CABRI
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CABRI response to the Accra Agenda for Action
Using Country Systems

Effective cooperation is premised on shared objectives and mutual interest, relationships of trust, transparent practices and sharing of information, clear frameworks for responsibility and accountability, and long term investment by both parties in terms of resources and capacity. The intentions underpinning the Paris Declaration speak of a mutual partnership where both developing countries and donors are encouraged to move towards the above ideal.

The commitments in the declaration reflect a consensus that aid effectiveness is critically dependent on countries owning and driving their development agendas and leading the management of Official Development Assistance (ODA). An integral part of ownership is aligning ODA to developing country development strategies, institutions, systems and procedures.

The 2008 Survey on Monitoring the Paris Declaration provides us with evidence that only 43% of ODA flows through partner country systems, suggesting that considerable progress still needs to be made in meeting the 2010 target (85% of aid recorded on budget) set out the declaration. In light of these results, the Accra Agenda for Action (AAA) presents a set of actions for both developing countries and donors in accelerating progress.

The AAA, an outcome of the Third High Level Forum held in Accra in September 2008, urges donors to use country systems as a first option, based on mutually agreed diagnostic assessments of the strength of country systems. Where this is not possible, donors must consider safeguards and measures that strengthen rather than undermine these systems. Developing countries are urged to define reform priorities and programmes which will strengthen country systems, while donors are encouraged to develop plans which provide their organisations with guidance on and incentives for using country systems. Lastly, donors are required to channel 50% or more of government to government assistance through country fiduciary systems, including through the increased use of programme-based approaches.

Since 2007 CABRI has undertaken a number of exercises which provide depth to the network's thinking on using country systems. The network's response to the using country systems element of the AAA – encapsulated in this Brief – therefore draws on the practical experience of senior budget officials to ensure that using country systems reap the desired benefits.

CABRI's contribution to Using Country Systems

CABRI's contribution to the Third High Level Forum's regional consultations on alignment and the use of country systems is particularly the analytical distinctions it has drawn with regards to the management of aid in the budget cycle and is based on its growing understanding of how these distinctions can contribute towards improved aid effectiveness on the ground. Key inputs into CABRI's contribution are the joint CABRI/SPA Putting Aid on Budget study, the proceedings of its 4th Annual Seminar in December 2007, discussions amongst member countries and country level work conducted by CABRI and the Government of Rwanda.[1]

The Putting Aid on Budget study presents an analytical framework which depicts six dimensions of putting aid on budget. The dimensions follow the phases of a policy and budgeting cycle, as presented in Box 1. The study found that different aid programmes or projects make use of country systems in any one or any combination of these budget phases. In practice therefore bringing aid on budget does not imply that all country systems should be used at once: countries can make measured progress towards integrating aid onto budget as is appropriate and possible.

The Aid on Budget framework highlighted for CABRI's participating countries the importance of not associating bringing Aid on Budget with budget support. All forms of aid should and can be brought on budget in one or more of the dimensions.

In this regard, terminology and country level rules associated with specific terms were an important consideration at CABRI's 4th Annual Seminar. The seminar discussions highlighted that the definition of aid instruments used by certain counties could in fact prevent all flows of aid coming on budget and/or misrepresent aid flows. For example, in Mali and Ghana project support by definition is off-budget. At the same time Mali's definition of sector budget support consists of funding for specific line items allocated separately to domestic resources. In other countries such earmarked flows would be viewed as project aid. The session concluded that aid instruments should not be designed to be off-budget by nature given the development risks of separating the planning, budgeting and reporting processes of

Box 1: Different dimensions of 'on budget'/capturing aid

TERM[2]	DEFINITION
On plan	Programme and project aid spending is integrated into spending agencies' strategic planning and supporting documentation for policy intentions behind the budget submissions.
On budget	External financing, including programme and project financing, and its intended use, are reported in the budget documentation.
On parliament (or 'through budget')	External financing is included in the revenue and appropriations approved by parliament.
On treasury	External financing is disbursed into the main revenue funds of government and managed through government's systems.
On accounting	External financing is recorded and accounted for in government's accounting system, in line with government's classification system.
On audit	External financing is audited by government's auditing system.
On report	External financing is included in ex post reports by government.

Source: CABRI/SPA Putting Aid on Budget Study

these flows from those of government programmes. It is possible for all modalities, including project aid to use different aspects of country systems. One key consideration for putting project aid 'on-treasury' is that government accounts should be able to show comprehensively all sources of funds as well as all uses of funds. Therefore systems and processes are needed to integrate aid at the various stages of the budget cycle, notwithstanding specific aid modalities and donor requirements.

CABRI's country level work further confirmed that clear distinctions between different aid modalities and how they are treated in the budget cycle are important. It has shown that developing countries need to consider relevant criteria for determining when aid should be on the various dimensions of the budget cycle. In the case of Rwanda, the Government defined that it would only include aid on parliament – i.e. parliament approves aid as part of the finance law -- when it has sufficient control over the use of the aid to be held to account. Where that control is lacking, aid to the government sector should only be 'on budget' – i.e. reported in documentation accompanying the finance law – which will ensure its inclusion on plan and make its flow transparent to parliament.

The work in Rwanda also illustrates how important a thoughtful and well managed interface between country aid and public finance management systems is for the quality of aid information and the integration of aid on budget. Pushing for comprehensive and timely information on the disbursement and use of funds is an important part of putting aid on budget.

A further important distinction is between reporting aid in government documentation and integrating aid properly in government planning and budgeting processes. The Putting Aid on Budget study identifies three factors which determine whether reporting on or integrating aid into national budget processes will have the desired effects. These are a) the quality of the aid information captured; b) the ability to make use of the information; and c) the quality of the information and processes related to non-aid resources. If aid is merely reported in budget planning and reporting documentation in the absence of one or more of these factors, significant development and fiduciary risk still remains for the partner government in question.

