Indicator Nine

Effective institutions – Country systems are strengthened and used

Indicator 9a: Quality of developing country public financial management systems

Indicator 9b: Use of country public financial management and procurement systems

Draft Assessment and Proposals

1. Introduction

Track Three of the MAG's work plan is to provide advice on the continued relevance and usefulness of the GPEDC monitoring framework to the GPEDC Co-Chairs and Steering Committee. The MAG initiated this review process at its February 2016 meeting.

In doing so, three working groups examined the ten indicators in three clusters – ownership and results, inclusiveness, and transparency and accountability. At its February meeting, MAG members contributed perspectives on the continued relevance of the indicator (in light of the SDGs and Agenda 2030), the effectiveness and efficiency of the methodology at a practical level in gathering data, and the usefulness of the indicator for GPEDC stakeholders. The draft assessment and proposals for each indicator is the result of this work. The MAG is also examining issues affecting the structure of the monitoring framework as a whole.

These documents are posted on the MAG's Teamworks web site for review and comments. Our advice will be finalized at the MAG's next meeting, June 4-6, in Paris.

Comments and suggestions are very welcome from GPEDC stakeholders. Comments can be provided on the site, or submitted to the MAG Chairperson, Brian Tomlinson (brian.t.tomlinson@gmail.com).

2. Overview

This indicator combines the Paris Declaration indicator 5a (use of PFM systems) and 5b (use of procurement systems) to offer a single composite indicator. It focuses on the use of developing countries' public financial management (PFM) and procurement systems when funding from providers is targeted to the government sector, without applying safeguard measures. National systems for the management of funds are those established in the general legislation (and related regulations) of the country and implemented by the line management functions of the government.

No particular development co-operation modalities automatically qualify as using country PFM and procurement systems. Most modalities including project support can be designed to use country PFM and procurement systems. A set of criteria is presented to help providers determine when they are, and when they are not, using country PFM and procurement systems.

Indicator 9a (quality of country public financial management systems) is assessed at the global level, based on a World Bank rating system (see the Monitoring Guide for details). Indicator 9b is assessed at the country level examining the use of these public financial management systems and country procurement systems.

Relevance Both components for this indicator seem relevant, as both come directly from the "Paris Declaration commitment to strengthen country systems at the same time as increasing their use."

Indicator nine is not only an indicator to monitor development co-operation, but may also be an indicator of the degree of a country's development. A country with strong and credible financial management systems, which are used on a regular basis both for developing co-operation and for internal financial activities, is a country on a path to development.

Indicator 9a relies on the World Bank's Country Policy and Institutional Assessments (CPIA), which some developing country partners challenge the methodology used in its assessment.[1]

Indicator 9b focuses on use national financial systems, including national procurement systems. Both are highly relevant. The latter is particularly important in an assessment of ownership and needs to be related to indicator 10 on untying aid.

In general we can say that all stakeholders can benefit from these two indicators because they send the signal both that the country is committed to a transparent financial process, and that it treats development co-operation with the same tools as its own resources. If this indicator, especially 9b is improving, then there seems to be a degree of ownership of development co-operation.

Efficiency The World Bank has a systematic way of measuring indicator 9a, which means there will be annual figures for most countries, which can be accessed by the JST. Perhaps the main problem with CPIA is that it assesses financial management systems with elements such as comprehensive, credible, effective, which are rather subjective. Nevertheless, the MAG believes there might not be an alternative dataset on these systems with a global scope.

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[1] Within the CPIA, this indicator uses criteria that "assesses the extent to which there is: (a) a comprehensive and credible budget, linked to policy priorities; (b) effective financial management systems to ensure that the budget is implemented as intended in a controlled and predictable way; and (c) timely and accurate accounting and fiscal reporting, including timely audit of public accounts and effective arrangements for follow up."

Unlike indicator 9a, each partner country reports indicator 9b on the use of financial systems. This approach may have the problem of comparability between countries, but since the main idea of the monitoring exercise is improving and not ranking, then self- reporting may be fine.

Usefulness If the indicator 9b can be measured properly, then this indicator seems useful for all development stakeholders. An improvement of both indicators shows that the country is improving its financial management systems, which is both a sign of better financial practices (which may also be a sign of better development) and a better practice in treating development co-operation the same way as the domestic budget is treated. Indicator 9b can also reflect the case that the recipient country has a certain degree of ownership of development co-operation.

