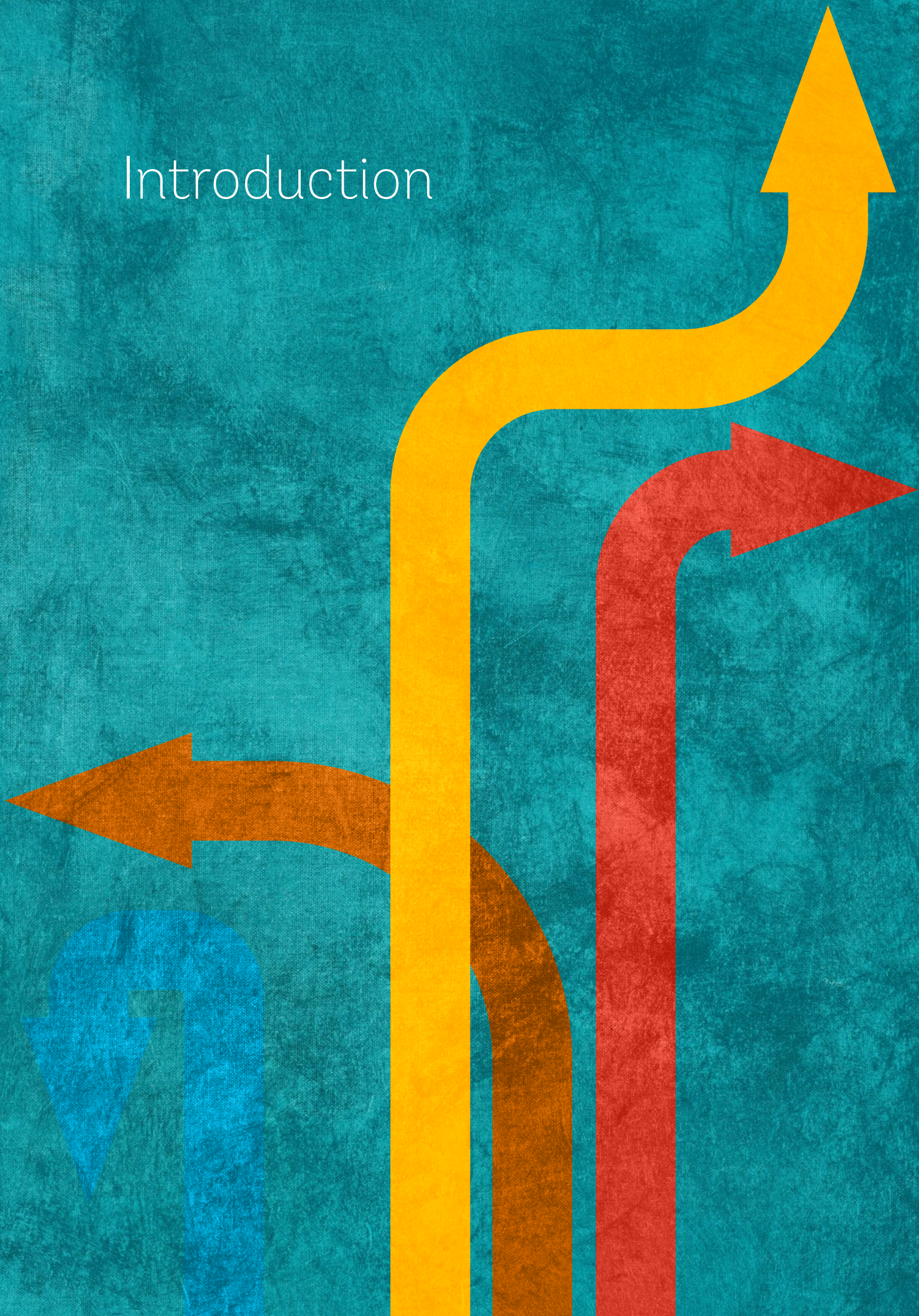
The definition of government systems is vague. Interpretation varies significantly from joining government plans and putting financing into bank accounts of which the government is co-signatory, to full use of the treasury single account (TSA) and Financial Management Information System (FMIS). This note takes the perspective that government should have full stewardship over all resources in the health sector, and DPs are aligned if their financing modality allows it.

This note develops a comprehensive interpretation of the term “country systems” in a public financial management (PFM) environment along with a checklist across the budget cycle that can be used to assess whether DPs in a given country are aligned to various PFM aspects. Undertaking an assessment is expected to have the following benefits:

- » To provide a better understanding of the DP financial architecture and contribute to the literature of DP alignment and aid effectiveness.
- » To articulate a clear baseline of DP financing modalities to allow for establishing a logical framework that will help articulate a reform program and strengthen mutual accountability.
- » To foster learning across countries and DPs.

In practice, it may not always be possible for DPs to be fully aligned with government PFM systems. However, identifying where they are on a spectrum — rather than simply “on system” or “off system” — may help the reform dialogue. The assessment could be done by either DPs or recipient countries in order to establish a baseline, and serve as a basis for mutual accountability to strengthen aid effectiveness going forward.

Introduction

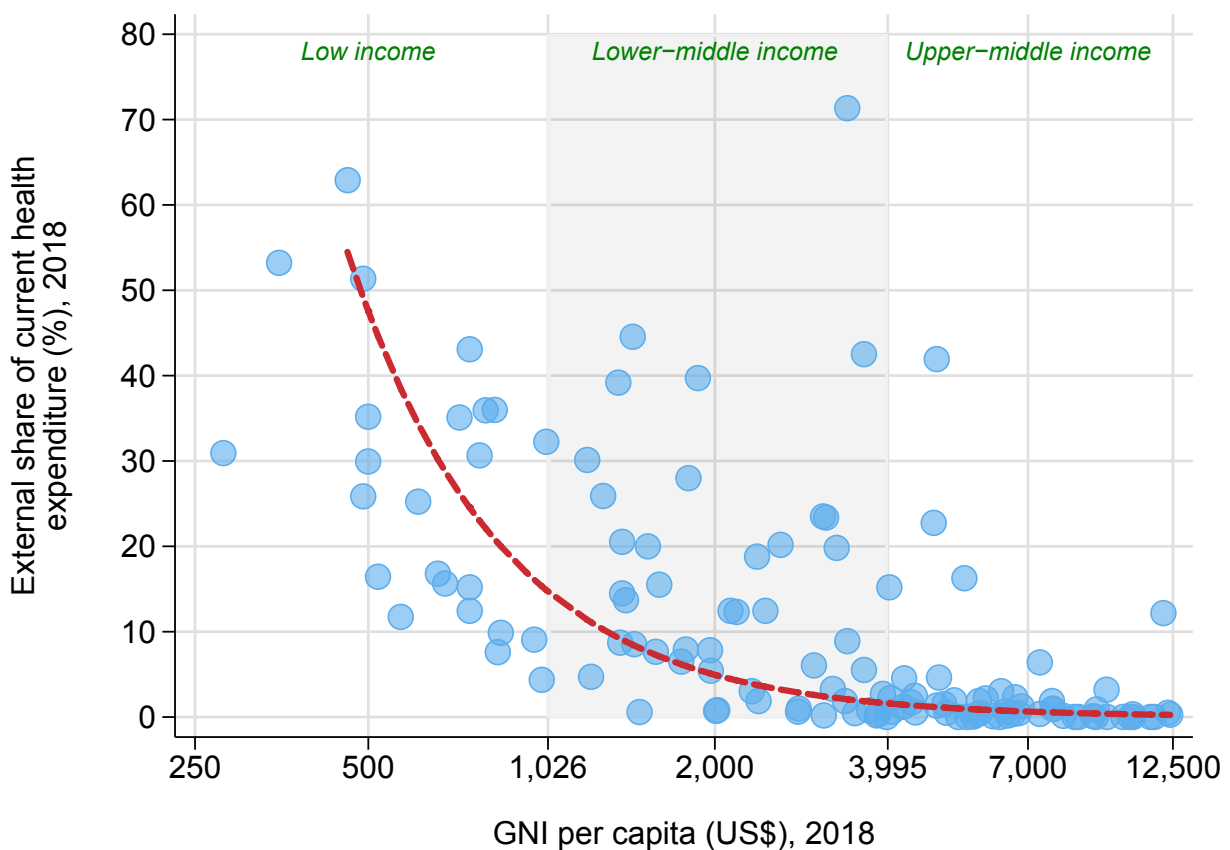


The era of the Millennium Development Goals witnessed an unprecedented growth in development assistance for the health sector. From 2000 to 2010, development assistance for health (DAH) grew at 10 percent per year.

While DAH amounted to \$38.9 billion in 2018, growth plateaued between 2010 and 2018 at 1.3 percent annually (Dieleman et al. 2019). Even before the COVID-19 pandemic, most low- and middle-income countries were not on track to achieve universal health coverage by 2030. A 2019 report by the World Bank Group estimated that the financing gap to achieve UHC in 54 of the world's poorest countries was \$176 billion per year (WBG 2019), but this amount has only increased with setbacks in coverage of essential services. Health expenditure data from 2017 suggest that 930 million people globally spent above 10 percent of their household budget on health care, and 210 million spent more than 25 percent, which is considered "catastrophic" (WHO 2019). Many more forego care altogether or seek care of insufficient quality to improve health outcomes. These statistics are a rallying cry to make sure development assistance is designed and used as efficiently and effectively as possible to achieve country goals.

Figure 1: External funding is more important for low-income countries ($R^2 = 0.44$)

Source: WHO Global Health Expenditure Database (2021); World Development Indicators (2021).



In many low- and lower-middle-income countries, DAH plays an important role in helping countries make progress toward UHC. Funding from DPs can constitute an important source of revenue for financing health expenditures, which is estimated to cover more than half of total health expenditures for some countries. The relative importance of DAH is negatively correlated with a countries' level of income (figure 1). Adequate stewardship over DAH and the efficient use of these resources is therefore particularly important for countries where external resources make up a large share of the total financing envelope.

How DAH is delivered affects the ability of countries to achieve and sustain development outcomes. This subject has been extensively studied in the literature. Among other things, the proliferation and fragmentation of DPs was found to lead to inefficiencies arising from duplication of activities, implementing nonpriority activities, being slow to respond to emergencies, placing an unnecessary administrative burden on civil servants, creating an inequitable distribution of resources, and undermining government service provision by pulling government staff away from their day-to-day duties (Annen and Moers 2012; Vaillancourt 2009; Schulpen, Loman, and Kinsbergen 2011; Pallas and Ruger 2017; Piatti-Fünfkirchen and Schneider 2018; Bourguignon and Sundberg 2007; Menocal and Mulley 2006; Leiderer 2012).

Some studies also make the link between use of country systems and improved health outcomes. For example, Piatti-Fünfkirchen and Smets (2019) found that a one-unit increase in PFM quality reduces the U5 mortality rate with about 14 deaths per 1,000 live births. For countries that channel at least 75 percent of public health expenditures through the government system, this rate increases to 17 deaths per 1,000 child births. This result is consistent with Fujii (2018) who finds that public health spending is equally effective as private health spending as long as the sector is well governed. Evidence from Ethiopia, Nigeria, and the State of Uttar Pradesh, India suggests that DP-funded innovations that respond to policy issues identified by the government and that are aligned with government priorities are more likely to be scaled up by governments, as compared to externally financed innovations that are conceptualized by DPs and use parallel systems (Wickremasinghe 2018).

To expedite the ambitious goal of UHC and Sustainable Development Goal (SDG) 3, it is paramount to make best use of available resources. This will require optimizing alignment of DP resources with country systems.¹ Optimizing may mean shifting toward various aspects of country systems when these are sufficiently strong. If given country systems are not sufficiently developed to fully align DP support, a second-best solution may be necessary, while strengthening government systems until such a shift is possible.

¹ The use of country systems is defined broadly in the literature, but usually entails some aspects of public financial management. It is often used synonymously with “on budget” support from development partners. The Paris Declaration on Aid Effectiveness defines it as: “country system procedures typically include, but are not restricted to, national arrangements and procedures for public financial management, accounting, auditing, procurement, results frameworks and monitoring” (OECD 2005, 4).

Using country systems is essential for building effective institutions. The Organisation for Economic Co-operation and Development (OECD) argues that using countries' own systems is central to building sustainable and effective institutions — a major requirement for effective development. Bypassing country systems can weaken a country's ability to determine its own future by building up and entrenching structures that can undermine the development of its own systems (Hart, Hadley, and Welham 2015; OECD 2010). A paper by the Overseas Development Institute (ODI) argues that use of country systems is particularly critical in fragile states, given that it will reinforce accountability of the state, strengthen policy and planning processes, and build sustainable capacity through “learning by doing” (Hart, Hadley, and Welham 2015).

There has been an emphasis on the use of country systems in the aid effective agenda as it is central to building stewardship, improving accountability and efficiency, promoting institutions building and sustainability, and ultimately improving the impact of official development assistance on development outcomes (OECD 2010, 2011; CABRI and SPA 2008; Sprietzer and Vargas 2011). OECD explains: *“For aid to be effective, DPs need to respect partner country ownership over their own development policies and practices. This means, among other things, using a country's own administrative systems to deliver aid. Decades of development experience show that bypassing country systems and policies weakens a country's ability to determine its own future”* (OECD 2010, 17).

