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Mid-term Evaluation of IDB-9 Commitments

Country Systems

Background Paper

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ABSTRACT

The Inter-American Development Bank (IDB, or Bank), in its Ninth General Capital Increase (IDB-9), committed to improve country systems in order to increase their use in programs financed by Bank resources. This report examines the implementation of that commitment. It assesses the Country Systems Strategy developed in late 2009 for that purpose, the quality of the fiduciary assessments that underpin the opportunities for increasing the use of country systems by the Bank, and the new organizational arrangements. It then reviews the progress since late 2009 in implementing the Strategy in the three main areas of financial management, procurement, and monitoring and evaluation (M&E), and identifies major issues.

The Country Systems Strategy is sound and addresses effectively the main factors that have constrained the increased use of country systems in the past. Overall, progress in implementing the fiduciary aspects of the Strategy has been satisfactory. Often, the use of fiduciary country systems is demand-constrained—with government officials seeing IDB procedures as a guarantee of integrity and a way to minimize reputational or corruption risks (as well as limit personal exposure). The reluctance of some governments to accept the responsibility of relying on their national systems should lessen as the initial good experience continues.

In contrast to the fiduciary systems, progress on strengthening and encouraging the use of national M&E systems in Bank-financed activities was either minimal or quite unrelated to the Country Systems Strategy. The Bank's arrangements for handling this important area of work ought to be reviewed for stronger leadership and clearer accountability.

Among the several suggestions, the most important concern the essential integration between the function of diagnosis/validation of specific country systems, and the projects and other activities to strengthen public management; addressing the risk of slippages and reversals; and achieving the right balance between the Board's governing authority and Management's flexibility. The report concludes by underlining the need to avoid giving the impression that a move to country systems is a quick, costless, and riskless proposition—which would risk backlash and backtracking when the validation and subsequent use by the Bank of a particular national system is not accompanied in a very short time by improvements in project efficiency.

PREFACE

The Inter-American Development Bank (IDB) is in a period of rapid change, responding to both the economic dynamism of the Region it serves and the increasing competition in the international financial marketplace. Over the past decade, countries in Latin America and the Caribbean have gained greater access to alternative sources of finance and an increasingly ability to generate and share knowledge among themselves. Like other multilateral development banks, IDB is seeking to adapt to this changing international landscape by ensuring that it is responsive to borrowing countries' needs and putting strong emphasis on effectiveness in its use of scarce resources.

In 2010 the IDB's Board of Governors approved the 9th General Capital Increase of the IDB (IDB-9). The IDB-9 Agreement laid out a series of reforms intended to strengthen the strategic focus, development effectiveness, and efficiency of the IDB to help it remain competitive and relevant in the years ahead. As part of that Report, IDB's Office of Evaluation and Oversight (OVE) was charged with conducting a midterm evaluation—to be presented to the Board of Governors in March 2013—to assess IDB's progress in implementing those reforms. The full evaluation is available at www.iadb.org/evaluation.

This paper is one of 22 background papers prepared by OVE as input to the IDB-9 evaluation. It seeks to determine whether one portion of the IDB-9 requirements have been implemented fully and effectively and to offer suggestions to strengthen implementation going forward. The overarching goal of this paper and the entire evaluation is to provide insights to the Governors, the Board, and IDB Management to help make IDB as strong and effective as possible in promoting economic growth and poverty reduction in Latin America and the Caribbean.

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This background paper was produced by a team comprising S. Schiavo-Campo, Laura Atuesta, and Agustina Schijman, under the guidance of Monika Huppi. All background papers were thoroughly reviewed and discussed within OVE and shared with IDB Management for comments. The other background papers and the full IDB-9 Evaluation can be found at www.iadb.org/evaluation.

ABBREVIATIONS AND ACRONYMS

CPAR	Country Procurement Assessment Report
FM	Financial management
FMM	Fiscal and Municipal Management Division
FMP	Operations Financial Management and Procurement Services Office
HMIC	Higher-middle-income country
ICB	International competitive bidding
ICS	Institutional Capacity of the State Division
IDB	Inter-American Development Bank
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
MDB	Multilateral development bank
NCB	National competitive bidding
PEFA	Public Expenditure and Financial Accountability initiative
PET	PRODEV Evaluation Tool
PIU	Project implementation unit
PRODEV	Program to Implement the External Pillar of the Medium-Term Action Plan
RICG	Inter-American Government Purchasing Network
SPD	Strategic Planning and Development Effectiveness Office
SMO	Strategy Monitoring Division

EXECUTIVE SUMMARY

The term *country systems* refers to all national norms, regulations, procedures, and structures for the management of the public sector. Country systems include “fiduciary” and “development effectiveness” systems. Fiduciary systems are those for procurement and financial management, and development effectiveness systems are those for strategic planning, monitoring and evaluation, statistics, and environmental and social safeguards. The Country Systems Strategy of the Inter-American Development Bank (IDB, or Bank) covers the fiduciary systems of procurement and financial management, and, among the development effectiveness systems, planning and monitoring and evaluation (M&E).

The IDB-9 commitments and the Country Systems Strategy

In the framework of its Ninth Capital Increase (IDB-9), the Bank confirmed its commitment to strengthen national systems and to increase their use in Bank-financed operations, in accordance with the path set out in the strategy on use of country systems approved by the Board in 2010. In parallel, the Bank committed to move toward the use of a risk-based fiduciary supervision system. The strategy combines uniform international standards for procurement and financial management (FM) with a demand-driven and country-tailored approach to advance toward those standards, and rests on two pillars: (i) a distinction between the “strengthening” country systems focus and the ‘use” of country systems focus, with strengthening activities done mainly with a view to moving toward “validation” of greater use of those systems in Bank-financed projects; and (ii) the main components of complex systems are unbundled and reinforced and monitored separately. The strategy commits the Bank to work toward the increased use of country systems in all 26 client countries rather than only the most advanced.

The strategy thus addresses effectively the two main constraints to increasing the use of national systems in donor-financed activities. The Bankwide validation resolves the problem of asymmetric incentives within the Bank and alters the personal risk calculus of individual team leaders and managers, who might otherwise lean toward staying with the tested IDB procedures. The unbundling approach allows making pragmatic and country-specific distinctions, which open up opportunities for step-by-step improvements, and also turn the relationship between Bank staff and country authorities in a collegial rather than confrontational direction.

Organizationally, the three divisions directly concerned are Operations Financial Management and Procurement Services (FMP), Institutional Capacity of the State (ICS), and Fiscal and Municipal Management (FMM). Also concemed, for M&E, is the Strategic Monitoring Division (SPD/SMO). FMP is primarily responsible for the procurement and FM assessments and for proposing validation of country subsystems for use in Bank operations. FMM and ICS are responsible for all projects and sizable activities to strengthen public management capacity in the countries. The division of responsibility is clear, but implies the need to ensure inter-unit cooperation.

Implementation progress

Every Country Strategy approved since 2009 addresses country systems issues and includes a fiduciary assessment, which diagnoses the country situation and sets out directions for medium-term improvement. The fiduciary assessments are consistent with the thrust of the Country Systems Strategy and in general are technically sound, with relevant analysis and concrete recommendations. For the short term, the Strategy listed a number of "expected results" by end-2012 in FM, procurement, and planning and M&E. In this process-intensive area, where progress depends in part on country demand, the substantive implications of specific quantitative results are limited. Nevertheless, the results expected by end-2012 are reviewed below.

Financial management

The first expected result, completing FM assessments in all countries, has been in substance fully met. The second expected result concerned the actual increase in the proportion of Bank projects that use the national FM subsystems of accounting/financial reporting and external audit: the expectation was that 40% of Bank projects would use these two subsystems by end-2012 (compared to a 2009 baseline of 15% and 19%, respectively). As of end-June 2012, progress had been made in the use of accounting systems in Bank projects, progress in the use of reporting systems was slight and almost no progress had been made in the use of external audit systems. Overall, the second result expected in FM for end-2012 will not be met. Reflecting the country-focused, country-tailored approach of the Strategy, the increase in use of country systems differed substantially among countries, with the largest increases registered in Barbados, Dominican Republic, Guyana, Honduras, Jamaica, and Mexico.

Procurement

The Bank defines "use of country procurement systems" as applying to contracts under national competitive bidding (NCB) procedures, and thus below the thresholds for international competitive bidding (ICB). The ICB thresholds are different for procurement of works, goods, and consulting services, and vary widely between countries (correlated with the country's market capacity, and thus indirectly with country size and per capita income). In 2011, 92% of IDB-financed contracts, amounting to 32% of the value of all Bank-financed contracts, were below the ICB thresholds.

The first two of the results expected for 2012 were achieved: the number of procurement assessments envisaged is almost certain to be completed on schedule, and a large variety of concrete actions to strengthen countries' procurement systems have been taken or are in progress. The third expected result is the most important, entailing at least partial use of procurement systems in 15 countries. With Bank projects using procurement subsystems in one country as of November 2012, and several other requests in process, the expected result is likely to be achieved. This, however, is not in itself an indication of impact, as certain subsystems (e.g., price comparison) are less important than others. Beyond the specific numeric results expected, a stronger indicator of progress is the Bank's validation of the overall procurement system of major countries—Chile in

December 2010, and Mexico, Brazil, Colombia and Ecuador imminently. Another positive indication for the future is the higher-than-expected number of country requests for Bank support and the eventual validation of one or more procurement subsystems.

Fiduciary risk-based supervision

Fiduciary risk-based supervision is a key part of a broader Bankwide initiative to improve Bank services for greater development effectiveness. Pursuant to the IDB-9 commitment, the Risk Management Guide of December 2010 established principles and set detailed guidelines for the management of risk in Bank projects. The identification and monitoring of fiduciary risks are viewed as critical factors for project supervision, and the guidelines help staff determine on a continuous basis which risks must be managed and how they can be mitigated. During project preparation, the project team carries out a fiduciary risk assessment, including an evaluation of the executing agency's institutional capacity. The assessment yields an initial fiduciary risk level, which determines the intensity and focus of supervision: high-risk projects call for more detailed and hands-on supervision of procurement transactions, financial disbursements, and audit.

Certain concerns about the implementation of this model have emerged: procurement risks are identified at the design stage but not always recorded; the relative responsibilities of project team leaders and procurement staff remain unclear in practice; and the process of procurement certification of staff has been very slow (although it accelerated late in 2012). However, there is a consensus among staff that the focus on results has increased and transaction costs have come down. Overall, the initial implementation of the fiduciary aspects of the model has been moderately satisfactory. With the reform still recent, more time needs to pass before it will be possible to find evidence of impact on project efficiency and development effectiveness.

Monitoring and evaluation

Bank efforts to help member countries develop their own capacity to monitor and assess the process improvements and the outputs and outcomes of governmental activity have been scattered and largely ad hoc. This may be partly the result of a lack of clear ownership of the M&E capacity-development agenda within the Bank. In M&E, the results expected for 2012 are ambiguous or insufficiently meaningful in terms of fostering the Bank's use of national M&E systems. One useful metric of the status of M&E systems in the countries is provided by the PRODEV Evaluation Tool (PET) survey, which includes M&E as a major module. (The second survey was launched in June 2012.) However, the relevance of such macro-level results for the use of country M&E in Bank projects is slight and very indirect.