3. Key Issues and Challenges

a) **Coverage of middle income countries in indicator 9a** The fact that this indicator takes only one criterion from the CPIA (13) reinforces a GPEDC Monitoring Framework which is focused still on countries that are heavily dependent on aid, mainly LICs, and was designed for donor - recipient country relationships. It could be interesting to assess if other criteria of the CPIA could be included so as to capture in a broader way the effectiveness of the institutional system, which may be more relevant to middle-income countries.

b) **Failure of CPIA to address transparency** While the CPIA criteria are highly relevant to setting the context for providers' use of country systems, they do not address the question of open and transparency budgets, essential to accountability. The explicit inclusion of open and transparent budgeting as suggested for indicator six (aid on budget) would add this essential element to the GPEDC monitoring process.

c) **Should all resources for government be channelled through country systems**? The MAG understands why it is desirable to channel development co-operation through country systems. However, many partner countries might not want to channel every development co-operation flow through their public financial management and procurement systems, especially technical cooperation. In many cases, the reasons could be flexibility, rapidness in the use of funds and efficiency rather than fear of the risk of corruption. For many middle-income countries, flexibility and close collaboration with government officers are key elements in the success of the development co-operation relationship, and the rigorousness of domestic financial process increases the burden and reduces the agility in the use of funds.

d) **Are providers using partner country procurement in untying their aid**? There is substantial evidence that formal untying of aid does not translate into aid under the management of developing country partners, including their procurement systems. A 2010 OECD DAC study revealed that 88% of 54 aid contracts expended by the UK were awarded to UK companies, despite a policy to fully untie UK aid. The overall DAC average in this study was 60%.[2]

e) Access to accurate data Similar to MAG concerns with indicators 1 (ownership and results) and 6 (aid on budget), a potential problem may be that countries may not have the discipline to record the required information in a systematic way. The main problem might be for middle-income countries, where aid received is not as important proportionately as it is for low-income countries. This problem is especially important since the monitoring exercise is voluntarily. If this is the case, then indicator 9b may not reflect the actual use of financial systems on development co-operation.

4. Steps Forward

a) Include measurements of open and transparent budgets While the CPIA elements are highly relevant to setting the context for aid providers' use of country systems of indicator 9.a, the explicit inclusion of open and transparent budgeting would add this essential element to the GPEDC monitoring process.

b) Take account of possible alternatives to the CPIA The Collaborative Africa Budget Reform Initiative, CABRI), will be issuing a new way to measure the quality of financial institutions. This approach may present a good substitute or complement to the CPIA.

c) Questions to providers on procurement practices Indicator 9.b, with respect to procurement, could be improved with a set of questions to aid providers, including a question on the percentage of procurement contracts awarded within the provider's country and within other OECD countries, broken down by type of aid modality – grants, loans, blended finance etc.

d) Make provision to capture development cooperation flows that may not go through country financial management systems As with indicator 6 (aid on budget), it is a fact that not all developing co-operation goes through official financial and budget systems, some for legitimate reasons. But it is also true that countries have or can have alternative transparent mechanisms that capture all types of aid flows, such as planning systems, aid management systems, both at the planning ministry or at sectorial levels. All flows should be captured through these systems, if not the financial management system.

e) Develop a methodology for assessing partner country monitoring and evaluation systems Budgeting for development and development cooperation not only requires good accounting and financial systems to make it transparent and credible, it also needs a

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[2] See Clay, Geddes and Natali, Untying Aid: Is it Working? ODI, February 2009, page 17, accessed at http://www.oecd.org/development/evaluation/dcdndep/44375975.pdf.

constant monitoring and evaluation process to make sure these resources are improving development. An important suggestion for indicators relating to ownership and results is a methodology to assess the quality and use of internal Monitoring and Evaluation systems in recipient countries, which would be useful both for assessing development co-operation and for improving the country's institutional practices.

Often in development co-operation the provider is the institution responsible for evaluating the projects or strategies. It would be much better if internal monitoring and evaluation (M&E) systems within recipient countries were developed, to assess not only development co-operation, but the whole budget in general. Therefore, the MAG suggests that in future monitoring rounds indicators on M&E internal systems will be important.