The importance of using country systems when delivering aid lies at the core of the development effectiveness agenda. DPs have repeatedly committed to aligning to country systems to the extent possible to maximize aid effectiveness (Dieleman et al. 2019; OECD 2005, 2008, 2011). A set of high-level forums² (i.e., Rome in 2002, Paris in 2006, Accra in 2008, and Busan in 2011) were held to gather political leadership from across the development spectrum. Basic principles for aid effectiveness were outlined, and commitments were made to concrete actions. Most prominently, the 2005 Paris Declaration on Aid Effectiveness recognizes that improving aid coordination, promoting DP alignment with country strategies, and cutting the “compliance burden” on aid recipients are vital (OECD 2005). It was formulated around ownership, alignment, harmonization, managing for results, and mutual accountability. This notion was reinforced in 2008 through the Accra Agenda for Action, which, by an even greater number and wider diversity of stakeholders, both reaffirmed commitment to the Paris Declaration and called for greater partnership between different parties working on aid and development. The Busan high-level forum went a step further to develop a framework for effective development cooperation.

While lower-income countries are more dependent on external support to finance health expenditures, their capacity to manage public funds also tends to be less

2 An overview of high level for aid effectiveness is provided in appendix A.

advanced (PEFA 2020). As measured by Public Expenditure and Financial Accountability (PEFA) scores, PFM system strength appears negatively correlated to countries gross national income (figure 2). The extent to which DPs are prepared to pursue alignment is a function of a country’s capacity and willingness to manage its finances prudently. It will be unlikely, for example, that DPs would channel funds through country systems where basic fiduciary assurances cannot be guaranteed.

The actual relationship between PFM system capacity and willingness to channel funds through government systems, however, appears unclear, and is not always driven by the strength of PFM system. Correlating data on the extent to which DAH is channeled through government systems and PEFA scores shows that in some countries with high PFM capacity, DPs are still reluctant to channel funds through government systems, while the inverse is also true (figure 3). It begs the question of why this is the case and what can be done to strengthen this relationship for mutual accountability and improved aid effectiveness. While this paper takes a narrow technical focus on PFM, it also recognizes the importance of incentives and other political economy factors.

Figure 2: PFM systems tend to be stronger in higher-income countries (R2 = 0.19)

Sources: World Development Indicators (2021); PEFA Secretariat (2021).

Note: HIC = high-income country; GNI = gross national income; LIC = low-income country; LMIC = lower-middle-income country; PEFA = Public Expenditure and Financial Accountability; PFM = public financial management; UMIC = upper-middle-income country.

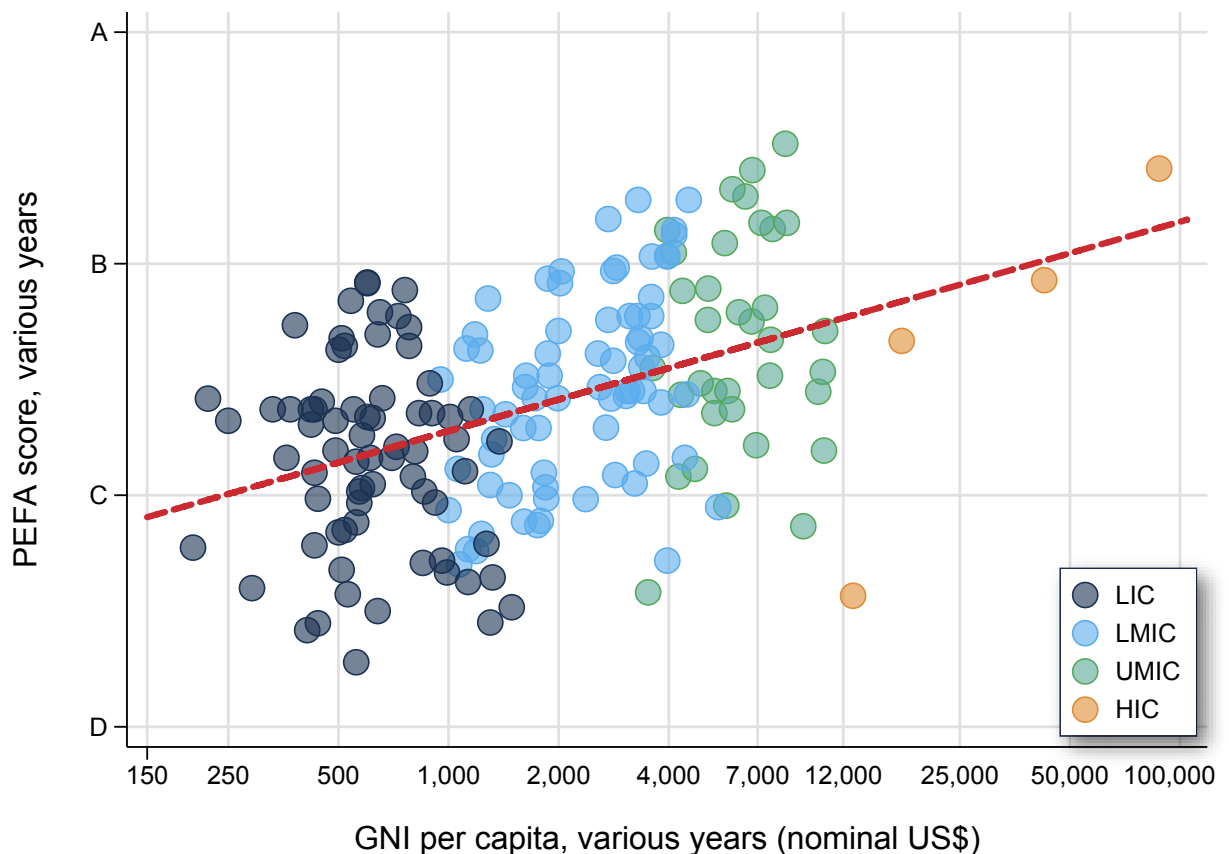
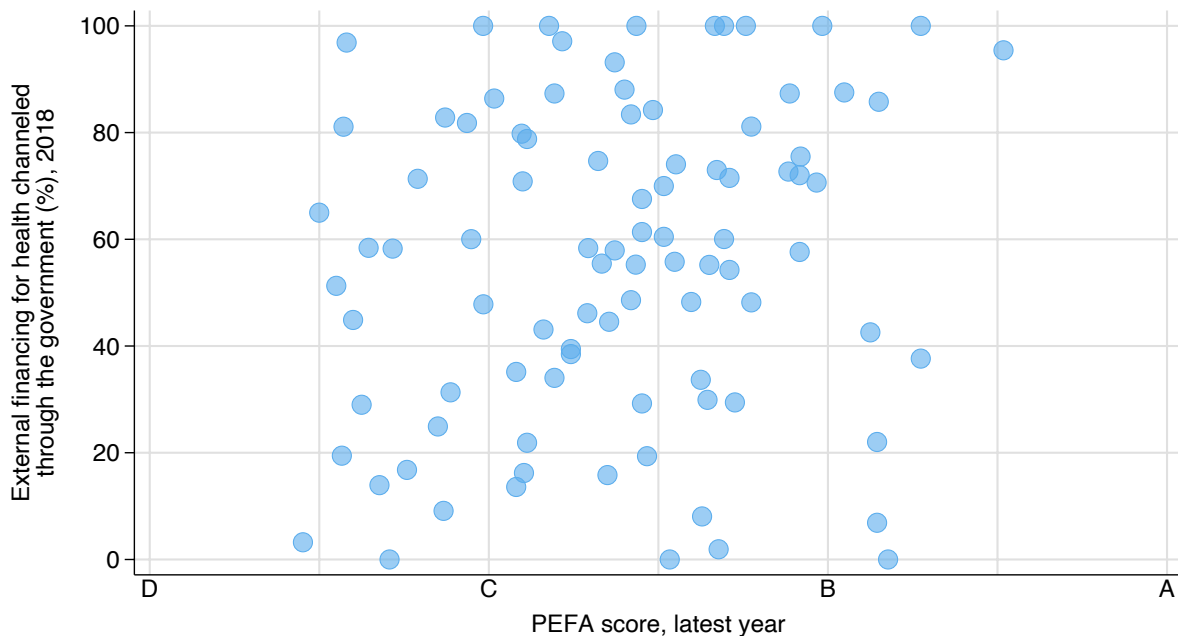


Figure 3: PFM capacity and use of country systems are not correlated

Sources: World Development Indicators (2021); PEFA Secretariat (2021).

Note: PEFA = Public Expenditure and Financial Accountability; PFM = public financial management.



Greater use of country systems has been a priority for the DP community for the last two decades. It received renewed momentum with the onset of the global recession induced by the COVID-19 pandemic. Improving the efficiency of resources and strengthening aid effectiveness will be particularly important given that the macroeconomic and fiscal effects of the pandemic will affect the ability of countries to mobilize resources for health for years to come. Additionally, many low- and middle-income countries are the recipients of emergency development assistance. There is a risk that this may lead to further misalignment with country systems without more intentional action on this front.

The purpose of this note is to provide a better and more granular understanding of what country systems are, help identify opportunities for greater use of country systems, and help determine what aspects of country systems require strengthening before greater use of systems may be warranted. It identifies a set of objective criteria for assessing DP alignment that can serve as a baseline and be used to track progress for mutual accountability.

The note's introduction is followed by a discussion of the term "country systems" where authors discuss the associated literature and develop an interpretation of the term from a PFM perspective. Secondly, the note then discusses in detail what "use of country systems" means across the various stages in a PFM cycle and the development of an associated checklist. While the intention of the checklist is primarily to provide guidance on reforms for greater alignment, it can also be used to monitor progress across countries, DPs, and funding modalities by serving as a baseline and tracking progress over time. Following this is a discussion on the use of this information to develop a reform program.

Much has been written about the importance of using country systems. Interpretation of the meaning of “country systems” varies in practice. The Paris Declaration on Aid Effectiveness took a relatively broad perspective: “Country systems and procedures typically include, but are not restricted to, national arrangements and procedures for PFM, accounting, auditing, procurement, results frameworks and monitoring” (OECD 2012, 4).

A broad set of signatories to the declaration supported this definition. Consequently, nearly all DPs have prepared operational policies that encourage the use of country systems. There is quite a lot of variation in implementation protocols. Some partners require “full use of country systems” as the default aid modality. This is usually conditional on the results of a fiduciary risk assessment. Other DPs leave the decision to use country systems to their operational teams (OECD 2012).

Most stakeholders have signed onto making greater use of country systems. Most have also agreed to the declaration’s definition, which remains relatively broad and subject to interpretation. Even though the literature clearly considers it to be a multi-dimensional concept, use of government systems is in practice often interpreted as binary — whether DPs are, or are not, using country systems. In that vein, country systems are often used interchangeably with “on budget,” which is an important aspect, but misses a lot of nuance. When considering PFM systems as a whole, DPs may well be using a subset of government systems that are appropriate given the context.

A more specific rundown of this definition is used by the Global Partnership for Effective Development Co-operation (GPEDC) in its framework for monitoring the use of country systems (table 1). It breaks down the definition into (i) use of national budget execution procedures; (ii) national financial reporting procedures; (iii) national auditing procedures; and (iv) national procurement systems (OECD and UNDP 2019, 113).³

³ A high level overview of aid effectiveness commitments is provided in Appendix A.

Table 1: Framework of the Global Partnership for Effective Development Co-operation for monitoring use of country systems

Sources: Adapted by Hart, Hadley, and Welham (2015) based on CABRI and SPA (2008); OECD and UNDP (2019).

Indicator	Definition
Use of national budget execution procedures	Funds included in budget
	Funds follow national budget execution processes (authorization, approval, payment procedures)
	Funds processed through treasury
	Do not require opening of a separate bank account
Use of national financial reporting procedures	Do not require maintenance of a separate accounting system
	Do not require financial reports using a separate chart of accounts
Use of national auditing procedures	Fund subject to audit under the responsibility of the Supreme Audit Institution
	Do not request additional audits under normal circumstances
	Do not require different audit standards from those adopted by the supreme audit institution
	Do not require the Supreme Audit Institutions to change its audit cycle
Use of national procurement systems	Do not make additional, or special, requirements on governments for procurement of works, goods, or services

A very useful and detailed complement to the GPEDC framework is the work by the Collaborative African Budget Initiative (CABRI) on putting aid on budget (CABRI and SPA 2008; CABRI 2014) and subsequently the work of the ODI on fragile states (Hart, Hadley, and Welham 2015) that follow closely the budget cycle as a means to interpret the use of “government systems” with little room for ambiguity for basic PFM functions. They explicitly recognize the role of aid being (i) “on plan” for strategic prioritization; (ii) “on budget” to determine whether aid is integrated into the budgeting process and reflected in necessary documentation; (iii) “on parliament” to determine whether aid is included in revenue appropriations approved by parliament; (iv) “on treasury” on whether funds are disbursed into the government’s

main revenue funds; (v) “on procurement” to assess whether government procurement standards are applied; (vi) “on account” to assess whether the same basis for accounting is applied; (vii) “on audit” on whether aid is audited following government audit systems; and (viii) “on report” to determine whether aid is reported in ex post reports by government.

This detailed, eight-step articulation for the DP’s use of government systems was developed for government as a whole, but it can also be applied specifically to the health sector context. This clarifies that use of country systems cannot be a binary question and requires a review of a complex set of criteria with multiple possible permutations across the many partners and aid modalities in a country (CABRI and SPA 2008). This complexity is visualized in the CABRI and SPA case study of Tanzania (appendix C).