Conclusions and suggestions going forward

The Country Systems Strategy is sound, although it will be useful in 2013 to take a fresh look at it in light of experience, to fine tune it and clarify certain aspects. The evidence indicates that the implementation progress of the fiduciary aspects of the strategy has been generally satisfactory, particularly in procurement. Often, the use of fiduciary

country systems is demand-constrained: government officials see IDB procedures as a guarantee of integrity and a way to minimize reputational or corruption risks (as well as limit personal exposure). Greater use of country systems in Bank projects thus depends in part on whether governments overcome a reluctance to accept the responsibility and risk of relying on their national systems, for the sake of developing their public management capacity. This reluctance should lessen as the initial good experience continues.

In contrast to the fiduciary systems, progress on strengthening and encouraging the use of national M&E systems by the Bank was either minimal or quite unrelated to the Bank country systems agenda. The Bank's arrangements for handling this important area of work should be reviewed for stronger leadership and accountability.

The report advances a number of suggestions that flow from the findings; the most important are the following.

- It is critical to ensure the fullest possible coordination between the diagnosis/validation function and the operational function—and thus among the three divisions directly involved. This could be achieved through an expansion of the FMP fiduciary notes and profiles into "public expenditure management" notes and profiles, jointly produced among FMP, FMM and ICS. Also, while the small activities conducted by FMP to support specific improvements in subsystems have so far been appropriate, in the future the list of activities and associated financing should be formally agreed and cleared with by FMM and ICS.

- The risk of slippages and reversals after a national system has been validated for use in Bank projects is already in part addressed by the conditions and specific understandings associated with validation proposals. In addition, it would be useful to consider limiting future validations to a specified period of years, after which they would be automatically renewed for subsequent periods barring major slippages and reversals. Also, beyond the need to allow Management flexibility to decide on appropriate indicators and technical procedures, the Board may wish to consider authorizing Management to validate a country procurement system, subject to ex post ratification by the Board, as is already done for the use of FM systems.

- Finally, it is important to avoid generating the impression that a move to country systems is a quick, costless, and riskless proposition, requiring only a thorough process of diagnosis and a sound validation decision. In the use of country systems, the time distribution of costs is inherently different from that of the benefits in terms of national capacity development—and thus for long-term aid effectiveness. It is conceivable that during an initial period enhanced use of country systems may cause some delays and a temporary dip in efficiency. This should not in itself be cause for concern. Indeed, the Bank would do well to dampen expectations of quick efficiency gains to prevent disappointment and a weakening of the overall effort toward greater use of country systems.

I. INTRODUCTION

1.1 The term *country systems* comprises all national norms, regulations, procedures, and structures for the management of the public sector, at the national and subnational levels of government. Typically, country systems include the following areas of public management: government procurement and financial management (the fiduciary systems that are required for compliance with the budget and accountability for public moneys); and strategic planning, statistics, monitoring and evaluation, and environmental and social safeguards (the systems needed for development effectiveness).[1]

A. The Paris Declaration and its aftermath

1.2 In 2005, international aid institutions and recipient countries signed the Paris Declaration on Aid Effectiveness, committing to work to improve the effectiveness of aid by, among other things, strengthening and using country systems. Soon thereafter all the multilateral development banks (MDBs) unified their procurement procedures, eliminating a major source of confusion, misunderstandings, and transaction costs. The year 2005 also saw the start of the multidonor Public Expenditure and Financial Accountability (PEFA) assessments, based on a new approach that helped remove duplication of financial management assessments and sharply reduced transaction costs on the countries.[2] In procurement, the Inter-American Development Bank (IDB, or Bank) originally acted as peer reviewer of the World Bank's Country Procurement Assessment Reports (CPARs) in Latin America and the Caribbean (LAC), then as full partner after 2005, and as lead agency in some assessments after 2007; since 2009 it has conducted all of its own fiduciary assessments, although still in close cooperation with the World Bank.[3]

1.3 The PEFA and CPAR assessments show that, in contrast with the progress in harmonizing donor procedures, progress has been lagging on the Paris Declaration commitment to increase the use of country systems. For project leaders and managers, the incentives are skewed against using national systems: any capacity-development benefit would become visible only in the longer term, whereas they would be held responsible for possible adverse short-term impacts or unforeseen consequences. Another source of bias against greater use of country systems is the fact that the choice has often been presented as a binary one—either to accept a country system for use in the donor's projects or to reject it in its entirety. Donors' assistance and support for improving local capacity and

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[1] While personnel management and the organizational arrangements of government are also key components of public administration, they are not usually included in *country systems*.

[2] Allen, Schiavo-Campo, and Garrity, 2004.

[3] No problems or disagreements have emerged, and the action plans associated with the assessments in each country assign clear responsibilities to the two institutions.

strengthening various types of country systems did not, therefore, lead to greater use of those systems in the donor-financed projects themselves. The Bank in particular had a variety of activities before 2009 to help improve procurement and financial management in member countries, but they were largely *ad hoc*.

B. The IDB-9 requirements

1.4 Against this background, in 2010 the Board approved the Strategy for Strengthening and Use of Country Systems (GN-2538). The strategy advocates a demand-driven, gradual, and country-by-country approach.

1.5 The IDB-9 document further committed the Bank to increase the use of country systems:

- The Bank's framework to improve and use country systems sets clear standards that allow for greater reliance on these systems in programs financed with Bank resources.

- The Bank's prior review of a country system will allow it to become the normal channel to deliver resources for development purposes.

- The Board of Executive Directors will receive this review for their validation of the compliance of the system with international standards.[4]

- The strategy for country systems is complemented by the Bank's new fiduciary supervision model that focuses on managing risks. The model establishes a set of principles for performance of the following fiduciary functions: (i) support and strengthen alignment with country fiduciary systems, (ii) increase effectiveness and efficiency, (iii) manage fiduciary oversight with the objective of achieving development results, (iv) reduce transaction costs, and (v) provide value-added services in implementing fiduciary supervision to the benefit of the Bank's clients."[5]

1.6 This evaluation reviews to what extent and how effectively the Bank has implemented these commitments in this initial period.

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[4] AB-2764, para. 4.19.

[5] AB-2764, para. 4.20.

II. METHODOLOGY

A. Scope

2.1 The scope of the evaluation is limited to the two fiduciary systems (procurement and financial management) and, among the nonfiduciary systems, strategic planning and monitoring and evaluation (M&E).[6] The report does not review the portfolio of activities or the performance of the projects managed by the divisions primarily concerned with operations to strengthen country systems (Fiscal and Municipal Management, or FMM, and Institutional Capacity of the State, or ICS), but underlines the need for coordination and linkages between these divisions and the Financial Management and Procurement division (FMP), which is responsible for setting the standards for the Bank's use of country fiduciary systems.

2.2 The Country Systems Strategy and operational guide were formulated in October 2009 and approved in early 2010. Thus, activities under the Strategy cover about 30 months so far—too short a period to permit an assessment of actual impact. Moreover, attribution would be challenging, as so much depends on each country's own efforts, external conditions, and the contributions of other donors. However, it is possible to comment on the strategy itself, evaluate implementation progress so far, and discuss the likelihood of further progress and eventual impact.

B. Main evaluation questions

2.3 The report addresses primarily the following questions:

- Is the Country Systems Strategy coherent and relevant to aid effectiveness and the development challenges in the Region?
- In particular, is the emphasis on international best practice consistent with the demand-driven and country-tailored approach?
- To what extent has the Strategy been implemented, and what have been the results in each of its three components?
- What are the prospects for further implementation progress, and how well is the IDB positioned to pursue this agenda in the future?
- What progress has been made on the implementation of the fiduciary risk-based supervision model?

C. Approach and sources of evidence

2.4 The evaluation rests largely on review of documentation and structured interviews and, for the higher-middle-income countries (HMICs), includes pertinent information obtained from field visits undertaken in the context of a parallel OVE evaluation.

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6 A separate background paper reviews environmental and social safeguards.

2.5 The relevant documentation included the basic country systems strategic and operational documents, procurement reviews, PEFA assessments, and the IDB's own fiduciary assessments. Interviews were conducted with staff responsible for financial management (FM), procurement, and M&E, both in Washington (FMP, ICS, and the Strategic Planning and Development Effectiveness Office, or SPD) and in some country offices, as well as a number of government officials[7] (a list of interviewees is attached at the end of the document).

2.6 The conduct and focus of the interviews were similar for FM, procurement, and M&E, taking as the platform the Bank's Strategy for Country Systems. However, the different status of the three agendas (and the IDB's new leading role in procurement in the Region) meant that the majority of time and attention was devoted to procurement. Complementary information on the handling of these issues in other MDBs was sought through review of appropriate documents and contacts with selected staff.

III. FINDINGS

A. Strategy for strengthening and use of country systems

1. The approach

3.1 While the Strategy recognizes that all national systems—including environmental and social safeguards and, statistics—are important for development effectiveness, it gives priority to FM, procurement, planning, and M&E. Both FM and procurement relate to the narrow definition of fiduciary risk—the risk that the government budget is not executed in conformity with the approved budget. Inclusion of M&E meets the broader definition of fiduciary risk, which adds to mere compliance with the approved budget the requirement that public spending also be efficient and effective.

3.2 The strategy combines uniform international standards for procurement and FM with a demand-driven and country-tailored approach to advance toward those standards—with the objective of "validating" country systems for use in Bank projects. The underlying theme of the strategy is to achieve the right balance between fiduciary risk and long-term capacity building, and it is built on two pillars:

- A distinction between the "strengthening country systems" focus and the "use of country systems" focus. The two are closely interrelated, however: strengthening activities are undertaken mainly with a view to moving toward greater use of those systems in Bank-funded operations.

[7] A separate evaluation of the relations between the Bank and 10 HMICs focuses on the Bank's response and adaptation to the changing needs of these more advanced countries, including the use of national systems.

- Fostering "best practice" in accordance with international standards while at the same time recognizing that progress must be gradual, country-driven and— especially—tailored to country conditions.

3.3 A key feature of the Bank's approach is to unbundle the systems, and consider accepting for use in Bank operations those parts of the national systems ("subsystems") that work well. The approach allows making distinctions according to the nature of the transaction, the level of government, and the specific subsystem (e.g., price comparison might be found satisfactory, but not consulting procurement, or accounting may be found acceptable, but not audit).

3.4 Implementation of the strategy requires systematic and regular assessments of the status of country systems, as well as concrete actions to help strengthen specific subsystems. Countries have an interest in modernization, but at their own pace; at the same time, the Bank wishes to be able to intervene effectively and in a timely way. The outcome of this dynamic process—country by country—emerges from the interaction between the two concerns, facilitated by the presence of Bank specialists in the country offices.

2. A capsule appraisal

3.5 The Country Systems Strategy is sound and pragmatic, addressing in simple but effective ways the two main issues that have constrained the use of national systems in donor-financed activities. First, the Bankwide validation resolves the problem of asymmetric incentives within the Bank and alters the personal risk calculus of individual team leaders and managers, who might otherwise lean toward staying with the tested and safer IDB procedures. Second, interviews with Bank and government staff suggest that the unbundling approach opens up opportunities for country-specific and step-by-step improvements, and also contributes to depoliticizing the issues—particularly in public procurement—by turning the relationship between Bank staff and country authorities in a collegial rather than a confrontational direction.