CABRI's Response to the Accra Agenda for Action (AAA)

CABRI recognises the important role that development assistance can play in strengthening institutions and systems, building capacity and financing resource needs. These are all means to improving service delivery and, ultimately the living standards of the poor. Furthermore, CABRI welcomes international efforts to support developing countries in taking the lead and driving their own development agenda. Ownership and alignment are interdependent principles that cannot be divorced in implementation. The long run benefits of alignment should be seen in the light of reducing aid dependency, increasing domestic revenues and improving debt sustainability positions.

CABRI firmly believes that developing countries must drive the policy-making agenda based on credible processes. This is our commitment to the mutual partnership. Without credible government planning, budgeting, accounting, auditing and reporting processes it is difficult for Governments to lead inclusive policy dialogues and to make systematic use of donor information.

Essentially, the AAA represents a positive compromise reached between a broad spectrum of donors and developing countries in order to take steps towards improved aid effectiveness. The AAA firmly places the use of country systems on the agenda, thereby reemphasising that it is a critical part of alignment to partner country strategies and of ownership. CABRI presents some views below of how the five action areas on Using Country Systems can be applied to achieve maximum impact, drawing on its own learning in this regard.

The use of country systems should not be applied as a blanket approach.

Not all donors will use all dimensions of all countries systems in the near future, and it may not be appropriate, realistic or even in the interest of developing countries to expect them to do so.

The use of country systems is a means, not an end. We must be cautious not to encourage thinking that focuses on the means only and blindly pursues procedures aimed at increasing scores on the Paris Declaration commitments. The important question when deciding on how an aid flow should be managed remains: Will channelling this aid through this particular system make it more effective, and/or will it lead to a better allocation and management of public funds (domestic and external) in the medium to longer term?

A more nuanced approach during implementation should reflect developing country choices about how developing countries wish to manage their own fiduciary and development risks. Key considerations are the sequencing of how countries wish to strengthen their systems and, when aid should be on budget in any dimension and when it should not.

A developing country also faces risks in integrating aid into country systems.

The report on the use of country systems in PFM speaks only of fiduciary, development and reputational risk for donors in using country systems. Developing countries also face risk, including fiduciary and development risks when integrating aid into country systems. For example:

- unreliable and unpredictable aid flows reduces the credibility of a government's budget process. This is a fiduciary risk for developing countries. Increasing in-year and multi-year predictability are important related actions in the AAA.
- unreliable and incomprehensive donor aid information poses a development risk for developing countries, where it is not possible to track and report accurately on the disbursement and use of aid that flows outside of partner country treasury and procurement systems.
- the benefits of channelling aid through treasury and procurement systems do not always outweigh its cost, in particular for small, multiple short-term projects.
- information not provided in time with a government's planning and budgeting cycles presents both a fiduciary and development risk.

Greater emphasis should be placed on the upstream elements of the budget cycle: planning, budgeting and parliamentary approval.

There is a strong emphasis on the downstream elements of the budget cycle when donors are encouraged to channel 50% or more of government to government assistance through country fiduciary systems. This is reflected in the way the indicators are separated out and balanced in the Paris Declaration where indicator 3 refers to aid on budget and indicator 5 to the downstream systems. It is indicator 5 which bears the title 'use of country systems':

The use of country systems for planning and budgeting for aid is of immediate developmental interest to countries. Separating out planning and budgeting from fiduciary systems and focusing on fiduciary systems to make progress, detracts from the importance of the upstream dimensions for partner countries as well as from the interdependence of different phases in the budget cycle for spending effectiveness. Most damaging, it encourages the use of fiduciary systems over and above planning, budgeting and reporting systems.

To drive the development agenda, governments must determine the allocation of both domestic and external resources on the basis of their priorities. Not reporting or integrating aid into countries' planning or budgeting is a development risk. Without a comprehensive view of what is happening in a particular sector, developing countries cannot assess where resources are being targeted or whether domestically financed programmes duplicate or complement aid programmes.

Therefore, aid programmes and projects need to be subject to the same budget scrutiny as government projects, and this may mean that certain aid programmes and projects are redefined or not undertaken.

Putting aid on plan and on budget does not represent any fiduciary risk to donors, but is vital for aid effectiveness and the effective use of partner countries' own resources.

Developing countries have a much stronger role to play in determining whether and where aid should be integrated into the various dimensions of a country's policy and budgeting cycle.

Currently, the AAA places the onus on donors to use country systems. The role of the developing countries is limited to strengthening country systems and engaging in joint assessments of these systems. CABRI proposes the following additional requirements: developing countries must also manage their fiduciary and development risks by i) defining the relevant criteria and terms for including aid into the various dimensions of the budget cycle and ii) determining which systems they wish to strengthen first.

The AAA urges countries to strengthen their PFM systems and their aid management systems, but says little about how these are integrated. Mostly the focus in the AAA is on PFM systems, but alignment requires countries to develop robust systems and processes to integrate aid, not just to manage public resources well.

The use of country systems is an important element of the aid effectiveness agenda, and is strongly related to the work of a senior budget official in the Ministry of Finance. We have a strong role to play in ensuring that country systems are robust, not only for the management of aid resources, but more importantly for the sustainable management of our own domestic resources. Understanding the nuances of using country systems will prevent a blanket procedural application of the AAA and will ensure that the benefits outweigh the costs for developing countries.

Notes

1 The Third High Level Forum consultations included a meeting of the OECD-DAC's Joint Venture on Public Financial Management hosted by CABRI in May 2008.

2 'On procurement' is an additional dimension which was not included in the scope of the study but is an important element of using country systems.

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Collaborative Africa Budget Reform Initiative

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