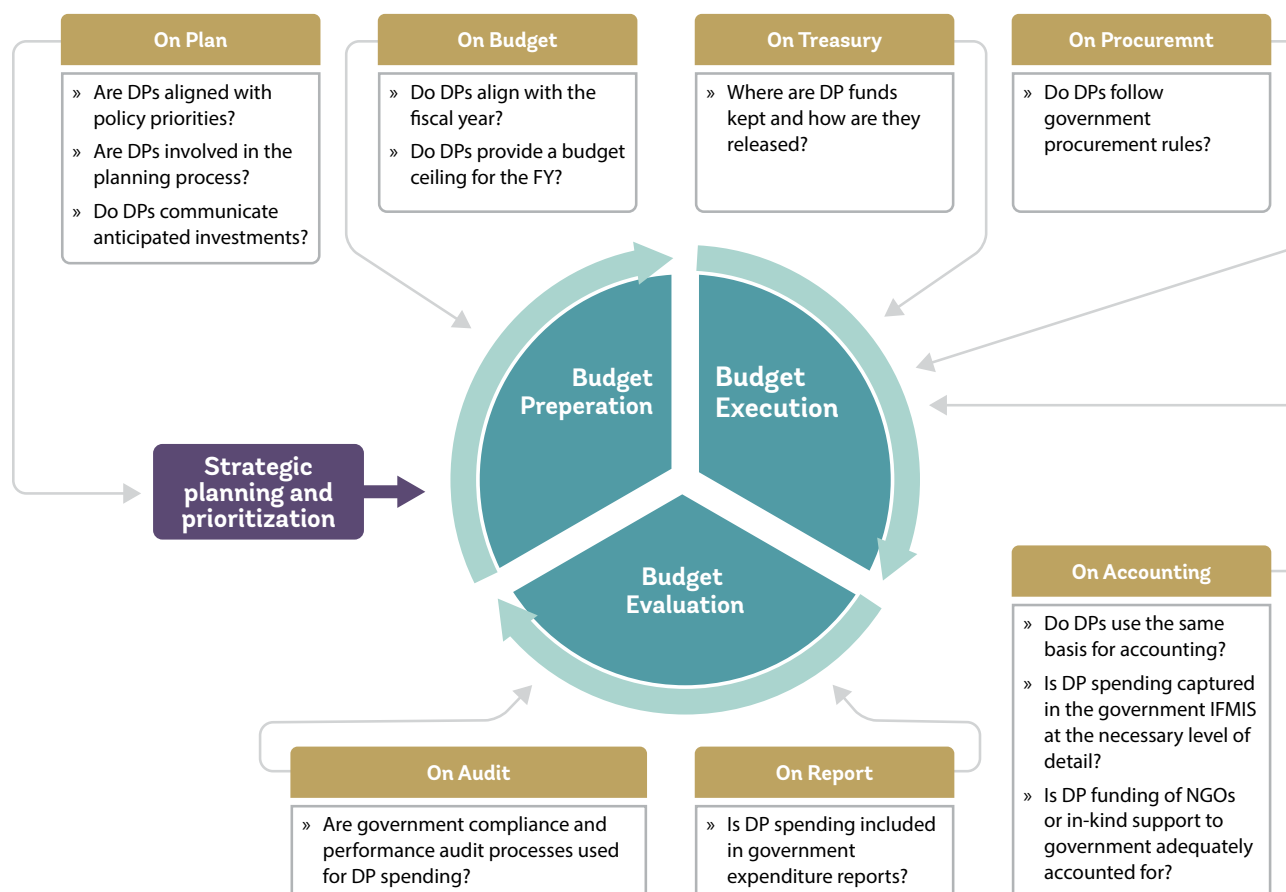
Hart, Hadley, and Welham (2015) note that the GPEDC categories are broad and may lead to an inaccurate picture on the use of country systems. For example, they do not count aid that is managed through country systems if additional safeguards are in place, such as opening a special account or special audit arrangement. Additionally, investment lending by multilateral development banks would not be classified as using country systems as such projects typically require special accounts, procurement reviews, or special audits and monitoring of implementation. The definition by the GPEDC also does not acknowledge that United Nations (UN) organizations and agencies that comply with them are subject to special rules and regulations, such as the UN One Audit Principle, which gives the UN’s external auditors exclusive right to audit its accounts and statements (CEB 2005). To support the agenda of aligning to country systems, a more detailed understanding is needed as to what country PFM systems are, where there are opportunities for greater use of these systems, and what aspects require strengthening before greater use of systems by DPs can be supported. Appendix D provides an overview of risk factors donors consider when deciding whether or not to use country systems.

This note develops a careful interpretation of “use of country systems” based on the aid effectiveness and PFM literature (Piatti-Fünfkirchen and Schneider 2018; Andrews et al. 2014; Cashin et al. 2017; Schiavo-Campo 2017). It builds on the foundation provided by CABRI/SAP and ODI, and follows a similar framework. As with previous authors, this note argues that using government systems cannot be a binary question and that a discussion on whether DPs “use” or “do not use” country systems is inherently a fallacy. The framework developed here differentiates itself from the previous frameworks as it follows a simplified budget cycle more closely. The stages identified here are (i) strategic planning and prioritization, (ii) budget preparation and financing, (iii) budget execution, and (iv) budget evaluation. The CABRI/SPA and ODI definitions can easily be subsumed into these stages (figure 4). The aim of mapping DP alignment questions to the simplified budget cycle is to facilitate a grounded and relatable conversation that maps directly to country PFM processes and can lead to actionable recommendations.

Figure 4: Dimensions of country systems mapped to stages of the budget cycle

Source: Adapted by the authors based on Andrews et al. 2014; Cashin et al. 2017; Piatti-Fünfkirchen and Schneider 2018; CABRI and SPA 2008; Hart, Hadley, and Welham 2015; OECD and UNDP 2019.

Note: DPs = development partners; FMIS = Financial Management Information System; FY = fiscal year; NGOs = nongovernmental organizations.



Whether and how DPs are aligned to these processes will affect the stewardship that a ministry of health can have over the sector, whether priority activities are implemented, and whether there is implementation efficiency. In countries where DP contributions constitute a significant part of the health sector resources, these factors are likely to play a more important role than in middle-income countries where they constitute a small share of total resources.

The next section builds on this model to develop a checklist, which can be used to diagnose the extent to which DPs use country systems. This checklist can be used to document the current state of DP alignment, identify areas where DPs could plausibly be better aligned to government systems but are not, and areas where government systems are too weak for DPs to align with credibly. This can then provide a foundation for a roadmap for reform. Progress in these areas can be monitored periodically and form the basis for mutual accountability.

Entry Points for Use of Country Systems

This section provides details on the various stages in the budget cycle and guidance on what DP alignment means for them. Guidance is also provided on various approaches that can be considered, including second-best considerations.



Strategic Planning and Prioritization

The budget cycle has an upstream process that involves macroeconomic review and determining the medium fiscal framework (MTFF). Strategic planning and prioritization need to be done with careful regard to the macro-fiscal environment as the anticipated resource envelope will depend on it. The adequacy of the macro-fiscal situation is also an important determining factors for many development partners on whether they can provide budget support that makes full use of country systems or pursue project type financing instead.

Strategic planning and prioritization is part of a medium- to long-term agenda where the country develops a vision and a sectorwide strategy on how to realize the vision through measurable goals. It requires developing programs, taking a medium-term perspective, and prioritizing activities as well as costing activities. All stakeholders, including DPs, should be included during strategic planning and activity mapping to ensure that DP-funded activities are aligned with government priorities and are reflected in the plan, and to prevent duplication across DPs. This is normally a government-wide exercise, where health sector strategy and plans need to align with national strategy and plans. Joint strategic planning also avoids a situation where a particular DP pursues its favorite programs at the expense of other priority areas. This approach makes a consultative process important (Rajan, Barroy, and Stenberg 2016; Barroy et al. 2018). Without a common vision or government-provided guidance on prioritization, alignment of other processes is difficult (see figure 5).

Figure 5:

Necessary steps to ensure synchronization of the health sector strategic plan and priorities with the MTEF

Source: World Bank.

Note: MTEF = medium-term expenditure framework.





Photo © Dominic Chavez/World Bank

While strategic plans ought to be ambitious, they also need to be embedded in realism. This requires costing of the activities over the medium term, which subsequently provides the basis for a rolling medium-term expenditure framework (MTEF). Whether and how well activities are costed will affect the quality of the budget that is developed and the role of DPs therein (Barroy et al. 2018).

Another benefit of involving DPs closely in the upstream priority setting is that they will be better prepared to incorporate and communicate these priorities to headquarters to finance these activities. Involvement with strategic planning and ownership will thus help DPs in their own budget preparation and help make resources available in a timely manner. During the strategic planning and prioritization process an institutional donor coordination mechanism is helpful. This allows information sharing and taking a more strategic position with regards to greater use of country systems.

There should be clarity on the disease burden, basic benefits package, and overall resource availability to accommodate an effective division of labor during the budget process and follow a health sector investment case that covers all stakeholders. The set of questions in table 2 outline key questions that can determine the extent of alignment of donors during planning and priority setting.

Table 2: Assessment criteria for use of country systems during planning and prioritization

Source: World Bank.

Note: Key informational items for strategic planning and prioritization are outlined in gray and how DPs can use the system appears with a white background.

Assessment Questions

Does the government provide a template for planning and prioritization over the medium term?	Q1.1	Does the government have an adequate macro-fiscal framework in place?
	Q1.2	Does the government provide a clear vision of sector objectives and priorities?
	Q1.3	Is the vision accompanied by a comprehensive medium-term joint plan?
	Q1.4	Does the plan include a realistic costing of priority programs and subprograms?
	Q1.5	Does the government specifically identify costs that will be covered through DP funding, and those that will be funded from own sources of revenue?
	Q1.6	Does the government have a strategic donor coordination mechanism in place?
How well are DPs aligned to the government's medium-term priorities for the sector?	Q1.7	Does the DP use country-owned results frameworks and planning tools, including results reporting, statistics, and monitoring systems?
	Q1.8	Does the DP specify which programs, subprograms, and activities (irrespective of the inputs) they will be involved in over the medium term? Does the MTEF capture, what will be done, how much it will cost, and who will pay for it?
	Q1.9	Does the DP specify what inputs it will provide for the programs and activities it has agreed to co-finance (or provide a negative list such as compensation or only vaccines, etc.)?
	Q1.10	Does the DP specify the quantum of resources they will provide for the program and activities?

Budget Preparation and Financing

On the basis of the MTEF, an annual budget needs to be developed that reflects all activities for the upcoming year from all sources, including the government budget, DP funds, and internally generated funds (which may come from user fees, health insurance claims, or other sources). This provides the legal basis for the executive to implement the sectorwide joint strategic plan. Activities in the budget subsequently need to be mapped to financing sources. These include government as well as DP funds and internally generated funds. There is no legal basis for the execution of activities that are not in the budget, which is why there is commonly a push for DPs to ensure funding is “on budget.” It also provides a more complete picture of the resources budgeted at the country level and in individual sectors. These steps are detailed in figure 6.

Figure 6:

Development partner alignment in budget preparation and financing

Source: World Bank.



Budgets in many low-income countries are input based, that emphasize control. In this case, the budget approval is for inputs such as vehicles, gasoline, drugs, rather than outputs or programs. Development partners on the other hand frequently prefer to finance programs where outputs can be explicitly identified. This can make alignment to input budgets challenging. While many countries have initiated program-based budget reforms, this transition has in practice been difficult to implement.

In many countries, DPs provide in-kind support such as subsidization of commodities, supply chain strengthening, and technical assistance. For example, in many Gavi-eligible countries, Gavi subsidizes vaccines through payments to the United Nations Children's Fund (UNICEF) Supply Division in Copenhagen, which then supplies the drugs through UNICEF's country office on behalf of the government. While the government's share of financing for these vaccines is typically recorded in the government budget, the subsidized cost from Gavi is not.

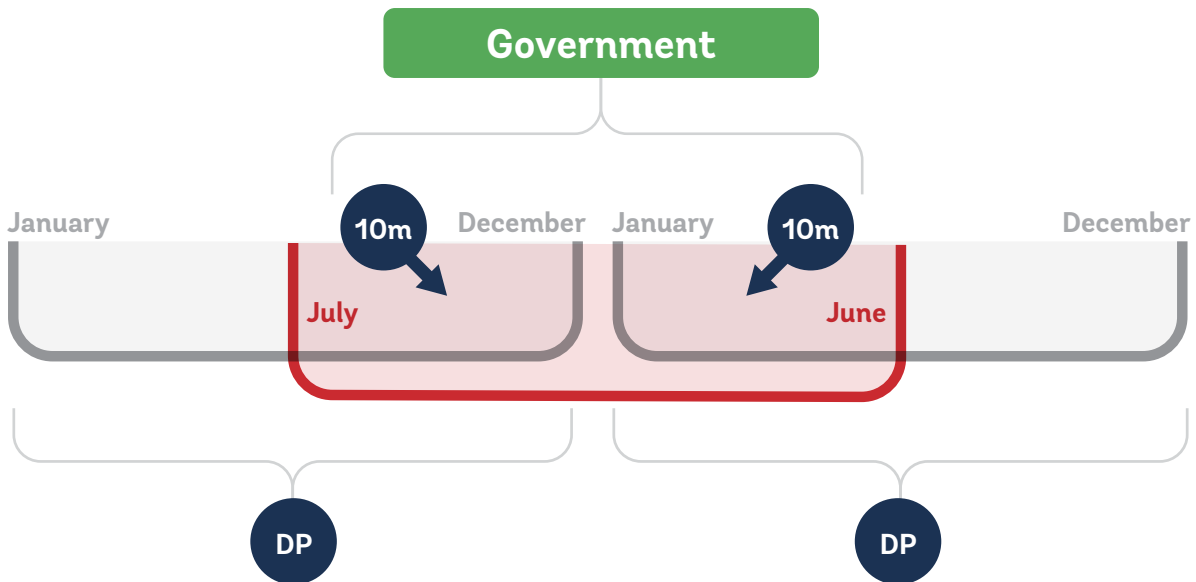
There are both risks and opportunities to including this funding in the government's budget. The perceived risks are that the government budget will seem larger if all investments appear in the budget, which may lead to substitution to nonhealth areas. The perceived benefits are that when the DP transitions, the activities and their full costs are already known to the government and are more likely to be planned for and prioritized. Most countries follow cash basis budgeting and cash basis accounting structures, which may not necessarily require in-kind support to be brought into budget and accounts. However, information of expected in-kind support expected to be received can be included as additional information in the budget documents, without necessarily having specific budget lines.