3. Fiduciary assessments

3.6 Implementation of the Strategy requires that the Bank regularly assess the status of a country's systems to diagnose major advances and problems and help identify concrete priority actions to strengthen specific subsystems. The new assessment instruments are the fiduciary note and the fiduciary profile. A fiduciary note is produced in connection with the Country Strategy and covers the next 4-5 years. As a result of the fiduciary notes, a substantive discussion of country systems has been included in every Country Strategy approved since 2009. A fiduciary profile is done each year to update the information and progress and underpin the annual programming for the country.

3.7 As the Strategy envisaged, the assessments are strictly limited to the fiduciary systems of FM and procurement. Also, while all aspects of procurement are addressed, the FM assessments focus almost entirely on the "downstream"

stage—budget execution—with only passing reference to the "upstream" stages of medium-term expenditure programming, budget preparation, and legislative approval. (Certain suggestions in this regard are offered later in this report.)

3.8 Most assessments are produced cooperatively between the fiduciary staff in country offices and the government authorities, a process that fosters collegiality and raises the probability that the actions identified will be implemented. Inputs are also sought from ICS and FMM staff, and the draft assessments are subject to quality assurance by FMP management before being finalized.

3.9 The evaluation team reviewed the fiduciary notes and fiduciary profiles on the basis of four criteria: consistency with the Country Systems Strategy, technical quality, relevance, and implementability. The findings are as follows:

- The assessments were relatively uniform in coverage and consistent with the thrust of the Strategy, particularly in their concern with responsiveness to country demand.
- Technical quality was generally high, including a diagnosis of specific strengths and weaknesses, extensive quantitative information, and analyses of the state of subsystems, although in some cases with too much attention to minor details.
- The relevance of the analysis and recommendations was generally high in terms of recognition of country circumstances and realities, and of progress toward possible validation of one or another subsystem.
- There was an apparent tendency to tone down the language on problems and risks.
- Most of the actions recommended were concrete and appeared suited to country realities, including administrative capacity—and thus implementable. (However, they are not necessarily those most likely to be conducive to further systemic improvements—an issue discussed later in this report).

3.10 This review concludes that, overall, both the process and the quality of the fiduciary assessments are satisfactory—a finding that was confirmed by positive feedback from government officials during field visits,

4. Organizational arrangements

3.11 Given the twin focus on both using country systems—entailing diagnosis and possible validation—and strengthening country systems, the three divisions concerned are FMP, ICS, and FMM. Also concerned, for M&E, is the Strategy Monitoring Division (SMO). The FMP division is heavily decentralized, with 62 of the total 84 staff located in country offices; and both ICS and FMM have a presence in most country offices, facilitating interaction and coordination in the field.

3.12 Three types of activity are involved in the Strategy: (i) diagnosis of the national system (and subsystems); (ii) validation of use of the subsystem or overall system in Bank projects; and (iii) capacity building. The broad division of responsibilities, shown in Table 1, is as follows:

- Diagnosis of the status of procurement and FM systems is the responsibility of FMP, but in close consultation and agreement with FMM and ICS and with the country unit. This responsibility is exercised largely on the basis of the analysis by the fiduciary specialists in the country offices and their knowledge of the country situation, and the diagnoses are regularly updated.
- FMP has the sole responsibility for the function of proposing validation of fiduciary systems for use in Bank operations.
- Strengthening activities are divided among the three entities. FMP carries out small (under US$100,000) activities targeted to filling very specific residual gaps to permit the use of a national subsystem in the medium term. All projects and sizable activities in public sector management are led by ICS or FMM in their areas of competence (respectively, public administration and fiscal and expenditure management).

3.13 The critical institutional challenge is how to allocate primary responsibility while assuring inter-unit coordination and cooperation. Cooperation among staff in the country offices is close, and horizontal coordination at headquarters has been provided so far by occasional meetings of the managers of FMP, FMM, and ICS. Some interviewees consider that there have been some problems with vertical coordination between headquarters and country offices, but in general there is no evidence of significant problems of coordination in this respect.

Table 1. Implementing the Country Systems Strategy: Division of Lead Responsibilities

Function	Fiduciary systems	Development effectiveness systems*	Comments
Use of country system (validation/ certification	**FMP** Division	**SPD** for M&E; **ICS** Division for the other systems (e.g., strategic planning, statistics).	ICS is responsible for mainstreaming country systems into Country Strategies and programs, but in practice those discussions are focused mainly on fiduciary systems and led by FPM.
Strengthening country systems	**FMM** Division ICS for external audit FPM to a minor extent, for small targeted activities	**ICS** Division (PRODEV and other operations)	ICS retains external audit owing to its link to fiscal transparency and accountability.
(*) Responsibility for environmental and social safeguards is not shown in this table.			

B. Implementation progress: Financial management

3.14 The Bank's initial focus on internal control and external audit evolved into broader consideration of the interrelated aspects of budget execution, control,

reporting, and audit, in keeping with the emphasis on fiduciary risk—the mitigation of which extends far beyond audit and controls alone.

1. Expected results for 2012

3.15 The Country Systems Strategy deliberately uses the term "expected results" rather than "targets," in keeping with its country-driven approach.

3.16 In FM, the following results were expected for 2012:

- Complete FM assessments for all 26 countries in LAC; and
- Increase the Bank's use of national accounting and financial reporting systems and of external control and audit systems from the 2009 baseline of 15% and 19% of projects, respectively, to 40% for both.

3.17 The first result has been met. FM assessments (including findings from recent PEFA assessments) have been completed for all but two countries, which declined the assessment.

3.18 For the second expected result—actual increased use of FM systems—the 2009 baselines were defined through a survey of Bank operational staff. As agreed with the Board, the focus is on the regional average in the two subsystems that have better capacity-building prospects in the medium term—accounting/reporting and external control. Table 2 shows the regional averages, along with data on the other three FM subsystems—budget, treasury, and internal audit.[8]

3.19 For the two subsystems at issue, at end-2010 the weighted averages were similar to those at end-2009 (a bit higher for accounting/reporting). As of June 2012, of the total of 575 active projects, 170 projects (29.6%) used the national accounting/reporting system, and 97 (16.9%) used the national external audit system[9] (see Table 3).

3.20 Unlike in procurement, for which approval authority rests with the Board, the authority to approve a particular FM subsystem resides with Management and includes the option of selective use for certain projects. Accordingly, monitoring in the FM area is based on the percentage of active loans that use the subsystem. It would be more informative if monitoring were also in terms of percentage of the portfolio amount, as FMP is currently considering. In practice, however, whether as percentage of projects or percentage of approved amount the results are quite similar, and are virtually identical for the use of budget and treasury subsystems. In accounting/reporting, internal audit, and external control, the

[8] The individual country data are omitted from Tables 2, 3, and 5. They may be obtained by request to FMP.

[9] The national external audit system is deemed to be used even when, for capacity limits or cost considerations, the actual external audit is outsourced—provided that it is conducted under the direction of the supreme audit institution and in accordance with its rules and standards.

differences are few but large. For example, in all three subsystems El Salvador and Guyana show a consistently higher proportion of use of national systems in terms of amount, with Jamaica also higher in the accounting/reporting category. In contrast, the use of Argentina's external control systems is much lower in terms of approved amount. These differences reflect a larger average "project" size, which is in turn partly related to the use of policy-based loans—as by their very nature all such loans are deemed to use national systems fully. These differences point to the need for caution when comparing "progress" in different countries, and underline the Strategy's emphasis on country-tailored activities.

Table 2. Share of IDB Portfolio Using National Financial Management Subsystems, 2010-June 2012 (in percent of active projects as of the end of the month indicated)

Country	Budget		Treasury		Accounting and reporting		Internal audit		External control	
	Dec/10	Jun/12	Dec/10	Jun/12	Dec/10	Jun/12	Dec/10	Jun/12	Dec/10	Jun/12
Average	90.2	90.7	72.8	76.1	16.7	20.1	4.5	11.4	14.8	19.3

Source: Compiled from FMP data.

Table 3. Projects using accounting/reporting and external audit systems, 2010-June 2012

	Active portfolio		Accounting and reporting		External control	
	2010	2012	2010	2012	2010	2012
Total	**552**	**575**	**117**	**170**	**82**	**97**

Source: FMP

3.21 Some further progress was made in the second half of 2012, but the 40% result will not be achieved in accounting/reporting, and will be far from being achieved in external audit.

3.22 The reasons for the shortfall are not clear. Lower-than-expected country demand may have been a factor, and, in the external audit area, capacity limitations in supreme audit institutions (and higher priority given to auditing government activities that were more problematic than those financed by the Bank). It is also likely, however, that the expected result was unrealistic in the first place, primarily because the percentage of use of country systems is defined in terms of the stock of active projects—which includes many projects approved before the Country Systems Strategy was in place. Progress in implementation of a new strategy ought to be measured in terms of new projects—that is, those prepared after the formulation of that strategy.

3.23 Numerical targets aside, during the first two years of Strategy implementation progress was substantial in the use of accounting and reporting systems and limited in the use of external audit systems. On a country-by-country basis, significant improvements have been made—notably in Barbados, Dominican Republic, Guyana, Honduras, and Jamaica in use of accounting/reporting systems,

and in Guyana and Mexico in use of external audit systems. The extent to which the improvements achieved are a meaningful reflection of what is most important in the integrated public expenditure management cycle is a different matter, to be addressed later.

2. Issues in the handling of FM country systems

3.24 In the area of accounting and reporting, having the capacity to keep detailed records does not necessarily mean having the capacity to provide timely financial reports. In June 2012, the unweighted average use of national accounting systems was 55%, compared to only a 22% average use of national reports (in foreign currency). Moreover, while use of national accounting increased from the 49% average of 2010 (with Barbados, El Salvador, and Jamaica showing the highest increase), the use of country reports decreased from its average of 27%. FMP intends to split the category, and in the future to monitor accounting and financial reporting systems separately.

3.25 Of management support functions, internal audit is intended to assess the weaknesses and risks inherent in the internal control system as a whole. Internal audit and internal control are conceptually and practically different functions. If the control system is nonexistent or very weak, internal audit is futile, and the government's "internal auditors," who are supposed to review IDB-financed programs, are unlikely to exist or to have the requisite competence. Not surprisingly, then, the results of the "use" of country internal audit systems are suspect, producing anomalies such as the zero use of the internal audit systems of advanced countries such as Colombia and Uruguay. Moreover, with zero or minimal use of internal audit systems for 22 countries, the practical relevance of this subsystem is questionable. Monitoring internal expenditure controls would be much preferable. It is admittedly difficult to do, since budget execution includes different types of controls at different points in the expenditure cycle, but focusing on at least one or two major controls would be more meaningful than continuing to consider internal audit as a separate FM subsystem to be monitored for possible eventual use in Bank activities.

3.26 In the area of budget, the combination of the term "validation" with the definition of FM subsystems can give a misleading impression. The actual criteria used by the Bank for the assessment of fiduciary risk are relevant: whether budgeted counterpart funds are sufficient to cover the local currency needs of Bank-financed projects, and the budget classification is suitable to monitor their execution.[10] However, much more than that is involved in the assessment of a country's "budget system." It would be easy to misinterpret the 100% "use" by

[10] The problem remains that, if the aggregate counterpart funds are insufficient to cover the local currency requirements of **all** aid-financed activities, during budget execution some of these activities will necessarily be shortchanged. Even if there were assurance that the counterpart funds for IDB projects are fully protected, efficient execution of the budget as whole would be hampered—and so, indirectly, would be the development impact of the IDB assistance.

the Bank of the national “budget system” of 23 countries to mean that the Bank considers their budget systems fully satisfactory in their entirety. If this were accurate, it would render moot most of the Bank’s activities to strengthen expenditure programming and the budget process. Thus, consideration should be given to discontinuing the “budget” category altogether, in favor of yes/no decisions on whether the budget classification and counterpart fund provision are adequate for monitoring project execution—combined with a regular qualitative assessment of the systems of expenditure programming and budget preparation and approval (by FMP and FMM jointly).

C. Implementation progress: Procurement

3.27 In the past, a major stumbling block to greater use of country systems in Latin America was donors’ insistence on the use of international competitive bidding (ICB), which, according to interviews, some countries in LAC view as inconsistent with their sovereignty. Moreover, the meaning of ICB is questionable in the larger countries, where most multinational corporations are represented through a national branch office. Accordingly, the IDB Strategy defines the use of country procurement systems to apply to contracts under national competitive bidding (NCB) procedures—and thus below the ICB thresholds.

1. Expected results for 2012

3.28 In procurement, the following results are expected for 2012:

- Complete procurement assessments for 20 countries;
- Promote concrete actions to enhance country systems to “ensure consistency with international best practices”; and
- Use country procurement systems partially or fully in at least 15 countries.

3.29 Assessments have been completed for 18 countries, and at least 2 more are in progress. The assessments are conducted by the IDB with varying degrees of close cooperation with the World Bank: the World Bank is more interested in the results of procurement reforms and in the few countries where it has large programs, whereas the IDB is interested in all 26 countries and in process and institutional improvements.

3.30 Concerning the second expected result, the fiduciary notes and fiduciary profiles propose a large variety of “concrete actions,” ranging from the minor to the very substantial, but almost all specific and most of them apparently amenable to implementation over the medium term. Aside from the main requirement in the Strategy that the government must be interested in considering the action, the guiding criterion is to align the actions to address the weakest indicators from the 54 indicators in the OECD/DAC list, with a view to improving a specific subsystem to the point where it may be considered for use in Bank-financed activities. Selecting the concrete actions as targets of opportunity in each country is consistent with pragmatic thrust of the Country Systems Strategy. The

limitation of this approach is that the indicators that are amenable to improvement may not be those with the greatest impact on the functioning of the overall system—an issue to which we will return later.

3.31 The third result expected for 2012 is the most important, as the objective of the Strategy and the various efforts is to actually validate national systems or subsystems for use in Bank operations. Two questions are at issue: How applicable is the IDB definition of use of country system? And what actual progress has been made in recent years, and specifically toward the target for 2012?

2. Applicability of the definition

3.32 It has been noted that the IDB considers that procurement under NCB—which is thus below the ICB thresholds—meets the definition of country system for the purpose of considering its use in IDB-financed activities.

3.33 The ICB thresholds vary widely among countries: for procurement of works, from US$1 million in Guyana to US$25 million in Brazil; for procurement of goods, from US$100,000 in Belize to US$3 million in Mexico; for consulting services from US$100,000 in Suriname to US$500,000 in Argentina (see Table 4). The thresholds have remained relatively stable, and there is no evidence that any have been manipulated in an effort to raise the probability of validating the use of national systems in IDB-financed activities. These differences underline the need for country-specific diagnoses and country-driven recommendations.

Table 4.   IDB Procurement Thresholds

COUNTRY	ICB		International shortlist
	Works	Goods	Consulting services
ARGENTINA	≥5,000,000	≥500,000	≥500,000
BAHAMAS	≥3,000,000	≥150,000	≥200,000
BARBADOS	≥3,000,000	≥150,000	≥200,000
BELIZE	≥1,000,000	≥100,000	≥200,000
BOLIVIA	≥3,000,000	>200,000	≥200,000
BRAZIL	≥25,000,000	≥5,000,000	≥1,000,000
CHILE	≥5,000,000	≥350,000	≥500,000
COLOMBIA	≥10,000,000	≥1,000,000	≥500,000
COSTA RICA	≥3,000,000	≥250,000	≥200,000
DOMINICAN REPUBLIC	≥3,000,000	≥250,000	≥200,000
ECUADOR	≥3,000,000	≥250,000	≥200,000
EL SALVADOR	≥5,000,000	≥250,000	≥200,000
GUATEMALA	≥1,500,000	≥150,000	≥200,000
GUYANA	≥1,000,000	≥100,000	≥100,000
HAITI	≥1,000,000	≥100,000	≥100,000
HONDURAS	≥1,500,000	≥150,000	≥200,000
JAMAICA	≥1,500,000	≥150,000	≥200,000
MEXICO	≥15,000,000	≥3,000,000	≥500,000
NICARAGUA	≥1,500,000	≥150,000	≥200,000
PANAMA	≥3,000,000	≥250,000	≥200,000
PARAGUAY	≥3,000,000	≥250,000	≥200,000
PERU	≥3,000,000	≥250,000	≥350,000
SURINAME	≥1,000,000	≥100,000	≥100,000
TRINIDAD & TOBAGO	≥3,000,000	≥250,000	≥200,000
URUGUAY	≥3,000,000	≥250,000	≥200,000
VENEZUELA	≥5,000,000	≥250,000	≥350,000
Average	**4,350,000**	**530,000**	**655,000**
Source: FMP			

3.34 In terms of number of contracts, 92% of IDB-financed contracts were below the ICB threshold in 2011. In terms of value, however, only 32% of total contract amounts were below the ICB threshold (for works or for international requirements for consulting shortlists).

3.35 The data show a direct association between procurement thresholds and country size: with few exceptions, the higher thresholds are found in the larger and more populated countries. It is also noteworthy that the thresholds for HMICs are three to eight times higher than those in other countries.[11] Combining this finding with the evidence that procurement systems in HMICs are rated more highly than those in other countries demonstrates the substantial applicability of the Bank's use of NCB thresholds for validating country systems for use in Bank operations—even though a high percentage of total value is contracted under the ICB processes. Also, using NCB as the standard for procurement of goods and services links logically to efforts at strengthening national procurement capacity.

3. Progress as of 2012

3.36 As of December 2012, procurement systems had been, or were expected to be, validated for five countries—Chile (approved in December 2010), Mexico (approval expected by end 2012), and Brazil, Colombia and Ecuador may follow early in 2013.These validations of "full use" apply to the majority of national procurement subsystems. ("Partial" use refers to the use of one or more subsystems.) All validations are accompanied by conditions and are contingent on specific understandings about continued use of certain good practices (failing which the use of the national subsystem for procurement under IDB operations would be suspended). In addition to these four countries, several other countries made progress on using one or more of the four major procurement subsystems (see Table 5).

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[11] The 10 HMICs are Argentina, Brazil, Chile, Colombia, Mexico, Panama, Peru, Trinidad and Tobago, Uruguay, and Venezuela. A parallel OVE evaluation examines the Bank role in those countries.

Table 5. Summary of Requests for and Validation of Main Procurement Subsystems			
Type of subsystem	**Requests received 2007-2011**	**Requests validated 2007-2011**	**Requests in process (as of September 2012)**
Information system	9	7	8
Individual consultant procurement	4	1	5
Price comparison	11	4	7
NCB*			
Partial	3	1	2
Advanced	7	1	4

Source: FMP.

* Partial NCB means use of one or more subsystems; advanced NCB means use of a majority of subsystems, e.g., as in Chile. For consulting services, the terms ICB and NCB refer to the thresholds for shortlisting international firms versus shortlisting national firms.

3.37 With the Bank using one or more subsystems in 14 countries, and many other requests currently on track for validation, the results expected for 2012 are virtually certain to be achieved and highly likely to be exceeded. (However, it is not likely that all five requests in process for procurement of individual consultants can be validated in 2012.) Of course, different subsystems vary in importance, and the use of national procedures for shopping has different institutional and financial relevance than NCB validation. Nevertheless, implementation progress since the formulation of the strategy has been substantial.

3.38 One reason for this progress has been the higher-than-foreseen country demand, in part because the financial crisis has heightened interest in raising expenditure efficiency and in part because of the initial success in depoliticizing procurement by focusing on concrete, country-tailored improvements. The number of new requests in 2012 suggests increased interest by countries, affirmative outreach by fiduciary staff in country offices, or—probably—a combination of both. For confirmation, it will be instructive to follow the progress in 2013 and 2014 of the country requests that were in process as of late 2012.

4. Disseminating good practices

3.39 Aside from achieving the results discussed above, the Bank has taken positive steps in disseminating good practices and fostering the creation of procurement networks. The main external network is the Inter-American Government Purchasing Network (*Red Interamericana de Compras Gubernamentales*, or RICG), which the Bank uses as a forum for dissemination and exchange of ideas, and the internal specialist network, which organizes specialized conferences, exchanges information, and responds to requests for information from government counterparts. Similarly, the Bank has taken a leadership role in promoting good practices in financial management including, among a variety of activities, participation in the CReCER initiative on Accounting and Accountability for Regional Economic Growth. In addition, special dissemination efforts are made in the lower-capacity countries.

3.40 The RICG sponsors an annual meeting of heads of procurement in the 26 LAC countries, organized under the aegis of the Organization of American States, with major contributions and inputs from the Bank, and complementary funding also provided by other organizations. The meeting includes both plenary sessions, with presentations by international experts and Bank specialists, and private restricted sessions at which officials from the participating government agencies meet to discuss common problems, exchange experiences, and—most importantly—formulate requests for support for subregional initiatives.

D. Main issues in fiduciary country systems

1. Best practice versus "country tailoring"

3.41 A key question inherent in the Strategy was how the emphasis on best practice and a uniform OECD/DAC procurement code could be reconciled with the advocacy of a gradual and country-tailored approach—since institutional norms and processes must always be adapted to local circumstances, including administrative capacity. The Bank has approached the situation as follows. The country has its own functions, priorities, and systems, and controls the process; Bank staff looks at the national systems in light of international standards, and determine whether additional checks, controls, or reports are needed to meet specific aspects of those standards. Thus, the standards are used as a guidepost for the longer term and not as an all-or-nothing prescription, and the Bank operates flexibly, adapting to the conditions in the country, the sector, and the project.[12]

3.42 However, success in strengthening capacity requires more than responsiveness to government wishes and generic consistency with good international standards. For example, choosing which of the many subsystems is to be improved (and eventually to be adopted for use in Bank-funded activities) also requires dealing with the harder challenge of appropriate sequencing, that is, choosing from among the various possible improvements those more likely to induce positive changes and thus advance the ultimate aim of an efficient and coherent system. There is no evidence that the Bank has systematically addressed this kind of challenge during the initial stage of strategy implementation.

2. The role of the Board and the risk of reversals

3.43 The Board mandated that it would have to approve any certification or validation of country procurement systems for use in Bank activities. The original recommendation had been that approval of the Strategy also entailed changing the IDB policy to permit including use of country systems among the available options. At the time, the Board agreed only to provide "waivers" of the use of IDB systems for countries whose own systems had been certified as being in conformity with international standards. This presents a problem from the public relations and image viewpoints, because a government that finally does meet the

12 This is a motivation behind the fiduciary reform objective of mainstreaming country office fiduciary staff into project teams; see discussion in section 5.

international standards does not want to be granted a "waiver," but to have its systems formally receive the "seal of approval" of the IDB.