The next step in the process is costing, which moves the plan from a "wish list" to an articulation of the financing needs. Costing is essential for prioritization of activities within a resource envelope. It can come from government (consolidated fund), DPs, or internally generated funds. Sector management needs to find financing sources for the activities proposed in the budget. For these, ceilings should be provided for an adequate budget to be developed. It is critical that DPs align with the government's fiscal year to provide realistic ceilings. For example, a development partner that can only provide estimates of financial support from January to December for a government that operates in a July to June fiscal year will only be able to provide the government with a partial ceiling (for the months July to December). Therefore, the government budget will only be partial, which besets fragmentation. Financial reporting may also appear more erratic than is actually the case.

This problem is visualized in figure 7 (next page), but it can be overcome through multi-year programming by DPs, which is common practice for some. Others have found this more challenging. For example, U.S. government funding is approved annually by congress, which operates on an October to September fiscal year. However, even in this scenario, agencies have managed to make multi-year tentative commitments that can be used as ceilings to feed into the budgeting process.

Figure 7: The importance of aligning to the government fiscal year

Source: World Bank.



It is important to note that even if DPs are not ready to fully use country systems, it will be desirable to reflect the funding that will be made available by DPs in the government's budget documents.

Ceilings and activities also need to identify which types of inputs they will finance. Activities are often financed from different sources. For example, an immunization campaign may require time from government staff who are on the government payroll; employees from WHO and UNICEF and other agencies; donated or subsidized vaccines and syringes; and supply chain management investments from a mix of DPs and government. Including the full cost of services across all sources is an ideal scenario for a sound budget formulation process and mutual accountability, which may not be easy to achieve in several countries. In these cases, at least the direct financial commitments of the DPs toward budgeted activities should be included in the budget.

Ideally, there should be a unified payment system at the facility level (i.e., one budget across all financing sources), which cannot be achieved without collaboration of DPs. Unless facilities have clarity about budget ceilings and how much to expect from which source over what timeframe, it is difficult for them to make strategic decisions, and the operational modality is likely to be opportunistic. Separate plans and budgets for various DPs at the lowest levels of service delivery is likely to overstretch already limited financial management capacity and take facility managers away from their more essential service delivery duties. When sector programs and activities are

executed during a fiscal year, at the same time, it is necessary to maintain a record of what each DP has spent on each program and activity. This recordkeeping will allow the DP to keep track of its investments and to report assistance provided to the country to its own management.

The set of questions in table 3 query key informational items in the budget preparation and financing process and the extent to which there is DP alignment.

Table 3: Assessment criteria for use of country systems during budget preparation and financing

Source: World Bank.

Note: Key informational items for strategic planning and prioritization are outlined in gray and how DPs can use the system appears with a white background. DPs = development partners; MTEF = medium-term expenditure framework.

Assessment Questions

Q2.1	Does the government operate on an input or program budget basis?
Q2.2	The annual budget is prepared on the basis of an MTEF that reflects all activities from all sources including government, DPs, and internally generated funds.
Q2.3	The DP has provided a total budget ceiling with activities that they will finance in sufficient time to be reflected during the planning process.
Q2.4	The DP specifies programs and activities that will be done within these ceilings for the upcoming fiscal year and amounts it has allocated to each.
Q2.5	The DP-financed activities are actually reflected in the annual budget law.
Q2.6	The DP provides information on what specific inputs it will finance, which is in the annual budget law.

Budget Execution

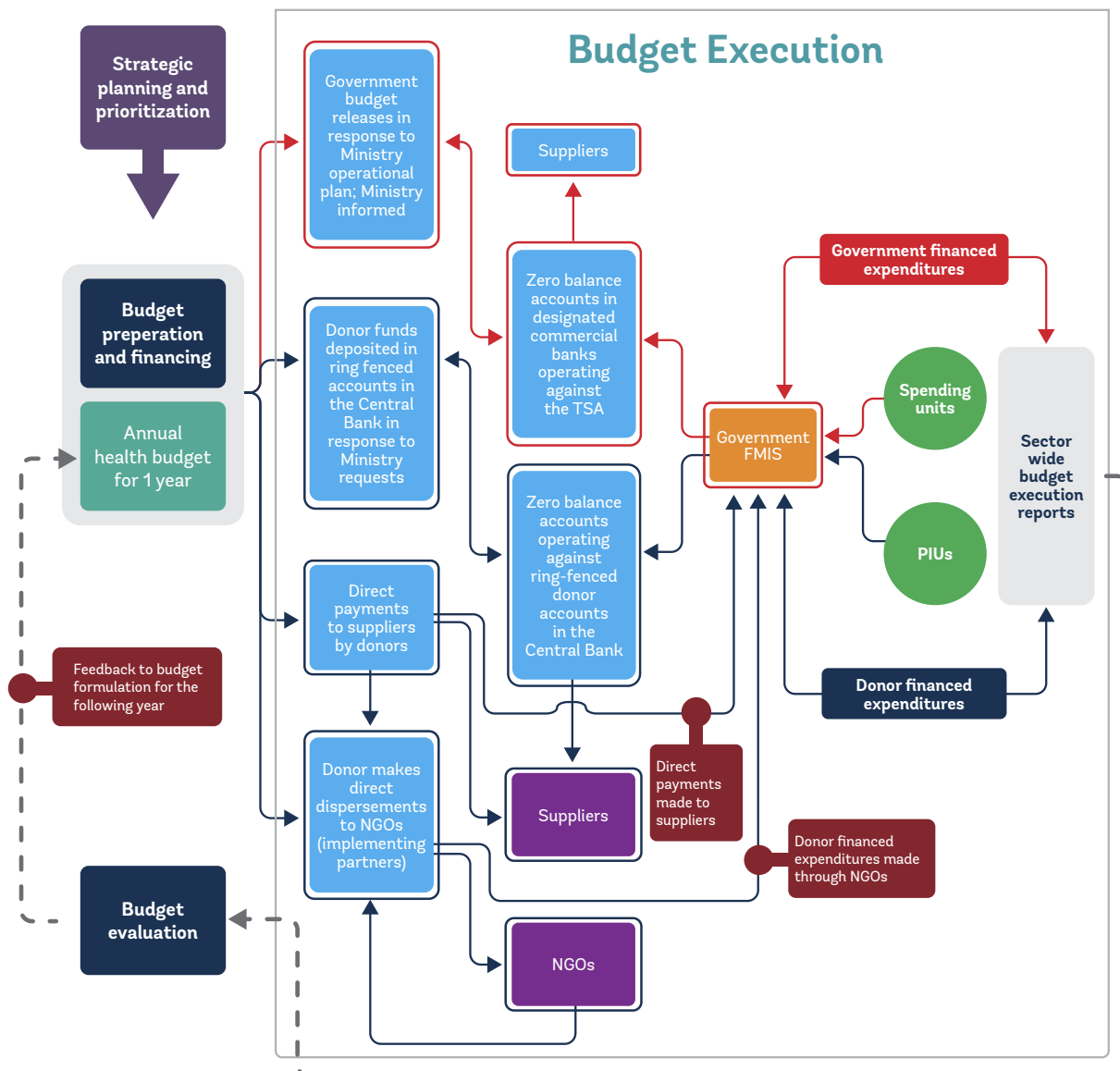
Budget execution covers the processes that determine how funds are released and where funds are banked, the approval protocols necessary for their usage, tendering and procurement, actual expenditure, and how expenditures are accounted for and reported against. The budget execution stage in the budget cycle is critical. A budget may be carefully formulated, but if poorly implemented, it can still lead to inequities and inefficiencies (Piatti-Fünfkirchen and Schneider 2018; Cashin et al. 2017; Schiavo-Campo 2017; Allen, Hemming, and Potter 2013).

The first step for government in the process involves the budget release from treasury to spending ministries. Similarly, DPs may deposit funds in a ring-fenced central bank account. These funds can be transacted through the government's FMIS, be subject to standard government execution protocols, and be reported against periodically. For DP funds that are spent directly by DPs or transferred to nongovernmental organizations (NGOs), these expenditures need to be posted to the general ledger on the FMIS for capture in sectorwide budget execution reports. The budget execution processes of governments and DPs are outlined in figure 8.

Figure 8: Budget execution processes and development partner alignment in the budget cycle

Source: World Bank.

Note: FMIS = Financial Management Information System; NGOs = nongovernmental organizations; PIUs = Project Implementation Units; TSA = treasury single account.



The budget execution stage involves actual financing and expenditure, and it is the most sensitive stage. Poor execution could lead to poor use of funds, misappropriation, and incurrence of ineligible expenditures. Use of government systems in this dimension also tends to make alignment most difficult, as it can pose fiduciary risks.

Aligned banking arrangements

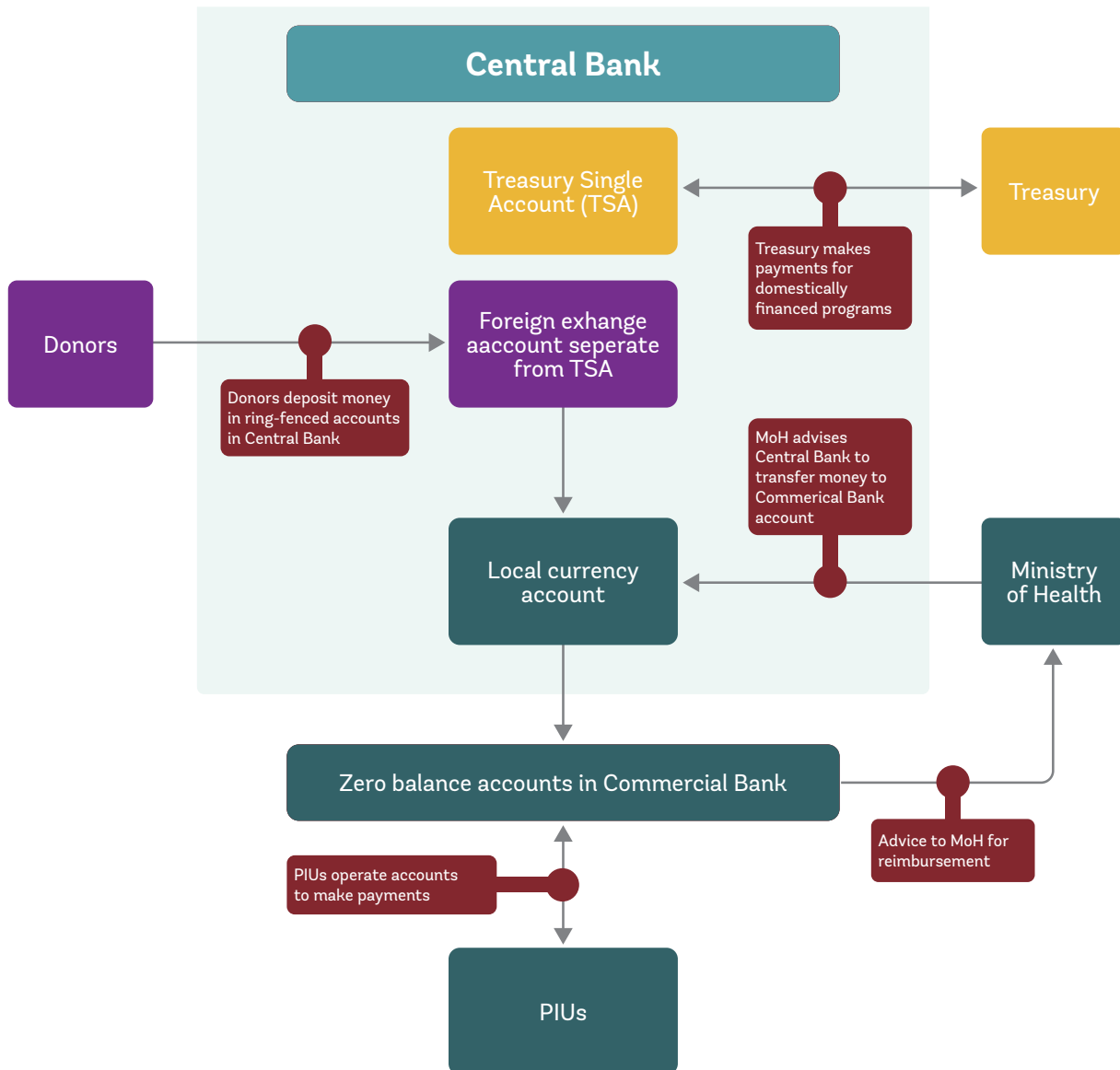
The first question on DP alignment in budget execution relates to where DP funds are actually banked. Full DP alignment would require DPs to use the government's TSA (Hashim 2014; Hashim and Piatti-Fünfkirchen 2016). While minimizing fragmentation and inefficiencies, it may not always be feasible or desirable. In some cases, the TSA may not be fully developed or reliable, which might introduce cash flow problems and the risk that funds are used for areas other than those intended. Generally, channeling DP funds through the TSA where they cannot be ring-fenced would be unacceptable to DPs who do not want to provide general budget support. The banking arrangements of where DP funds are deposited becomes a critical question, and often, commercial banks are used instead of the central bank, which introduces a set of distortions (Fainboim and Pattanayak. 2010). However, ring-fencing and fiduciary oversight does not necessitate banking funds in commercial banks, which would be outside the purview of the treasury and undermine the efficient management of public resources.