3.44 At the same time, there is an understandable concern about the risk of reversals—that is, that after a country's systems have been validated for use by the Bank, a new government changes certain basic rules or fails to implement its own procedures. There are technical safeguards, validation is contingent on specific understanding and conditions, the Bank maintains a watching brief, and the specialists in the country offices remain in regular dialogue with the government and can try to forestall backsliding or find solutions to mitigate problems—but the risk cannot be fully eliminated.

3. Tension between the "strengthening" focus and the "use" focus

3.45 Some interviewees expressed skepticism about the link between the "use" focus and the "strengthening" focus of the strategy. Given enough time, greater use of country systems should lead to improved outcomes. However, greater use of country systems is driven by internal concerns, whereas improved outcomes are driven by development concerns. There is an unavoidable timing disconnect between the country systems agenda and the development results agenda, and the payoff from capacity building will require much more time to materialize than choosing easy wins in terms of use of national subsystems.

4. Challenges going forward

3.46 Interviews mentioned four challenges to the future implementation of the strategy:

- Staffing has not yet fully caught up with the strategy, and the profile of specialists should move to a more strategic, development-oriented set of skills.
- Institutional memory, currently very weak, needs to be strengthened to ensure the transfer of relevant knowledge about a given sector in a given country.
- The necessary bridge between the macro-level Country Systems Strategy and its implementation in the individual sectors has not yet been built. It is time to explore whether there are, for example, systematic patterns of better use of national systems, or greater efficiency gains, or faster capacity-building, in the different sectors.
- The use of fiduciary country systems is often demand-constrained, with government officials seeing IDB procedures as a guarantee of integrity and a way to minimize reputational or corruption risks (as well as limit personal exposure). Some governments' reluctance to accept the responsibility of relying on their national systems should lessen in the future as the initial good experience continues.

E. Fiduciary Risk-Based Supervision

3.47 The introduction of the fiduciary risk-based supervision model is one part of a broader Bankwide initiative to improve Bank services for greater development effectiveness. The initiative is coordinated by FMP, with participation by VPC, VPS, LEG/FIN, and SPD, under a conceptual framework approved by the Operations Policy Committee. The four main objectives—active risk management, results-based supervision, reduction of transaction costs, and increased use of country systems—are articulated into 10 components:

- risk-based supervision
- modernized supervision
- strengthening and use of country systems
- modernized procurement
- modernized financial management
- new supervision model for technical cooperation and the Multilateral Investment Fund
- improved planning
- cultural change
- building client capacity
- new role of fiduciary staff

3.48 The rationale for entrusting such a broad reform initiative to the division responsible for the specific area of fiduciary risk is not clear, given that many other risks also affect the efficiency of Bank assistance and its development impact. There is also a risk that this could dilute the effectiveness of FMP itself by burdening it with challenges far broader than its clear and actionable mandate.

3.49 This section addresses in particular the risk-based supervision aspects of the initiative, to which the IDB-9 commitments refer.

3.50 Guidelines have been put in place for the management of risk in sovereign-guaranteed projects, entailing among other things a review of procurement processes and of financial supervision. The Bank's risk-based management framework uses the identification and evaluation of risks as critical factors for project supervision; staff is expected to determine on a continuous basis which risks must be managed, and to identify and implement mitigation measures. A review of the framework and related major documents shows that the principles and criteria for risk-based supervision are elaborate but practical in their operational dimension. They are briefly summarized below. [13]

- During project preparation, the project team carries out a fiduciary risk assessment, including among other things an evaluation of the executing

[13] See in particular the *Risk Management Guide*, November 2010, OP-451-1; *Procurement Operational Guidelines*, OP-272-2; *Financial Supervision Guide*, December 2009; and the *Guidelines for the Ex-post Review of Procurement Processes*, September 2011.

agency's institutional capacity. The assessment yields an initial fiduciary risk level, which determines the initial intensity and focus of supervision. Throughout the life of the project, the team is expected to monitor agency capacity and update the assessment.

- In procurement, the Bank may opt to supervise transactions via ex ante reviews (for high risk) or ex post reviews (for low risk), as reflected in the procurement plan. Thresholds for ex post review are set according to three levels of procurement risk. Similarly, the frequency of ex post reviews varies by risk level. In addition, decisions about processes subject to ex ante review are classified in three levels of complexity; decisions in the two less complex types are made by the project team leader with the expert advice of the procurement specialist in the team, and the most complex decisions (typically those associated with sole-source selection above certain amounts) are made by the sector manager with the expert advice of the project procurement committee.
- In financial management, the principles and processes are similar. The institutional capacity to manage the project budget is assessed, the three attendant levels of risk are identified, and mitigation measures are incorporated into project design and reflected in the FM supervision plan. The intensity of supervision also varies with the degree of risk, and specific procedures apply to disbursement management, external audit, and inspection visits. The major difference from procurement is that FM supervision does not entail ex ante review of financial transactions.

3.51 FMP considers that proximity and real-time intervention are essential for implementing these fiduciary risk-based supervision modalities efficiently and on a timely basis. This is a major reason for locating 75% of the Bank's fiduciary staff in the country offices. Moreover, all such staff is now fully mainstreamed into project teams.

3.52 Interviewees have raised a number of concerns:

- Procurement risk is regularly identified in project design but is not always recorded, thus hampering risk monitoring during supervision.[14]
- There is insufficient clarity on the relative responsibilities of project team leaders and the procurement specialist members of the project team—although responsibility for project risk management has been assigned to the team leader, in principle.[15]

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14 It should be noted, however, that before the launch of the OPMAS risk module in mid-2011, supervision plans were based on risk but there was no specific system to record the risk level of a project.

15 "The PTL will be responsible for organizing and applying the project risk management procedures during the project preparation cycle. To this end, during the project design stage, the PTL will seek the relevant expertise across the different Bank units, will organize the working team with expert opinion on risks…" (*Risk Management Guide*, p.19.) No such confusion exists in FM, where the FM specialist is explicitly and solely responsible for supervision—either directly or in some cases by subcontracting to third parties.

- Progress in procurement certification has been very slow, risking project delays and inadequate implementation of the risk-based supervision model in the Bank as a whole.[16]

3.53 Overall, initial implementation of the fiduciary aspects of the risk-based supervision model has been moderately satisfactory. A recent survey of staff carried out as part of a Bank internal review indicates that procurement specialists appear to be much more positive than project team leaders about the success of the initiative. Still, almost half of team leaders consider that the procurement function has in fact improved. The survey also points to a consensus among both groups that the focus on results has increased and transaction costs have come down. With the reform still recent, some time will need to pass before it will be possible to find evidence of impact on project efficiency and development effectiveness.

F. Implementation progress: Development effectiveness systems

3.54 Development effectiveness systems covered by the Country Systems Strategy include strategic planning, statistics, and M&E. The Strategy makes no particular provision for statistical systems—for the enhancement of which the Bank works in collaboration with the World Bank. For strategic planning, the discussion in the Strategy is generic—concluding that "strategic planning systems across the Region are still evolving," but not providing any orientation as to the likely or desirable direction of this evolution. The subject of planning could have been both substantive and actionable if the focus had been placed on the concrete systems and methods for preparing and appraising public investment projects, and on the process of public investment programming in the context of a medium-term expenditure perspective. These subjects are covered as one of the five pillars of the PRODEV Evaluation Tool (PET, discussed below), but neither one is mentioned in the Country Systems Strategy or in subsequent reports on country systems. In effect, only M&E is thus left under the rubric of "development effectiveness." And on M&E, the Strategy views the development of national systems in LAC as "still in an experimental, design or implementation stage."

1. Expected results for 2012

3.55 The results expected for 2012 are as follows:

- "Technical standards for assessing development effectiveness systems based on PRODEV Evaluation Tool (PET) applied for diagnostics in at least 7 countries;
- "Bank-financed projects using country planning and/or M&E systems in at least 5 countries;

[16] As of mid-2012, only 9 sector specialists were certified out of the total of 127; some divisions with a high volume of procurement processes had no certified staff; and certified personnel were also lacking in several countries with high procurement risk.

- “1-point increase (on a scale of 5) in the PET ratings for strategic planning and M&E in at least 5 countries with Bank-supported institutional strengthening interventions.”

3.56 The first of these expected results is ambiguous. If it is interpreted as the mere application of (unspecified) technical standards based on the PET survey results, it is virtually guaranteed to be achieved. The first phase of the PET survey, during 2008-09, covered 25 of the 26 countries, and the second survey—based on a slightly revised and updated questionnaire and manual—was launched in June 2012. By end-2012 at least 20 surveys will have been launched, and it is likely that at least 7 will in fact be completed. However, it is not clear how relevant these surveys are to promoting the actual use of M&E systems in specific sectors and Bank-financed projects.

3.57 The second expected result is also ambiguous: it is unclear how “country planning systems” can be “used” in Bank projects. If the expected result refers to the use of M&E systems in Bank projects it has been achieved some time ago, as Bank projects in several countries already use the performance indicators and monitoring systems of the ministry and government concerned.

3.58 Achievement of the third expected result cannot be assessed until 2013, when the second PET survey is completed. The target of a full point rating increase may turn out to have been too ambitious, even though it is limited to just five countries. In any case, it is difficult to see how this aggregate metric is relevant to the Bank’s greater use of individual countries’ M&E systems in individual Bank projects—particularly as the indicator merges strategic planning and M&E, two quite separate pillars of the PET.

2. The PRODEV Evaluation Tool (PET)

3.59 The PET is an adjunct of the Bank Program to Implement the External Pillar of the Medium-Term Action Plan (PRODEV). This report is not concerned with PRODEV activities, but only with the use of the PET in the Bank’s Country Systems Strategy. The PET survey is articulated around five pillars: strategic planning, results-based budgeting, financial management/procurement/auditing, program and project management, and M&E. It is administered periodically in every country and serves a variety of purposes. It is cost-effective—using other survey results, PEFA assessments, procurement reviews, and the like—and has good guidance and internal quality controls, exercised by a small core of Bank professionals. It helps in the country dialogue and contributes to institutional memory.[17]

3.60 Coordination between PET and the operational side is satisfactory, as the ICS and FMM specialists in the country offices are the PET counterparts to the

[17] PRODEV’s main objective is to support borrowing countries in improving public sector management in central and subnational governments by financing technical assistance and training to government officials.

governments, organizing and participating in the survey launch meetings and supporting the external consultants during their interviews and information collection. Judging from selected visits to country offices, consultation with the Bank specialists in the field, including the fiduciary specialists, is informal but extensive. A few Bank staff who have worked in operations in the country in question act as peer reviewers. A key part of the methodology is to minimize the space for discretionary—and therefore not comparable—individual judgments. Accordingly, each item in the questionnaire is accompanied by clear definitions assembled in a handbook. Also, the process provides for independent assessments by different consultants for each country, albeit based on the same questionnaire. [18] The results of the earlier PRODEV survey under the three pillars most germane to the overall country systems agenda are shown in Table 6.

Table 6. PET Survey Results

	Year	Pillar 2: Results-based budgeting	Pillar 3: Financial management, auditing, and procurement	Pillar 5: Monitoring and evaluation
Argentina	2008	2.1	3.3	1.2
Bahamas	2009	0.3	1.9	0.8
Barbados	2009	1.0	2.5	1.1
Belize	2010	0.2	0.9	0.4
Bolivia	2009	1.1	2.3	1.1
Brazil	2009	3.8	4.0	3.9
Chile	2008	4.4	4.5	4.5
Colombia	2008	1.7	3.5	3.7
Costa Rica	2008	1.5	3.2	3
Dominican Republic	2009	1.0	2.0	1.4
Ecuador	2008	1.6	2.3	1.7
El Salvador	2010	0.5	2.5	0.7
Guatemala	2009	1.4	3.0	1.5
Guyana	2010	0.6	1.0	0.3
Haiti	2009	0.5	1.3	1.1
Honduras	2008	1.1	2.0	2.2
Jamaica	2010	0.7	2.2	0.5
Mexico	2008	2.5	4.0	3.3
Nicaragua	2008	1.3	2.5	1
Panama	2008	1.3	2.7	1

[18] After the detailed questionnaire and handbook are finalized, the survey process begins with an internal IDB meeting and the selection of a consultant (preferably local) to administer the questionnaire in the country in question. Structured interviews are conducted with government officials and civil society representatives during a two-week period. Also, the consultant is expected to interact with members of communities of practice established in the country on issues of budgeting, planning, and the other PRODEV pillars. Within another three to four weeks a draft report is produced. It is first reviewed within the core PRODEV team in ICS, then submitted to peer review by other Bank colleagues, and finally, after appropriate revisions, it is the subject of a validation exercise with the government. If the government agrees, the results are then published. The entire process, from launch to validation, takes three to six months. Consequently, the majority of surveys will be completed early in 2013.

	Year	Pillar 2: Results-based budgeting	Pillar 3: Financial management, auditing, and procurement	Pillar 5: Monitoring and evaluation
Paraguay	2009	1.1	2.3	0.4
Peru	2009	2.6	3.1	1.2
Suriname	2009	0.5	1.4	1.2
Trinidad & Tobago	2008	0.6	1.5	0.8
Uruguay	2008	1.8	2.5	1.3
Average		**1.4**	**2.5**	**1.6**
High level of MfDR (a)		3.1	4.0	3.9
Medium level of MfDR (b)		1.3	2.5	1.3
Low level of MfDR (c)		0.5	1.5	0.7
Higher-income countries (d)		2.3	3.2	2.3
Other countries		0.9	2	1.15

Source: IDB, *Managing for Development Results. Progress and Challenges in Latin America and the Caribbean*, Washington, DC, 2010.
a MfDR stands for "managing for development results." The countries with a high level of MfDR are Brazil, Chile, Colombia, and Mexico.
b Argentina, Barbados, Bolivia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Panama, Peru, Trinidad and Tobago, and Uruguay.
c Bahamas, Belize, Guyana, Haiti, Paraguay, and Suriname.
d Argentina, Brazil, Chile, Colombia, Mexico, Panama, Peru, Trinidad&Tobago, Uruguay.

3.61 While the differences between individual countries are comparatively small, the overall association with level of development is clear. For results-based budgeting, fiduciary systems, and M&E, the survey scores are consistently lowest for the low-income countries, highest for the high-income countries, and intermediate for the middle-income countries.

G. Likelihood of impact

3.62 The likelihood that the Strategy will have a positive impact is indirectly related to the quality and implementation progress of the country systems provisions embedded in the fiduciary notes and the fiduciary profiles. Every Country Strategy approved after 2009 contains provisions concerning the greater use of country systems at some future time (Annex A summarizes those provisions in various Country Strategies). While some of these provisions are generic and a few somewhat lacking in substance, the majority are both actionable and significant.

3.63 The likelihood of impact also depends on the effectiveness of the large capacity-building interventions conducted by FMM and ICS and those under the PRODEV program. Impact is also helped by the small activities undertaken by FMP to fill specific gaps in individual country subsystems to eventually permit their use by the Bank (about US$1 million, equally divided between FM and procurement). However effective these small activities may be, it is essential to develop a

mechanism to assure that they are fully coordinated with the much larger FMM and ICS operations.

1. Does country income make a difference?

3.64 The first PRODEV survey (see Table 6) scores country systems in the 10 highest-income countries much higher than those in the other 16 countries. This conclusion is also supported by the results of the 22 PEFA assessments conducted in 21 LAC countries (the assessment was repeated in Haiti) from the inception of PEFA in mid-2005 through mid-2012 (see Table 7).[19]

3.65 The PEFA assessments relate to different years for each country, and therefore it is hard to disentangle the impact of time from that of country income. Still, the generally better PEFA scores for the one-half of countries with higher income compared to the one-half with lower income are broadly consistent with the results of the PRODEV survey, which was conducted more or less in the same period for all countries.

3.66 In procurement, the average score is about the same for higher- and lower-income countries. However, the ICB thresholds are important to assess the scope of use of country systems, because the Bank defines such use as the use of systems under the ICB threshold. The average thresholds are much higher in some of the higher income countries than in the rest of Bank borrowers: US$7.7 million versus US$2.25 million for works, US$1.1 million versus US$180,000 for goods, and US$1.4 million versus US$190,000 for internationally shortlisted consulting services (see Table 4). Thus the potential range of application of country procurement systems by the Bank is correspondingly much greater for the higher-income countries.

19 Although there are concerns about certain aspects of the PEFA assessments and their modalities, overall the PEFA assessments are recognized as the best available "map" of a public financial system's strengths and weaknesses (see PEFA.org for details on the methodology and the main issues). All 22 assessments are summarized, but because some governments have not given permission to publish the PEFA report and therefore the data must be kept confidential, only the averages are shown.

Table 7. PEFA Assessment Scores, 22 Latin American and Caribbean Countries 2005-2012			
	Average "highest" Income[1]	Average "Lowest" Income[2]	Difference
PFM PERFORMANCE INDICATOR			
CREDIBILITY OF THE BUDGET			
Aggregate expenditure out-turn compared to original approved budget	3.22	3	0.22
Composition of expenditure out-turn compared to original approved budget	2.44	2.625	-0.18
Aggregate revenue out-turn compared to original approved budget	3.56	3.17	0.39
Stock and monitoring of expenditure payment arrears	2.92	2.17	0.75
COMPREHENSIVENESS AND TRAPARENCY			
Classification of the budget	2.50	3.00	-0.50
Comprehensiveness of information included in budget documentation	3.33	2.75	0.58
Extent of unreported government operations	3.33	2.50	0.83
Transparency of Inter-Governmental Fiscal Relations	3.06	2.17	0.89
Oversight of aggregate fiscal risk from other public sector entities	2.60	1.91	0.69
Public access to key fiscal information	3.10	2.33	0.77
BUDGET CYCLE			
I. Policy-Based Budgeting			
Orderliness and participation in the annual budget process	3.33	2.71	0.63
Multi-year perspective in fiscal planning, expenditure policy and budgeting	2.55	2.04	0.51
II. Predictability and Control in Budget Execution			
Transparency of taxpayer obligations and liabilities	3.30	3.08	0.22
Effectiveness of measures for taxpayer registration and tax assessment	2.90	2.63	0.28
Effectiveness in collection of tax payments	2.15	2.40	-0.25
Predictability in the availability of funds for commitment of expenditures	3.22	2.21	1.01
Recording and management of cash balances, debt and guarantees	3.65	3.04	0.61
Effectiveness of payroll controls	2.70	2.04	0.66
Competition, value for money and controls in procurement	2.15	2.18	-0.03
Effectiveness of internal controls for non-salary expenditure	2.65	1.92	0.73
Effectiveness of internal audit	2.10	1.73	0.37
III. Accounting, Recording and Reporting			
Timeliness and regularity of accounts reconciliation	3.00	2.36	0.64
Availability of information on resources received by service delivery units	2.40	1.33	1.07
Quality and timeliness of in-year budget reports	2.80	2.38	0.43
Quality and timeliness of annual financial statements	2.65	2.00	0.65
IV. External Scrutiny and Audit			0.00
Scope, nature and follow-up of external audit	2.40	1.91	0.49
Legislative scrutiny of the annual budget law	2.44	2.36	0.08
Legislative scrutiny of external audit reports	1.45	1.36	0.09
DONOR PRACTICES			
Predictability of Direct Budget Support	2.30	2.28	0.02
Financial information provided by donors for budgeting and reporting on project	1.50	1.38	0.13
Proportion of aid that is managed by use of national procedures	1.29	1.18	0.10

Sources: PEFA reports and World Development Indicators (WDI)

[1] Bahama, Trinidad and Tobago, Barbados, Uruguay, Brazil, Costa Rica, Surinam, Colombia, Peru, DR

[2] Jamaica, Ecuador, Belize, El Salvador, Paraguay, Guyana. Guatemala, Bolivia, Honduras, Nicaragua, Haiti

Note: Given the time frame, there are four more cases in the period 2005-2009 than in the period 2010-2012, and the large majority of the PEFA assessments conducted for the period 2005-2009 has been for the countries with lowest income

3.67 Finally, the share of the cost of IDB projects accounted for by administration and implementation is lower in the 10 higher-income countries than in the other 16 countries, suggesting higher relative government involvement in project execution and thus, indirectly, greater use of national systems in the project (see Annex B).

3.68 These findings represent useful confirmation of the expectation that higher income countries tend to have more advanced public management systems. The relevance to the Bank's country systems agenda rests on the further presumption that the more solid the country system, the greater can be its use in Bank-financed projects. However, in keeping with the Board requirement, the Bank conducts strengthening activities in all 26 countries, rather than only in the ones where the efforts are more likely to be successful in the near term.

2. Can progress in the use of country systems be quantified?

3.69 The ultimate outcome of the Country Systems Strategy is an improvement in countries' overall capacity to manage their public sector. That outcome cannot be assessed, let alone quantified, except in the long term and in the context of a comprehensive economic and institutional analysis. The intermediate outcome is the increased reliance on the national systems itself, with its presumed positive impact on efficiency and capacity development. Even that increased reliance is extremely difficult to quantify—for an individual country and, of course, for the Region as a whole. There are, however, possible proxy measures that can signal that change is taking place.

3.70 It is plausible that greater actual use of national systems in Bank projects would be associated with higher involvement by government entities in project implementation and hence greater contribution of government personnel to the administration of the project, and possibly lower recourse to a parallel project implementation unit (PIU). Proxy measures for the actual use of country systems are therefore (i) the proportion of total project costs that is accounted for by project administration and implementation; and (ii) the frequency with which PIUs are set up in parallel to implement a Bank project. (It is important to bear in mind that not only are these proxy indicators very rough, but the Bank's database lacks the information needed to readily generate them.)

3.71 Nonetheless, interesting information emerges from an analysis of project administration costs in 54 loans approved between 2006 and June 2012, and of the use of parallel PIUs in 707 loans approved during the same period (Annex C presents the detailed analysis).

- At 3.9%, the average share of total cost allocated to administration and supervision (by the Bank) in projects approved during 2011-June 2012 was substantially lower than the 5.2% in projects approved during 2006-2010. (And, again as would be expected, the administrative cost share of project costs was smaller in HMICs than in lower-income countries.)
- Concerning PIUs, the share of projects that included creation of a parallel PIU fluctuated around 8%-10% of the projects approved in 2006-2011, and there is no discernible difference in the projects approved in 2011-June 2012. However, of the 51 projects approved during the first six months of 2012, just 2 (4%) included setting up a parallel PIU. Considering that IDB project preparation and appraisal has taken on average slightly more than a year

since the new project cycle was introduced, the preparation of most projects approved in the first half of 2012 in all probability began sometime in late 2010—shortly after the start of the implementation of the Country Systems Strategy.