There is the misconception that putting money into the central bank means it is automatically under the control of the treasury and these funds cannot be ring-fenced from other treasury funds in the central bank. A good second-best solution that avoids inefficiencies arising from idle balances without losing control would be the use of special purpose accounts in the central bank under the treasury. This would ensure all funds are banked in the central bank, but DPs can ring-fence their funds and have greater fiduciary oversight and controls. Projects can then have associated zero balance accounts with commercial banks (Fainboim and Pattanayak 2010; Hashim 2014) to draw on these ring-fenced accounts (figure 9, next page).

Figure 9: Banking development partner funds in a ring-fenced central bank account

Source: World Bank.

Note: PIUs = Project Implementation Units; MOH = ministry of health; Project Implementation Units.



Execution of the budget involves line ministries preparing an operational plan, which details how they are going to use their money on a quarterly or monthly basis. The ministry of finance uses it to make budget releases that specify how much money is available to the line ministry to spend and for what purpose. Similarly, the DPs should use the operational plan to deposit their money in ring-fenced accounts in the central bank. While depositing funds, DPs can deposit in advance for a longer timeframe or per the operational plans of the government, with guidance from the legal agreements between the government and the DPs. In all cases and at any point in time, it is important to ensure that the DP funding available is not less than the projected budget amount for that time period, whether quarterly or monthly. The line ministry would then start drawing on these funds for pre-agreed DP-financed programs and activities.

Aligned use of financial management information systems

Once funds are banked, they need to be executed for the implementation of budgeted activities. This requires appropriations control (ensuring funds are spent for their intended purpose) and cash control (ensuring that not more is spent than the amounts of the released budget). Most governments have invested in FMIS systems that apply controls before any commitment can be made to ensure the prudent implementation of the annual budget law.

FMIS controls work for all government revenues and expenditure, including DP-funded activities. For expenditures executed outside, FMIS internal controls cannot work, although other internal controls and internal audit of government may still provide some assurance. Full DP alignment during execution should therefore ideally require DPs to fully embrace the use of the government's FMIS, which would also allow for comprehensive budget execution reports and annual financial reports.

It may not always be feasible or realistic to fully use the government's FMIS. It is often seen as unreliable and inadequate to serve the needs of DP projects. Deployment may be insufficiently advanced and systems unreliable. If no IFMIS is in place transactions it will have to be recorded on a manual system. If audits from these accounts happen periodically, are robust, and have no gross infarctions a manual system should be equally acceptable to DPs.

DPs also need to reflect on how to minimize fragmentation during budget execution and allow good integration with the FMIS for comprehensive budget execution reports. In some countries, DPs could use a parallel (small scale extended) FMIS. If it is based on the government chart of accounts, outputs can be integrated into the government's FMIS for comprehensive budget execution reports, and it still provides spending units with an implementation overview of their planned activities.

As long as the chart of accounts includes a source of funds segment, which is the case in most countries, separate execution reports for individual DPs can be

produced. If the FMIS system is not configured to do so in its initial implementation, it can be modified to accommodate DP reports. It would allow for monitoring who has implemented which activities against what sources as well as what remains to be done and what cash flow is required from where.

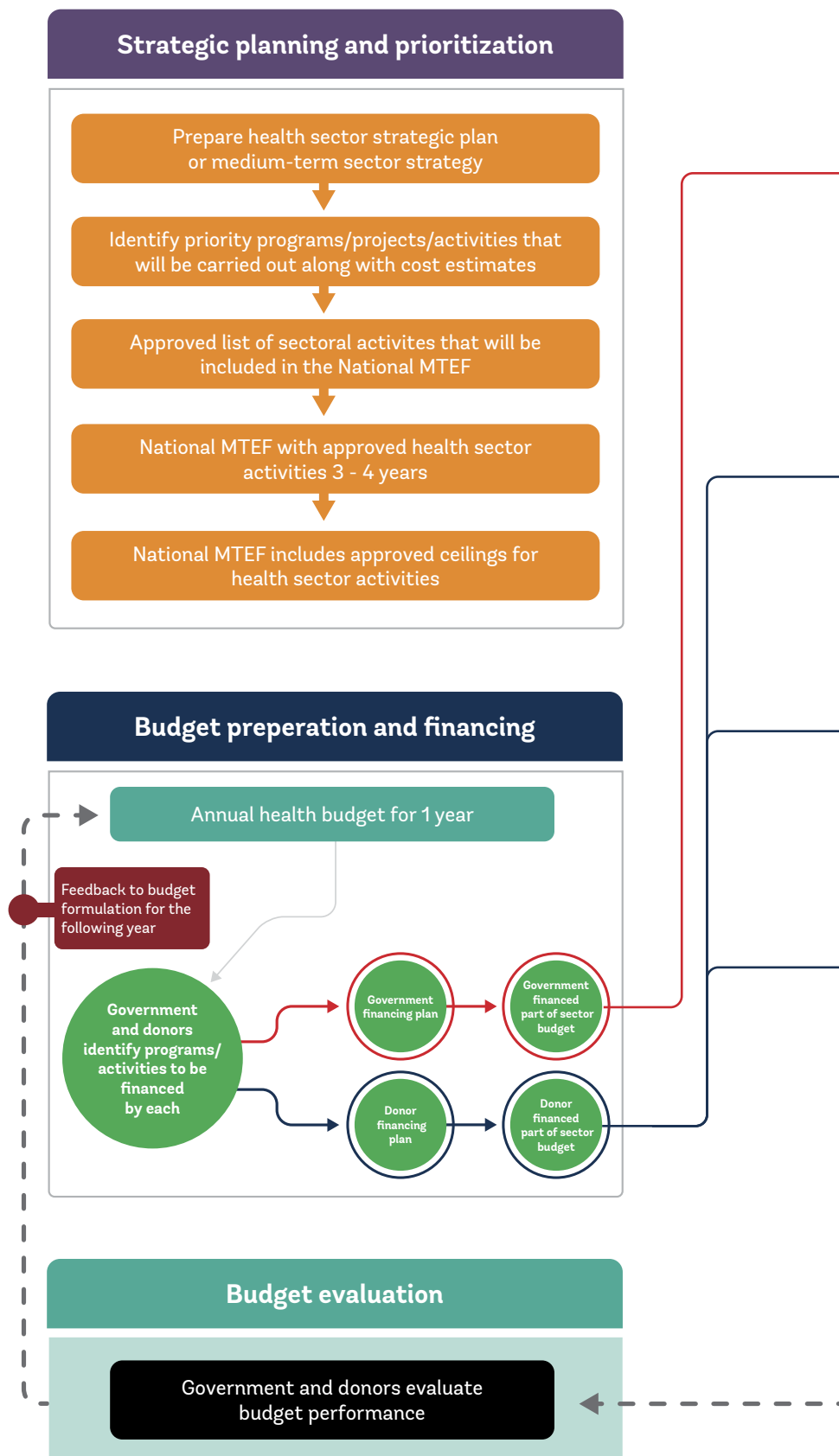
If DPs pay suppliers directly, payments could be captured by the PIU and integrated in the parallel DP-FMIS extension. If DPs fund NGOs or implementing agencies, this method could be made contingent on them providing financial reports that follow the government chart of accounts and can be captured by the DP-FMIS. This approach is shown schematically in figure 10.

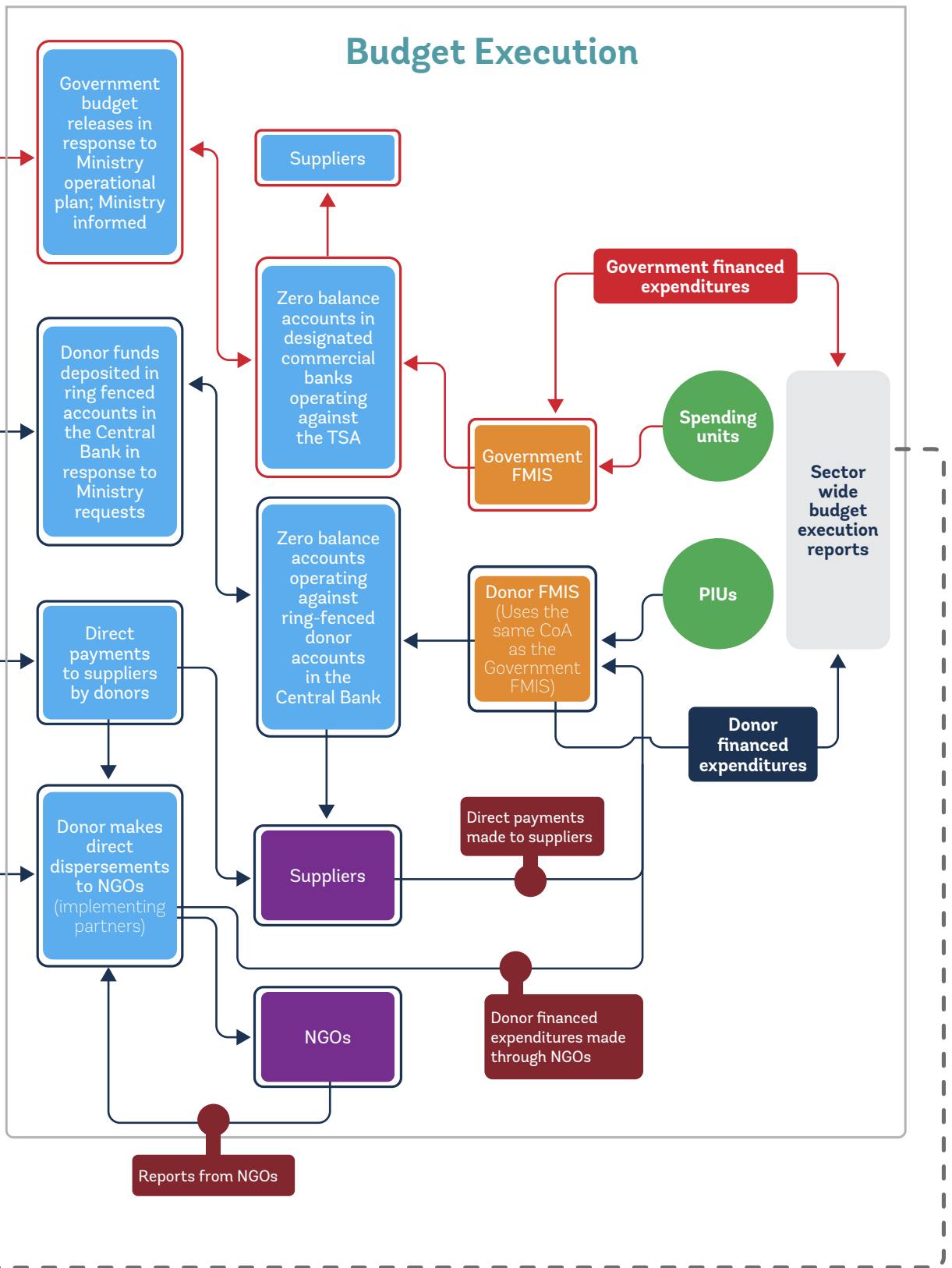
Figure 10:

Alignment with government systems despite using parallel execution systems

Source: World Bank.

Note: FMIS = Financial Management Information System; MTEF = medium-term expenditure framework; NGOs = nongovernmental organizations; PIUs = Project Implementation Units; TSA = treasury single account.





Procurement is an essential and a sensitive part in the budget execution process. Using country procurement systems requires tendering (selection of suppliers) and use of e-procurement systems for this if in place. Subsequently, the question is who issues the purchase order (PO), who confirms receipt of goods and services, who issues the invoice, who makes the payment and how accounting and reporting is being done. Many of these aspects are already discussed above. For example, if DPs use government systems for tendering, the government e-procurement system will be used. For other aspects, the DP may wish not to align to country systems, such as when issuing PO or making the payment. For comprehensive financial statements and government stewardship it will be critical that at least accounting and reporting follows government processes and can be integrated ex-post even when DP systems are used.

Whether country procurement systems should be used, may differ on the type of transaction and associated fiduciary risk. For small value transactions such as support for day to day implementation of DP programs, the use of country systems may be appropriate and preferable. For high value transaction such as the procurement of drugs and vaccines and expensive equipment, the risk calculus may however differ. DPs may wish to use their own tendering process to ensure competitiveness and transparency, if country systems cannot guarantee this. Some partners, such as UNICEF, may be able to ensure competitive pricing of items such as vaccines that individual countries can never achieve. If country procurement processes cannot deliver the same price and quality of products or services, it may not be desirable to use them. However, it remains important that once the procurement process of the DP is completed the transaction needs to be transferred to the government IFMIS so that an accurate financial record is maintained of the resources used. In sum, for routine procurement of items of use in the day to day implementation of support programs, government processes can often be adopted without undue risks. A separate process following DP procurement practices may be warranted for specific high value items.

The critical dimensions pertaining to DP alignment during the execution stage are outlined in table 4. It includes execution processes, banking arrangement, financial management information systems, procurement, and alignment to government accounting practices. Full alignment is considered optimal, but alternative methods may be more practical or realistic in the short to medium term.

Use of government structures compared with specialized Project Implementation Units (PIUs) has its own merits and limitations. Decisions need to be taken in country context considering the availability of human resources and institutional structures. Even where PIUs are used by DPs, there is a need to be substantially mainstreamed in government systems. PIUs fully staffed by consultants financed directly through DP projects could create severe sustainability issues. Incentivizing PIUs without creating disincentives to regular government structures needs to be targeted. It is critical to ensure the availability, quantity, and quality of PFM experts in government structures for DPs to be able to use country systems.