IV. CONCLUSIONS AND SUGGESTIONS GOING FORWARD

A. The imperative of coordination

4.1 It is widely recognized in the IDB—including by the key division managers concerned—that the validation function and the operational function must be closely coordinated, especially because FMM and ICS are located in a different Vice-Presidency from FMP. So far, the atmosphere has been largely constructive and collegial, especially in the field, and there is no evidence of significant lack of horizontal coordination or turf conflicts. However, there is a risk that, in time, rigid boundaries will be set and interchange of information will be hampered, unless countervailing measures are taken at an early stage. Two mechanisms in particular should be considered to ensure that all three concerned divisions will have to meet regularly and agree on the scope and content of Bank support for the improvement of country systems, both for their eventual validation and to provide a systematic linkage to the longer-term agenda of improving the institutional capacity of the state.

1. A clear line between standards and financing?

4.2 The FMP division has the responsibility to diagnose fiduciary systems, define concrete actions for improving them, and eventually validate them for use in Bank projects—functions that are critical for the Bank's development effectiveness. In principle, FMP should not also be in charge of financing specific activities, for which the responsibility belongs in FMM (and ICS for external audit). In practice, too, doing so raises the risks of diverting limited local capacity away from major reforms, duplicating ongoing activities, and causing inconsistencies in Bank interventions and—possibly—de facto conflicts of interest. It would be impractical, however, to set a rigid organizational boundary between validation and strengthening activities. The risks can instead be mitigated through regular information exchanges and strong interdivisional cooperation. The most direct and effective way to guarantee such exchange of information and cooperation is for FMP staff to identify and lead the implementation of all concrete actions, but with the formal agreement of FMM or ICS and their clearance of the financing required. Because the concrete actions needed for specific improvements in one or another subsystem are short-term, are targeted, and require comparatively minor funding, it would be inefficient for them to be individually cleared with FMM or ICS. It is therefore suggested that the annual fiduciary profiles (expanded as suggested below to public expenditure management profiles) include a list of concrete actions proposed to improve FM or procurement subsystems—within a limited overall funding cap. This list would be proposed by

FMP and the actions would be managed by FMP staff. However, the list and associated overall funding would be formally agreed and cleared with FMM and ICS. At the end of the year, FMM and ICS would receive from FMP a brief report, which would also serve as the basis for the list proposed for the subsequent year, in a "rolling" manner.

2. Expanding the fiduciary assessments to "public expenditure management" assessments

4.3 A second issue concerns the integration of the "upstream" aspects of public financial management (expenditure programming, budget coverage and systems, budget preparation, legislative approval) and the "downstream" aspects (budget execution, expenditure controls, treasury system, accounting and reporting, and internal and external audit). The need for such integration has been recognized in the operational area by consolidating the fiscal and expenditure management functions into FMM. It seems appropriate to do so in the diagnostic area as well.

4.4 The generally high quality of the fiduciary notes and profiles is to an extent a result of the clear focus on fiduciary risk, narrowly construed. This focus is also a limitation, however, as it precludes an integrated view of public expenditure management. Some interviewees have suggested expanding the current fiduciary notes and profiles to a comprehensive "country systems note," which, in addition to the fiduciary systems, would cover the full set of relevant country systems—planning, statistics, M&E, and environmental and social safeguards. As attractive as it sounds, such an option would be too unwieldy and would have limited operational value. The alternative is to remain within the more limited domain of public finance and procurement, but use the broad interpretation of "fiduciary risk"—that is, not only that the budget be executed in conformity with the approved budget but also that the approved budget itself be consistent with development and macroeconomic objectives and conducive to efficient resource allocation. This would require expanding the current fiduciary notes and profiles with modules on the "upstream" dimension of expenditure management, thus turning the notes into "public expenditure management" assessments, jointly produced by FMP, FMM and ICS. Additionally, the three divisions would agree on the responsibility for leading (or participating in) PEFA assessments. The capacity of FMM in expenditure management will need to be bolstered to meet the overall responsibilities for the entire fiscal and public expenditure management agenda.

B. Tracking the changes in the use of country systems

1. Reviewing the FM subsystems taxonomy

4.5 Three suggestions may improve the substantive monitoring of the use of FM subsystems.

- The clear divergence in use between accounting and reporting counsels monitoring them separately in the future.

- There seems to be little relevance in monitoring "internal audit" as a country subsystem that can be used in Bank projects. If the indicator is nevertheless to be retained, for the sake of conformity with another donor's practice, it should be supplemented with separate monitoring of one or more major types of internal budget execution *controls*.
- Aside from the ambiguous meaning of "using" a country's budget system in a Bank project, the reported 100% "use" of the national budgeting system of 23 countries can give the misleading impression that these systems are fully satisfactory, and not only in their narrow aspects relevant to fiduciary risk.[20] Also, the "upstream" stages of expenditure management are not within the narrow fiduciary function. Thus, the "budget" subsystem should be discontinued altogether, in favor of a regular qualitative assessment of expenditure programming and budget preparation and approval.

2. Tracking the administration/implementation costs of projects

4.6 Trends in the administration/implementation component of project cost cannot be identified without a time-consuming and ad hoc exercise (see Annex B). Such trends can be useful not only as a proxy measure of the use of country systems, but also for a variety of Bank purposes. To complement the current information on use of country systems, it could be useful to develop a simple standard format for a project cost table that, among other things, identifies specifically the estimated administration/ implementation cost (to IDB) of the project, and that would be included in all project documents presented for Board approval.

C. Dealing with the risk of reversals

4.7 Even after the Bank has found it possible to validate all or part of a country's national system for use in Bank-financed activities, the need for close oversight remains—both to ensure continued support for strengthening the actual functioning of those systems (and deepening them to subnational government levels) and to exercise surveillance against potential reversals or unforeseen consequences. Validation proposals are already associated with certain conditions and specific understandings, for which noncompliance entails suspension of the use of the subsystem or system in question. In addition, it would be useful to consider limiting future validations to a specific period of years, after which they would be automatically renewed for subsequent periods unless major adverse developments have occurred.

D. Balancing governing authority and managerial flexibility

4.8 The positive experience of the first three years of Strategy implementation suggests consideration of two possible changes. First, the Board may wish to consider authorizing Management, beginning in 2013, to approve the validation of

[20] It is unrealistic to expect that the policymakers or the general users of the information would be conversant with the technical definitions of "budget system" used by FMP.

a national procurement system in a particular country, subject to ex post ratification by the Board. (The previous suggestion of time-limited validation should make such a change more acceptable) Second, the Board may wish to consider delegating approval of modifications of specific indicators and operational procedures to Management. This is already the case for FM, and doing so for procurement would make the handling of fiduciary systems consistent.

E. Preventing bad practice and disseminating good regional practices

4.9 One development risk stems from the many pressures to transplant into one country the fiduciary or other systems developed in countries with very different characteristics. As a trusted regional institution, the Bank is in a unique position to counterbalance the pressure on client countries to introduce expensive and inappropriate innovations, mainly by disseminating the lessons of actual experience (mistakes as well as successes) in comparable countries and situations.

4.10 Because neighboring countries are more likely to share common characteristics and similar problems, encouraging subregional emulation/cooperation is part of the solution. Attention should be given to possibilities for disseminating specific good practices in one country to neighboring countries, possibly generating an emulative dynamic. Fiduciary systems improvements may be a bottom-up entry to closer subregional cooperation—building on good precedents such as the RICG and the dissemination of procurement technology that has been modeled on the Chilean system, and possibly generating positive spinoffs for cooperation in other areas.

F. Sequencing of improvements in fiduciary subsystems

4.11 To help determine the appropriate sequencing of concrete actions to strengthen one or another fiduciary subsystem, an effort should be made to identify the minimum subsystems whose efficient functioning is necessary for improving the system as a whole. (In Colombia, for example, the Bank viewed a consolidation of procurement under a new central agency as a prerequisite for major improvements in the system.) This "minimum requirements" approach is used in the guidance for the sequencing of public financial management reforms, formulated under the aegis of the IMF, European Commission, and PEFA Secretariat after a two-year dialogue among international experts; see Diamond, 2012.) It would be very useful for the Bank to take the lead in organizing a similar multilateral exercise for sequencing procurement reforms.

G. Adopting the M&E orphan

4.12 The Bank's efforts to help member countries develop their own capacity to monitor and assess the process improvements and the outputs and outcomes of governmental activity in the different sectors, although substantial, have been scattered and largely ad hoc. To some extent, this is the result of a lack of clear ownership of the M&E capacity-development agenda within the Bank. However,

the opposite extreme of concentrating into one unit all responsibility for fostering improvements in countries' M&E capacity should be avoided, as it would risk leading to an organizational ghetto, supply-driven and delinked from operational activities. A number of possible pragmatic solutions can be found between these two extremes, but the one actually adopted at the Bank should flow from an internal process of reflection and discussion and be tailored to IDB conditions and circumstances. For this, it is suggested that SPD launch an internal review of the handling of the M&E agenda, comprising staff from FMP, FMM, ICS, and selected operational divisions. The review should aim to develop a framework that requires each individual sector to produce simple but actionable performance indicators and systematically monitor their implementation in Bank projects, guided by the lessons of international experience in capacity building for M&E.[21]

H. Balancing short-term costs with long-term gains

4.13 There is a strong consensus, within the Bank and internationally, that fostering greater use of national systems is important for development. It is necessary to also consider that a move to country systems is not a quick, costless, and riskless proposition, requiring only a thorough process of diagnosis and a sound validation decision. In the use of country systems, the time distribution of costs is inherently different from that of the benefits in terms of national capacity development—and thus long-term aid effectiveness. It should be neither surprising nor a source of concern that during an initial period enhanced use of country systems might result in some delays and a temporary dip in efficiency. The Bank would do well to dampen expectations—internally, within countries, and in the donor community—of quick and easy results, in order to mitigate the risk of backlash and backtracking when the Bank's validation and subsequent use of a particular national system is not accompanied within a very short time by improvements in project efficiency.

[21] See, for example, Mackay, 2007, and Schiavo-Campo, 2005. Among these lessons are the following: attempts to monitor everything results in monitoring little and evaluating nothing; simplicity is the watchword for an effective M&E system; feedback from service users and nongovernmental organizations is essential to formulate relevant and monitorable performance indicators.