Table 4: Assessment criteria for use of country systems during budget execution

Source: World Bank.

Note: Key informational items for strategic planning and prioritization are shaded in gray and how DPs can use the system appears against a white background. DP = development partner; DPI =; FMIS = Financial Management Information System; G/S = goods and services; HR = human resources; MOH = ministry of health.

Assessment Questions

Operational plans and cash management requirements	Q3.1	Does the government/MOH prepare an operational plan for the year for programs and activities to be financed and an estimate of upcoming expenses (broken down by month/quarter, based on the budget allocation)?
	Q3.2	Do the DPs prepare an operational plan for the year for upcoming expenses and programs and activities to be financed (broken down by month/quarter)?
	Q3.3	Is it possible to determine what financial resources would be available to the MOH and its agencies at various points in time during the fiscal year based on the government and DP operational plans? (What money will be available when?)
Budget release process	Q3.4	What is the budget release process? How does the government release its part of the funding?
	Q3.5	What is the DP release process? How do the DPs release their part of the funding?
	Q3.6	Are the government and DP budgetary release processes aligned? If not does the misalignment cause operational difficulties while executing the budget?
	Q3.7	Does the DP fund specific human resource positions in any of the health programs?
	Q3.8	Is the money that is released for these positions aligned with the release process of government payroll processes?

Table continued on the next page »

Assessment Questions

Approval authority	Q3.9	Who has the authority to spend government-released resources?
	Q3.10	Who has the authority to spend DP-released expenses?
	Q3.11	Are the government and DP spending approval protocols aligned? And if not, does the misalignment cause difficulties at the operational level while executing the budget?
Banking arrangements	Q3.12	Where are DP funds banked (e.g., treasury single account; ring-fenced accounts in central bank with end users having access to money thru money transfers to accounts in commercial banks; zero balance accounts in commercial banks; commercial banks)?
Procurement	Q3.13	Do DPs use the country tendering system (e-procurement system if available)?
	Q3.14	Do DPs issue the purchase order?
	Q3.15	Who confirms the receipt of goods and is acquisition done by DPs directly?
	Q3.16	Who issues the invoice?
	Q3.17	Who makes the payment
	Q3.18	Where is accounting and reporting being done?
	Q3.19	Does the use of government system differ among low and high value transactions?
Expenditure tracking	Q3.20	Is the DPI's accounting of DP expenditures aligned with the government chart of accounts?
	Q3.21	Is it possible to track the type of items that government finances (e.g., HR or G/S)?
	Q3.22	Is it possible to track the type of items that DPs finance (e.g., HR or G/S)?
	Q3.23	How are government expenditures and receipts tracked at the line ministry level?
	Q3.24	How are government expenditures and receipts tracked at the facility level?

Table continued on the next page »

Assessment Questions

Expenditure tracking (continued)	Q3.25	How are DP expenditures and receipts tracked at the facility level?
	Q3.26	Are DP expenditures tracked by the same system at all levels, including the facility level?
	Q3.27	Is it possible to track government and DP expenditures in the government FMIS at all levels, including the facility level?
	Q3.28	Sometime DPs need to make payments directly to suppliers. They should then inform government on payments made so that the government can enter it into its records. Where are these recorded?
	Q3.29	If DPs are using implementation partners instead of giving money to government, then DPs need to inform the government of whom they have given money to. As partners report to DPs, DPs must inform government about the amounts of money spent and its purpose. Where are these recorded?
	Q3.30	Do DPs provide aid in-kind and do they inform government of the value of the inputs so that these can be entered in government records?
	Q3.31	Does the system have the capability to flag items on a negative list that DPs have said they would not finance?
Reporting	Q3.32	With all data, can government produce sectorwide budget execution reports and progress reports against the strategic plan?
	Q3.33	Does the system have the capability to produce sectorwide budget execution reports, including inputs from both the government and DPs?



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Budget Evaluation

A budget needs to be evaluated comprehensively in financial and performance terms to inform subsequent budget decision, which requires a unified approach and comprehensive execution reports covering all financing sources. This stage will be facilitated if all DPs are on budget, and the budget is executed against a uniform chart of accounts that allows for comprehensive budget evaluation that then can inform progress against the overall sectorwide strategic plan. This approach will inform future budget allocation decisions and efficiency assessments, provide for accountability on whether money has been spent in accordance with the program that was agreed on, and take stock on whether targets in the program have been achieved. Unless this process is comprehensive, budget evaluation can only be piecemeal and does not support mutual accountability. For example, if government only assesses immunization support activities without recognizing that vaccines are procured by an outside agency, recommendations may only be partial or misleading. Government spending may appear to be driven excessively by wages and salaries, though this may make sense if a whole sector approach is taken.

Aligning with government systems during the execution and budget evaluation stages does not preclude DPs from doing separate audits to satisfy specific DP audit requirements. The FMIS should provide sufficient information on how funds were spent and whether activities from a specific source have been implemented according to plan. Similarly, channeling funds through special purpose accounts in the central bank does not preclude this. A basic schematic of how to assess alignment of budget evaluation is provided in table 5. While it stands on its own, DPs are unlikely to score well unless there is good alignment with budget formulation, financing, and budget execution processes.

The Supreme Audit Institutions (SAIs) of most countries have a mandate to make all government revenues and expenditure consistent with the International Standards on Supreme Auditing Institutions. However, in many cases, DP funds are audited separately by audit firms appointed by governments and DPs. Wherever supreme auditing institutions are mature, it would be appropriate to make use of SAIs for auditing DP-financed projects. Performance audits by SAIs provide credible independent assessment of the performance of the health sector and make recommendations. Since SAIs determine the nature, scope, and extent of performance audit, they may not always prioritize audit of the health sector. Nevertheless, formal arrangements could place the responsibility of financial audit of DP-funded projects with SAIs or private audit firms appointed by SAIs (where SAIs provide quality assurance to the audit).

Table 5: Assessment criteria for use of country systems during budget evaluation

Source: World Bank.

Note: Key informational items for strategic planning and prioritization are shaded in gray and how DPs can use the system appears against a white background.

Assessment Questions

Q4.1	Is the government budget evaluated holistically, including government and DP expenditures?
Q4.2	Does government make informed decision based on holistic budget evaluation information to inform its subsequent budget allocations?
Q4.3	Does the government budget evaluation process include expenditures from this DP?
Q4.4	Do government financial audits apply to expenditures from this DP?
Q4.5	Does the Supreme Auditing Institution or Internal Audit conduct performance audits to expenditures financed from this DP?

Developing a Reform Program



This note provides a definition of what is meant by “use of government systems” and how to determine the current state of affairs. To support a reform roadmap and foster a constructive conversation with DPs, it is also necessary to understand DP requirements and potential reasons for not using government systems. Some patterns across countries emerge from the literature that can be mapped into (i) weak PFM capacity and fiduciary concerns, (ii) perception of weak capacity, and (iii) incentive issues. Understanding these aspects at a country level and how they relate to the various dimensions previously outlined can help the development of an actionable reform roadmap.

PFM Capacity and Fiduciary Concerns

The quality of PFM systems is an important factor and often used to justify DPs’ decisions to not channel funds through government (Sprietzer and Vargas 2011; CABRI 2014). As DPs move to country systems, they give up some degree of control over development assistance, but this can be challenging when confidence in the system is low. Both the OECD’s survey on the use of country systems (Sprietzer and Vargas 2011) and the Paris Declaration evaluation report found that fiduciary risk⁴ is a key factor in DPs’ decisions to use country systems (Wood et al. 2011).

Most DPs follow a two-stage risk assessment when deciding on when to move to country systems. First, countries are vetted at a higher level in terms of fiduciary, political, and developmental risk factors. At a later stage more detailed program or fiduciary risk-specific assessments are conducted. For some partners, the decision to move to country systems is taken by headquarters staff, or in the case of bilateral DPs, the relevant political authority (OECD 2012). Understanding this decision-making process is particularly important for country teams looking to embark on reforms that will lead them to the use of country systems. All levels of staff need to be engaged in any reform process. Other partners, such as Gavi, use program audits and program capacity assessments to determine whether fiduciary risk is low enough to prevent misuse in funds. These evaluations may be targeted at the program agency and help the partner take a decision.

In cases where PFM quality is weak, it is important to identify where these weaknesses are, how they related to DP requirements, and how a more fertile mutual ground can be created. If there are fiduciary concerns, DPs can still use aspects of government systems that will not affect their fiduciary risk, such as planning and budgeting processes. Similarly, in many countries, it may be possible for DPs to use a special account in the central bank without loss of fiduciary control. Lastly, it may also be possible to use a DP extension or parallel DP FMIS that mimics government systems and allows for integration. Such intermediate steps in use of government

⁴ Fiduciary risk is defined as funds not being used as intended, not properly accounted for, or used in a way that does not achieve value for money (CABRI 2014).

systems can be taken that will strengthen the government stewardship role and PFM capacity even when full alignment to government systems is not yet possible.

Perception of PFM Capacity

The correlation between DP use of country systems and countries' actual PFM capacity is not very strong (see figures 1–3). There is evidence that increased strength of PFM capacity does not correspond to an increased use of country systems by DPs. This is discouraging but may be due to a variety of factors.

Corruption episodes may be a symptom of PFM weakness, and DPs are naturally sensitive to the misuse of funds. As episodes surface, this may affect lead DPs being increasingly reluctant to channel funds through government systems. At the same time, as the capacity of audit offices strengthens, more cases will surface and be prosecuted (European Commission and World Bank 2018). Rather than just looking at the outcome (e.g., number of cases prosecuted), the strength of processes may be equally important and informative for the donor alignment dialogue.

DPs vary significantly in the way they define, assess, manage, and monitor the risks and benefits of using country systems (CABRI 2014).

Incentives Driving Use of Country Systems

From a development effectiveness point of view, a shift toward use of government systems is preferred. However, incentives from both DPs and recipient countries may not always be aligned to make this happen.

Stakeholders in a country's health sector may prefer project-based or off-budget financing modalities as they will be earmarked for health, reliable, and more readily available. Less legitimate incentives may relate to off-budget financing that hides how much resources actually flow into the health sector, which may put stakeholders in a better bargaining position during budget negotiations. Vertical programs may be able to provide a more generous salary package to project related staff and pay for allowances. Lacking coordination may allow for double dipping in select activities. It is important to understand these factors in order to address potential non-PFM related factors in the reform process.

DPs are also subject to their own political economy constraints, including the need to demonstrate quick and visible results; the need to disburse aid quickly; and the need to avoid reputational risk. The focus on these short-term results is often more important for bilateral DPs. For example, the requirement of the U.S. Agency for International Development (USAID) to tie every dollar to a specific output may have hindered progress with using some country systems (CABRI 2014) as it may be perceived as leading to fungibility and additionality problems. Here it is important

to have a dialogue with these partners to ensure that the use of some government systems will still allow for the tracking of resources. Being on budget for example does not mean giving up control or not being able to track resources to their intended recipient or purpose.

A development industry surrounds various DPs, which makes it difficult to move away from such an operations modality as the viability of implementing partners depends on that funding. When USAID began designing its new strategy focusing on local systems (USAID 2014), the risk to implementing partners' sustainability made it highly contentious (Dunning 2013). If these factors are important considerations, one must understand how these could be incorporated into government planning and budget execution processes to at least facilitate a government stewardship position.

DPs are encouraged to make use of country systems if other DPs do. Pooled financing arrangements in countries such as Tanzania have worked well where DPs jointly start making greater use of country systems (CABRI 2014). In countries where such arrangements do not exist, and coordination mechanisms are poor, incentivizing one DP to make greater use of country systems can be challenging. The reform agenda may therefore be most constructive around strengthening such mechanisms and perhaps establishing financing pools.

DPs may also face capacity constraints. Several reviews found that guidance documents and training programs on the use of country systems is important to persuade DP staff to move to country systems. For example, the European Union, Germany, and USAID have dedicated support to staff members through trainings, working groups, and learning networks to sensitize employees on the benefits of using country systems and to ensure they have the skillset to enable this shift by managing risk assessments, negotiating modalities and safeguards, and monitoring implementation. There is also often a need to increase the number of PFM specialists working at the country level. How these factors play out at the country level is likely to affect the reform program. Associated costs need to be carefully considered by the DP community.

PFM is just one factor among many that determines the likelihood of DPs to use country systems. DPs often consider rule of law, democratic processes, human rights, a pro-poor policy stance, political governance, and macroeconomic risks in addition to PFM and fiduciary risks. The EU, for example, has a two-pronged process looking at those factors. USAID employs a democracy and governance assessment, and the African Development Bank looks at government's commitment to poverty reduction, political stability, and macroeconomic stability, alongside a fiduciary risk assessment. The United Kingdom looks at many of the factors mentioned, including transparency, anti-corruption measures, and domestic accountability to citizens (CABRI 2014).

These factors are important considerations and closely related to countries' PFM performance. For example, the budget statement should reflect democratic



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processes. How well the budget is executed is a reflection of the executive's ability to implement political promises. Implementing a pro-poor stance in the budget requires adequate capture of these activities in budget and PFM practices. How well these can be implemented will, in part, also depend on the willingness of DPs to support them and use government systems. Even if DPs are unwilling to support the general budget, they may be willing to align to specific aspects of budget management as long as this does not relinquish control. Therefore, the reform process should identify where these entry points are and build on them.

As DPs gain confidence and experience in using country systems in various contexts, they move toward aid modalities that shift more control to governments. For example, in Uganda, as DPs gained confidence in the system, they shifted from vertical project support to pooled funding mechanisms and then increasingly to budget support. During this transition, requirements for independent audits by third parties were also relaxed and replaced with government audits (CABRI 2014). A monitoring exercise conducted by the Global Partnership found that the longer DPs engage in countries and the larger the share they channel to the public sector, the more they tend to use PFM systems (OECD and UNDP 2019).

Conclusions

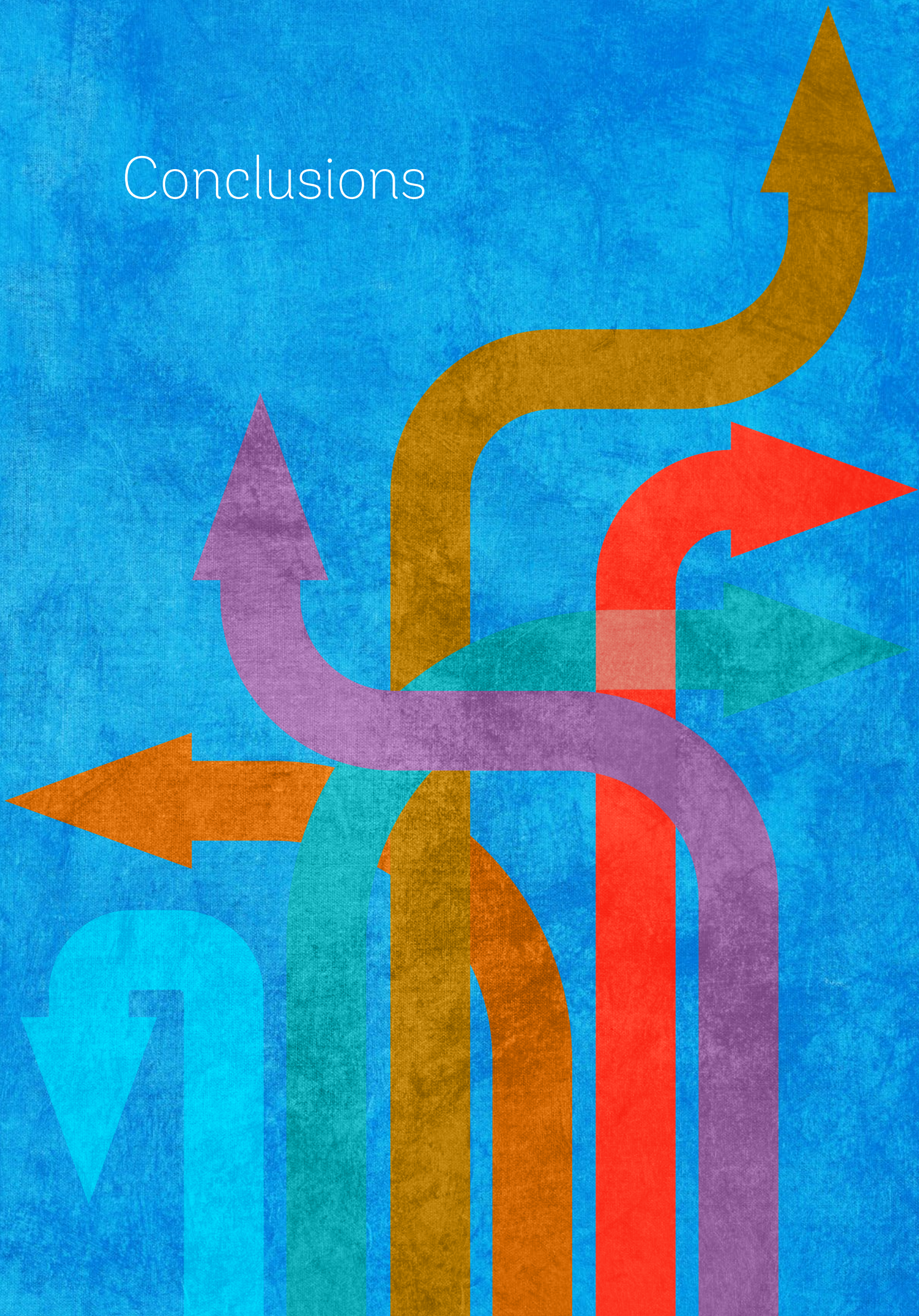




Photo © Gerardo Pesantez / World Bank

This note takes a PFM lens for a country systems definition and identifies what DP alignment would look like for the various stages of the budget cycle. It should provide a better understanding among stakeholders on where there are shortcomings in alignment and where progress could be made to help establish a baseline and potential reform roadmap. The note's authors argue that using government systems is not a binary choice. There are many aspects of country systems, and it may be possible to align to some while not yet aligning to others.



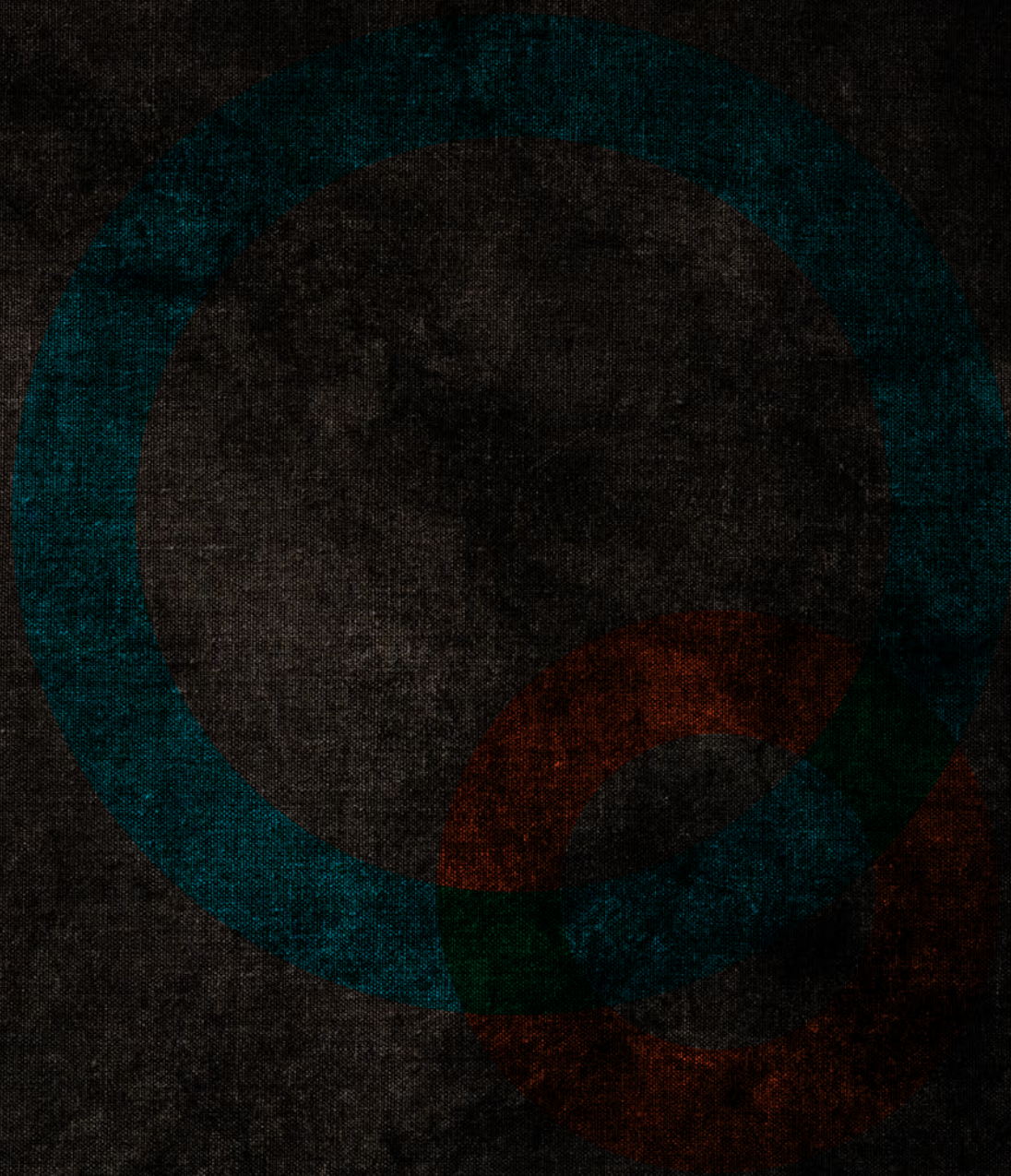
Identifying what aspects DPs are aligned to requires an objective assessment. This note offers criteria along the government budget cycle against which an assessment could be made. It is important to use actual data in a study to provide evidence as to which DPs are aligned to what aspects of the budget cycle. For example, it would be good to get FMIS expenditure data by funding source to see which DPs are reflected in budget execution processes. Similarly, it would be good to quantify what share of DP funding is maintained at the central bank.

Developing a reform roadmap goes beyond outlining which PFM processes DPs are aligned to. It requires an understanding of the various DP protocols, interpretation of fiduciary risk, and incentives driving both DP and recipient country behavior. While strengthened alignment to country systems is important, it is equally important to strengthen PFM systems in areas of need. This will strengthen government effectiveness and also allow for greater DP alignment in the future. Furthermore, many factors beyond PFM may inform whether DPs are willing to align to country systems, such as strength of democratic institutions, the rule of law, and ability to evidence pro-poor spending. The “use of government systems” dialogue will require a good understanding of these aspects to help build a meaningful reform roadmap. Further, the note recognizes the importance of herd behavior and that DPs are more likely to use government systems when others do, too. This aspect may also affect the design of a reform roadmap.

The note also recognizes that a reform program may be incremental and require sequencing. It may not be possible or realistic to expect DPs to shift financing entirely to the TSA and make full use of the government FMIS. However, alternative modalities exist that could allow better integration without full use of these systems. This approach would make good progress in terms of DP alignment, extend better oversight and stewardship to recipient governments, and build PFM capacity at the same time. For example, ring-fenced central bank accounts could still be used by DPs without giving up control over the use of funds or introducing fiduciary risks. From a country systems perspective, this method would still be preferable to using commercial bank accounts entirely. Similarly, DPs could use a DP extension to the FMIS or a parallel FMIS that mimics government systems and uses the same basis of accounting. This would be a significant step toward the use of government systems as expenditure information could more easily be integrated with government systems and allows for the generation of comprehensive sector execution reports across all financing sources.

The literature established that use of government systems is critical for aid effectiveness, and most stakeholders committed to using country systems in various high-level forums. This note recognizes the importance of this commitment for the attainment of UHC and provides a way to assess the current status and help build a reform agenda recognizing donor and recipient country priorities. While no explicit scoring criteria are suggested in this paper, it may be a useful area for future work to facilitate benchmarking and further strengthen mutual accountability.

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Appendix A.

The Aid Effectiveness Agenda: A Summary of Major Global Declarations

A set of high-level forums over the past two decades garnered political leadership from across the development spectrum and outlined the agenda for aid effectiveness. Most prominently, the 2005 Paris Declaration on Aid Effectiveness acknowledged that improving aid coordination, promoting DP alignment with country strategies, and cutting the “compliance burden” on aid recipients was vital (OECD 2005). This notion was reinforced in 2008 through the Accra Agenda for Action, which reaffirmed commitment to the Paris Declaration and called for greater partnership between different parties working on aid and development.

The Busan high-level forum marked a turning point in the discussions by further developing the framework for effective development cooperation. Section 19a of the partnership promised to “use country systems as the default approach for development co-operation in support of activities managed by the public sector, working with and respecting the governance structures of both the provider of development co-operation and the developing country” (OECD 2011, 5).

The Global Partnership for Effective Development Co-operation (GPEDC) grew out of the Busan Partnership Agreement as the successor to the Paris Declaration and was reaffirmed at the Second High Level Meeting in Nairobi in 2016. The Addis Ababa Action Agenda (2015) then provided a new global framework that put significant demands on increasing domestic public resources, while calling for more development assistance that is fully aligned with country priorities and designed to maximize impact and results.

Alongside these forums, partnerships emerged to foster effective development cooperation in health. The International Health Partnership Plus was formed to make progress toward the Millennium Development Goals and was later transformed into UHC2030 (International Health Partnership for UHC 2030) during the era of the SDGs. Both partnerships aimed to minimize fragmentation, support strengthening government systems, and foster alignment and mutual accountability through a set of seven behaviors that were monitored regularly using scorecards.¹

¹ For more information, visit the UHC2030 website at <https://sustainabledevelopment.un.org/partnership/?p=11941>.

Most recently, the Global Action Plan for Healthy Lives and Well-Being for All was launched to strengthen collaboration among 12 multilateral agencies partnering to achieve the health-related SDGs. The sustainable financing workstream (also called “accelerators”) focuses on strengthening country’s PFM systems and aligning development assistance to country priorities. Table A.1 outlines the evolution of the declarations and partnerships that promote aid effectiveness.

Table A.1: Timeline of the aid effectiveness agenda

Declaration or Partnership	Achievement
International Health Partnership for UHC 2030 (UHC2030)	In 2016, IHP+ transformed into UHC2030 to respond to the health-related Sustainable Development Goals (SDGs), particularly SDG3; the platform aims to expand health systems strengthening to achieve UHC; it promotes adherence to effective development cooperation principles as the most important way to ensure coordination around HSS.
Addis Ababa: Financing for Development (2015)	Established a strong foundation to support the implementation of the 2030 Agenda for Sustainable Development. It also provided a new global framework that put significant demands on increasing domestic public resources, while calling for more and better development assistance that is fully aligned with country priorities and designed to maximize impact and results.
Busan: Fourth High Level Forum on Aid Effectiveness (2011)	Reviewed progress on implementing the Paris Declaration partnership and outlined an approach to maintain the relevance of the aid effectiveness agenda in the context of an evolving development landscape. The Global Partnership for Effective Development Co-operation was formed and was reaffirmed at the Second High Level Meeting in Nairobi (2016).
Accra: Third High Level Forum on Aid Effectiveness (2008)	Building on the Paris Declaration, participants agreed to take bold steps to reform the way aid is given and spent, focusing on ownership, inclusive partnerships, delivering results, and capacity development.
International Health Partnership+ (2007)	Multi-stakeholder platform that promoted collaborative work at global and country levels as countries progressed toward the Millennium Development Goals; promoted adherence to effective development cooperation principles.
Paris: Second High Level Forum on Aid Effectiveness (2005)	Participants endorsed the landmark Paris Declaration on Aid Effectiveness and committed to achieving a series of targets to improve the delivery of aid by 2010. This partnership was formulated around: ownership, alignment, harmonization, managing for results, and mutual accountability.
Rome: First High Level Forum on Aid Effectiveness (2002)	The Rome forum marked the first of four major aid effectiveness forums and outlined principles for aid effectiveness in a concrete declaration, focusing on aligning with government priorities and timelines, increasing flexibility, and promotion of evidence-based practices and monitoring.

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Appendix B.

What Progress Has Been Made toward Using Country Systems?

The Paris Declaration, and the Global Partnership Agreement that has usurped Paris, made an explicit commitment to make greater use of country fiduciary systems over time. The Organisation for Economic Co-operation and Development (OECD) has largely been responsible for monitoring progress and to specifically assess whether signatory countries were on track to meet their targets. A key challenge is that the indicators and methodology for measurement have changed over time, so it is difficult to get a full picture over what has transpired in the years since the Paris commitments. An overview of monitoring efforts is included in box B.1, and select data from these surveys are then summarized.

Box B.1: Monitoring progress in aid effectiveness and moving to country systems

Following the Paris Declaration, OECD conducted a survey to assess progress toward the targets that countries committed to achieve by 2010. The Paris Declaration Monitoring Survey was carried out through three rounds (2006, 2008, and 2011). In the 2006 survey, 34 countries participated, but this number grew to 55 countries in 2008 and 78 by 2011 (Abdel-Malek and Koenders 2011). Twenty-two countries also participated in an independent evaluation. The findings are captured in a final report by OECD, with indicators available on the OECD website (OECD 2012). » continued next page

Box B.1: Continued

As a follow-on from the Busan Forum on Aid Effectiveness, the Global Partnership Monitoring Round was launched to drive more effective development and to conduct a biennial monitoring exercise, which tracks progress toward aid effectiveness principles and promotes learning among partner country governments and development partners (DPs). This effort focuses on the quality of partnerships rather than on the results themselves. Partner country governments participate on a voluntary basis. The exercise is led by the government and is intended to strengthen multi-stakeholder dialogue, with support and guidance from OECD and the United Nations Development Programme (UNDP). The latest monitoring round included 86 participating partner countries and more than 100 DPs and hundreds of civil society organizations, private sector representatives, foundations, trade unions, parliamentarians, and local governments, jointly reporting on \$58.8 billion in development cooperation funding- both grants and loans. The goal of the monitoring exercise is twofold: (i) to assess how effectively governments have established a conducive environment to lead national development efforts, enable a whole-of-society approach, and maximize the impact of joint efforts; (ii) to assess how DPs deliver their support in a way that is focused on country-owned development priorities and that draws on existing country systems and capacities (OECD and UNDP 2019).

The Global Partnership reports on progress through 10 indicators. Some have their roots in the Paris Declaration, while others were introduced in 2012 to capture the broader dimensions of the Busan Partnership agreement. In 2017, indicators were updated again to better reflect the Sustainable Development Goal agenda (OECD and UNDP 2019). The data collection and validation processes are also opportunities to build national capacity to monitor effectiveness of country partnerships and can be used as a platform to identify where progress is needed and encourage the development of joint solutions (OECD and UNDP 2019). These data feed into the Sustainable Development agenda and contribute to SDG indicator 17, which measures the effectiveness of partnerships for achieving the SDGs.

Progress toward Paris Declaration Targets of Aid Effectiveness and Use of Country Systems

The final monitoring survey for the Paris targets established that out of 13 measurable commitments, only “Coordination of Technical Cooperation” was considered fully achieved. It measures the extent to which DPs coordinate efforts to support countries’ capacity development objectives. However, there had been notable progress on others. The analysis also concluded that the timing for some of the targets was not realistic given the profound reforms needed. The evaluation noted that the impact of reforms has been greatest where countries have developed action plans to meet their

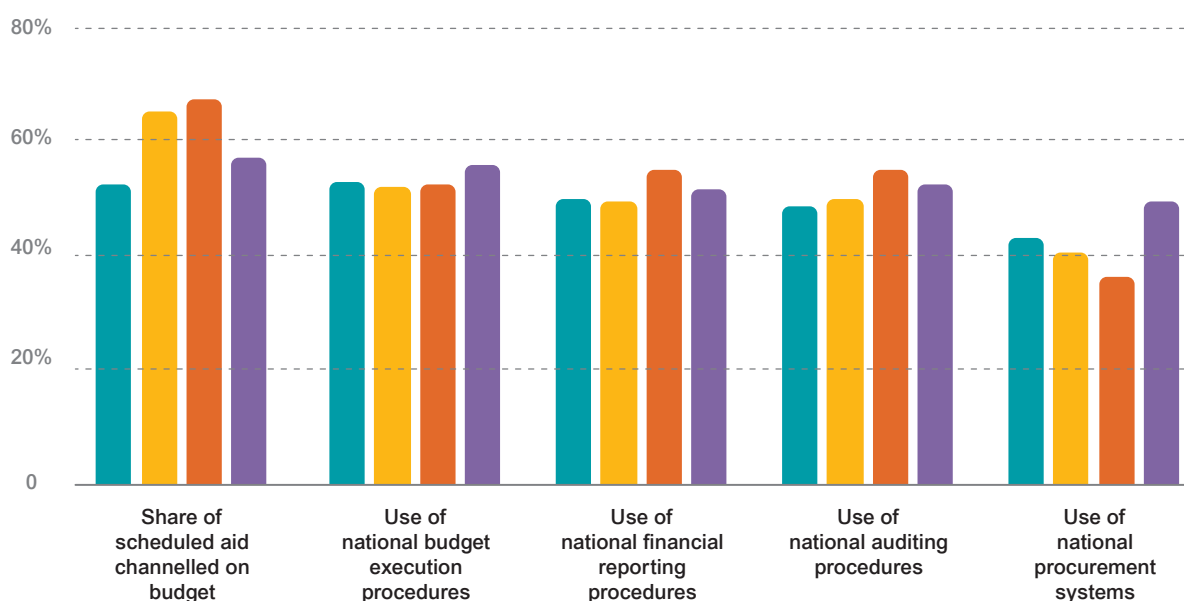
commitments, based on their own needs, context, and development priorities. While a few of these relate to countries' efforts to strengthen systems, most relate to DPs' use of country systems for channeling aid.

From 2006 to 2010, little progress was made to capture DP funding in country budgets or public accounts. The share of DPs recording aid on budget increased only marginally, from 44 percent to 46 percent, falling short of the 85 percent target. Despite the target of ensuring 55 percent of aid is channeled through country PFM systems, this share rose only from 40 percent to 48 percent during the five years after the Paris agreements. Efforts to improve the predictability of aid were minimal, with only a small change (41 percent to 43 percent of DPs). Very little change has been made on "untying aid," although the target was met. Similarly, DPs reduced the use of Project Implementation Units to implement aid-funded projects, although progress was considered insufficient to meet the target (OECD 2012). This lack of progress occurred despite the improvements in the quality of the systems during this same time period (Hart, Hadley, and Welham 2015; CABRI and SPA 2008).

The use of country systems increased since 2010. Between 2010 and 2017, the share of scheduled aid channeled "on budget" increased from 52.7 percent to 57.3 percent across recipient countries. This amount represents the share of development assistance funding that was scheduled for disbursement through the public sector and recorded in the annual budget submitted for legislative approval. Use of country systems also increased over time for national budget execution procedures, financial reporting, national auditing, and use of country national procurement mechanisms, but this progress has been slow (see figure B.1).

Figure B.1: Use of country systems between 2010 and 2017

Source: OECD and UNDP 2019.



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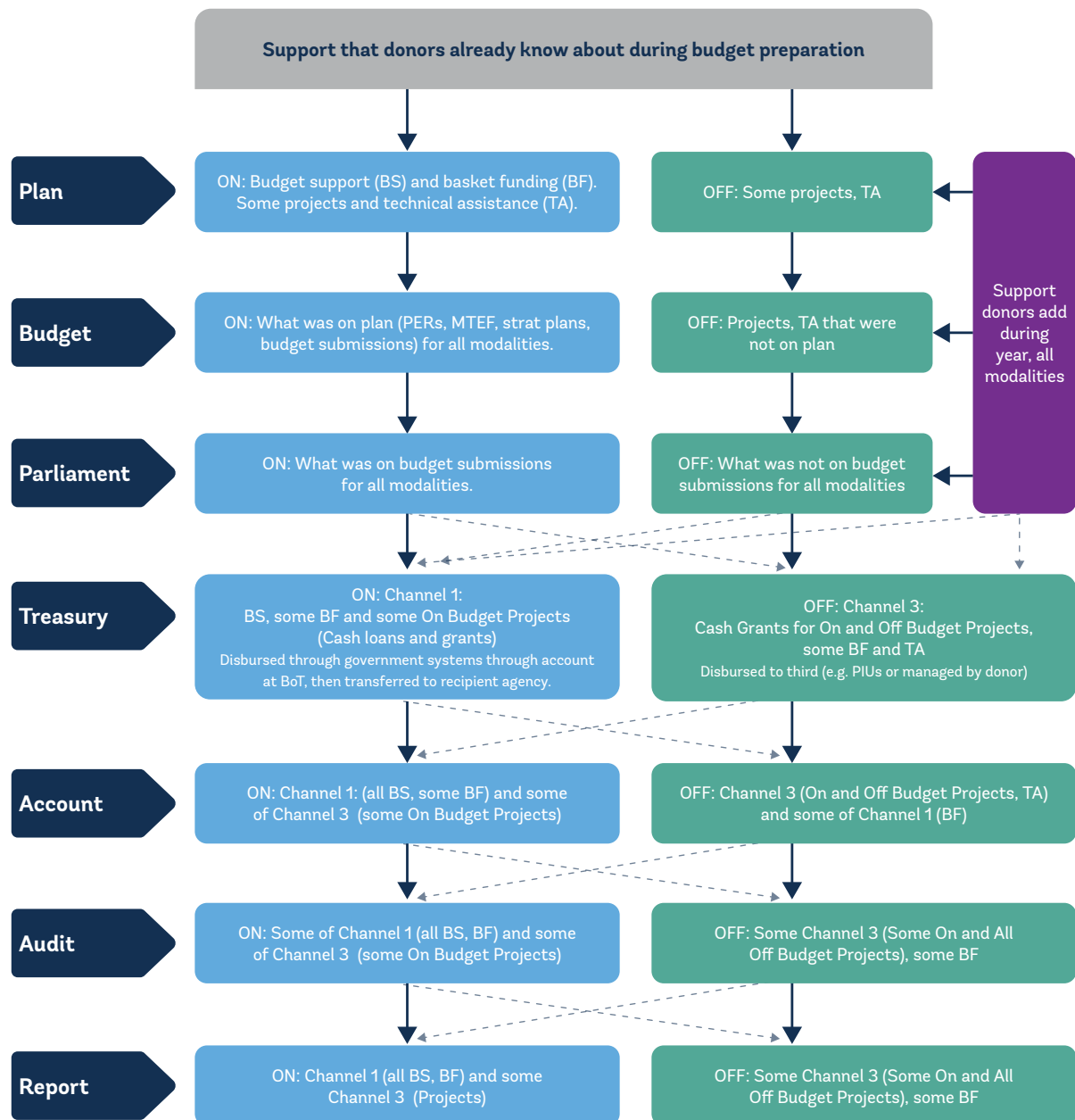
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Appendix C.

Use of Country Systems in Tanzania

Figure C.1: Use of country systems in Tanzania

Source: Fölscher, A. 2008. "Putting Aid on Budget: Tanzania Case Study." Working Paper, Mokoro Ltd, Oxford, U.K. (reprinted).



Appendix D.

Development Partner Risk Factors Affecting Use of Country Systems across Select Development Partners

Table D.1: Donor risk factors

Source: CABRI (Collaborative African Budget Reform Initiative). 2014. *Toward a Greater Use of Country Systems in Africa: Recent Trends and Approaches*. Pretoria: CABRI.

Note: AfDB = African Development Bank; DFID = Department for International Development (UK); EU = European Union; MDGs = Millennium Development Goals; PEFA = Public Expenditure and Financial Accountability; PFM = public financial management; UCS = use of country systems; UK = United Kingdom; USAID = U.S. Agency for International Development.

Donor	Risk factors assessed
World Bank	<p>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.</p> <p>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.</p>
USAID	<p>Managing fiduciary risk is very important to USAID, given accountability requirements. It has a two-phase risk-assessment process.</p> <p>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 program or project.</p>
EU	<p>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.</p> <p>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.</p> <p>The approach to the assessment is dynamic (i.e., about the direction of change).</p>

Donor	Risk factors assessed
AfDB	<p>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.</p>
UK	<p>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.</p> <p>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.</p>
Germany	<p>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 coordination framework.</p>
France	<p>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 cooperation, must also be assessed.</p> <p>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.</p>



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