List of Persons Interviewed

Name	Title	Department
Katharina Falkner-Olmedo	Div. Chief, Op. Fin. Mgmt.Proc.Svc.	VPC/FMP
Jorge Alberto Quinteros	Portfolio Monitoring Lead Spec.	VPC/FMP
Tomas Campero	Fiduciary Procurement Lead Spec.	VPC/FMP
Deborah Sprietzer	Fiduciary Financial Mgmt. Lead Spec.	VPC/FMP
Alejandra Soledad Fleitas	Fiduciary Financial Mgmt. Spec.	VPC/FMP
Felix Prieto	Fiduciary Procurement Principal Spec.	VPC/FMP
Hector Rabade	Fiduciary Financial Mgmt. Lead Spec.	VPC/FMP
David Agustin Salazar	Fiduc. Procurement Sr. Assoc.	VPC/FMP
Miguel Angel Cañada	Consultant	VPC/FMP
Philipp Orga	Consultant	VPC/FMP
Eddy A. Linares	Operations Lead Spec.	CSC/CCH
Mario Cuevas Mendez	Economist Sr. Spec.	CID/CPN
Jose Manuel Ruiz	Operations Lead Spec.	CID/CPN
Gustavo Adolfo Sierra	Fiduc. Fin. Mgmt. Sr. Spec.	FMP/CAR
Gumersindo G. Velazquez	Fiduc. Procurement Lead Spec.	FMP/CAR
Ignacio S. Vinocur	Fiduc. Fin. Mgmt. Spec.	FMP/CAR
Carlo Lago Bouza	Fiduc. Procurement Sr. Spec.	FMP/CBR
Monica A. Merlo	Fiduc. Fin. Mgmt. Sr. Spec.	FMP/CBR
Marilia de Souza Santos	Fiduc. Procurement Sr. Assoc.	FMP/CBR
Francisco Lois	Fiduc. Fin. Mgmt. Spec.	FMP/CCH
Rodolfo Gastaldi	Fiduc. Procurement Lead Spec.	FMP/CCO
Miguel Angel Orellana	Fiduc. Fin. Mgmt. Lead Spec.	FMP/CCO
Victor H. Escala	Fiduc. Procurement Lead Spec.	FMP/CME
Gloria E. Coronel	Fiduc. Fin. Mgmt .Lead Spec.	FMP/CME
Ariel E. Rodriguez Perez	Fiduc. Procurement Sr. Spec.	FMP/CPE

Name	Title	Department
German Zappani	Fiduc. Fin. Mgmt. Lead Spec.	FMP/CBR
Juan Carlos Dugand Ocampo	Fiduc. Fin. Mgmt. Sr. Spec.	FMP/CPN
Shirley Gayle Sinclair	Fiduciary Procurement Specialist	FMP/CTT
Pilar Locano	Consultant	VPC/FMP
Daniel Sanchez	Consultant	IFD/FMM
Nadia Rauschert	Fiduc. Financial Mgmt. Sr. Spec.	FMP/CUR
Gabriele Maria Del Monte	Fiduc. Procurement Lead Spec.	FMP/CUR
Hector Alexander	Former Minister of Finance	Panama
Vicente Fretes	Div. Chief, Fiscal and Municipal Mgmt.	IFD/FMM
Gustavo Antonio Garcia	Fsc. & Mcp. Dev. Economics Ppal. Specialist	IFD/FMM
Carlos Cesar Pimenta	Modernization of State Ppal. Spec.	IFD/FMM
Leslie Elizabeth Harper	Modernization of State Specialist	IFD/FMM
Israel Barreda	Coordinator, PET survey	
Carlos Santiso	Div. Chief, Instl. Cpcty. of State	IFD/ICS
Mario Sangines	Modernization of State Ppal. Spec.	IFD/ICS
Joel B. Korn	Modernization of State Lead Spec.	IFD/ICS
Jorge Kaufmann	Modernization of State Sr. Spec.	IFD/ICS
Christian Santelices	Former Division Chief	SPD/SMO
Shakirah del Carmen Cossens Gonzalez	Evaluation Sr. Associate	SPD/SDV
Government officials	Government procurement organizations	Argentina, Brazil, Chile, Colombia, Mexico, Panama, Peru, Trinidad and Tobago, Uruguay.
Government officials	Government Ministries of Finance, Auditor General	Argentina, Brazil, Chile, Colombia, Mexico, Panama, Peru, Trinidad and Tobago, Uruguay.
Government officials	Government planning offices, others concerned with M&E	Argentina, Brazil, Chile, Colombia, Mexico, Panama, Peru, Trinidad &Tobago, Uruguay.

ANNEX A. GENERAL PROVISIONS ON COUNTRY SYSTEMS IN COUNTRY STRATEGIES

Country	Approval date	Provision
Bahamas	**Apr-10**	The Bank will determine with the government an action plan for transitioning to the use of country systems. The scope of the modernization required, will be assessed in accordance with the PRODEV diagnostic tools, as well as the OECD-DAC benchmarks for procurement and the Public Expenditure and financial Accountability (PEFA) indicators for financial management, which could help measure improvements in the country's fiduciary systems. Further, through the use of PRODEV technical assistance, the Bank will support the improvement of results-based management programs and strengthening monitoring and evaluation systems.
Belize	**Jun-09**	The sustainability of interventions and performance of Bank operations will require strengthening project supervision and improving public sector strategic planning. In this sense, the country objectives are 3: 1. Fiscal sustainability. 2. improved public sector transparency and accountability. 3. Improved framework to deal with long-term threats to fiscal sustainability. The IDB strategic objective is to strengthen institutional framework for fiscal management (also key for creating conditions for and restoring economic growth). Among the expected results of Bank-country partnership are: improved legal framework for fiscal sustainability, greater incorporation of medium-term perspective into fiscal planning, improved capacity to prioritize, monitor, and evaluate public investment projects, reduction of fiduciary risks (also part of the country systems agenda), and a strategy to manage risks due to natural disasters and climate change. The IDB will continuously monitor fiscal sustainability throughout the country strategy period and calibrate its financing in accordance with changing country conditions. One of the most important risks to the development objectives are the fiduciary risks arising from weak public internal and external controls and macroeconomic risks from an external shock.
Bolivia	**Sep-11**	Additionally, in the use of country systems, the strategy mentions that the public expenditure and financial accountability (PEFA) diagnostic assessment identified areas for improving public expenditure management, in terms of planning, programming, financial management, and control. The use of country systems is limited to the budget and treasury subsystems and, partially, the accounts subsystem. Use of country systems for monitoring, tracking, and external control is not anticipated. With respect to procurement systems, the aim is to strengthen and structure a dialogue with the Ministry of the Economy and Public Finance (MEFP), to identify ways to strengthen Bolivia's public procurement system.
Brazil	**May-12**	The strategy also mentions the use of country systems for its implementation: To optimize the use of country systems, the government's accounting-financial and reporting systems are being evaluated and accredited, aligning them with the Bank's requirements and with international accounting standards. In the procurement sphere, the government is interested in working with the Bank to: 1. reduce regulatory conflicts with the Bank's policies; 2. upgrade the Compras Net system to satisfy international requirements; and 3. improve and expand the use of and adherence to the price list. The main objective in this sense for the strategy (according to the results matrix) is to adapt and improve the country's public financial management system for use in Bank-financed operations.
Chile	**Dec-11**	In terms of country systems: Chile is continuing to improve its country fiduciary systems to bring them up to international standards and best practices. The latest country assessments (CPAR 2008 and CFAA 2005) show that is public procurement and financial management systems are at a high level of development, its governmental management is sound, and there has been significant progress in terms of transparency and probity, all of which confirms the low level of fiduciary risk in the country and has allowed it to become a full member of the OECD. In this context, greater use of Chile's country procurement system in Bank operations is feasible, as recognized in the conclusions from application of the Guide for Acceptance of the Use of country Procurement systems (document GN-2538-6), and it is accordingly recommended than the Board of Executive Directors approve advanced use of that system, as described in document OP-676-1. The results matrix mentions as IDB objective to adjust and improve the country's public financial management system for use in Bank-financed operations.

Colombia	**Feb-12**	Additionally, the Strategy mentions that for its implementation, the Public Financial Management system is performing well, albeit still not fully aligned to international standards. The use of country systems will be confined to budget, treasury, and some accounting subsystems for projects implemented by the central government. As for external auditing, a pilot project with the office of Comptroller General of Colombia is now under way, and the possibility of using country procurement systems and subsystems will be explored. One of the risks is the potential for budget deficits driven by possible spending pressures and institutional issues in the public sector. To mitigate this risk the Bank will work actively on the buildup of country fiduciary and environmental management systems.
Costa Rica	**Aug-11**	In addition to the sector priorities, the Bank will work to strengthen country systems in financial management and government procurement. In terms of financial management two objectives are defined: to strengthen the national government accounting system (by implementing the IFAC International Public Sector Accounting Standards (IPSAS)), and to strengthen the Costa Rican Integrated Financial Administration System (SIGAF), by integrating the budget, treasury, and accounting in the SIGAF for central government financial management. In terms of government procurement, the Bank's objective is to strengthen the institutional capacity and functions of the government procurement information system for its gradual use in IDB operations (by increasing the use of the country's procurement information system).
El Salvador	**Jul-10**	Additionally, the results matrix mentioned the Institutional capacity of the State in the area of financial management and government procurement with the IDB objectives of use the country's integrated financial management systems (IFMS) (including the budget, cash management, accounting, and reporting subsystems) to monitor and render accounts for loan operations financed by the Bank. Also to strengthen the structure and functions of the country's government procurement system.
Guatemala	**Jun-09**	One of the approaches is to promote actions to provide strategic support for the use of country systems and facilitate adoption of a results-based IDB fiduciary supervision model.
Guyana	**Feb-09**	Throughout the new CS period, IDB will move actively toward the use of country systems. The first steps will focus on improving financial management and institutional capacity of line ministries to execute projects directly. Country capacity will dictate the pace of this transition in addition to the types of measures necessary to improve the execution and disbursement of the portfolio and the achievement of the development objectives, at the strategic and project level. With IFA (Integrated Fiduciary Assessment) as example, the government and its donor community are embracing a common approach to strengthening the national systems to reduce associated transactions costs.
Honduras	**Dec-11**	"In addition, the Bank will assist in strengthening country systems for financial management and will support initiatives financed by other institutions involving public contracting". In terms of public management, one of the outcomes is "the establishment of an entity dedicated to the analysis, control and monitoring of the payroll of central administration personnel, and implementation of a Human Resources Management System (SIARH) integrated with the Integrated Financial Management System (SIAFI). The IDB intervention will be focused on financial management and public contracting with the strategic objective of using country fiduciary systems, and with the expected outcome of "increasing the use of SIAFI/UEPEX Accounting and Reports subsystem in the portfolio of loans with sovereign guarantees."
Mexico	**Dec-10**	One of the IDB areas of intervention is the objective of increase the use of reports from the Sistema Integrado de Contabilidad y Presupuesto (SICOP) in reporting expenditures; and to "strengthen the structure and operations of Mexico's public procurement system"

Panama	**Dec-10**	Although country systems is not a focus sector, "The Bank will also endeavor to strengthen country systems in the areas of financial management, government procurement, and the environment. RESULTS MATRIX: financial management and government procurement is recognized as an IDB intervention sector with the government objective of modernize financial administration, strengthening institutional capital to design and evaluate investments. The IDB strategic objective is to use the Panama Integrated Financial Administration System (SIAFPA)to strengthen the institutional capacity and the functions of the country's government procurement systems. The outcomes are to increase the use of procurement modalities and the functionalities of the country's government procurement system measuring what percentage of the portfolio uses country's government procurement information system (PanamaCompra), and the percentage of the portfolio executed under SIAFPA (SIAFPA is an integrated financial administration system that includes national budget, treasury, accounting, and reporting subsystems).
Paraguay	**Feb-10**	The IDB supports the development of country systems. The IDB is making partial use of the country systems and will decide whether to make greater use of them based on progress made in their development and under reasonable considerations of fiduciary risk.
Suriname	**Nov-11**	RESULTS MATRIX: Public investment management is one of the priority areas, and one of the IDB objectives in this area is to "improve national systems to facilitate planning and public investment functions and ensure proper control over public spending." Outcomes for this objective are "improved credibility of the budget," "enhanced procurement management" and "improved effectiveness of internal control function".
Trinidad & Tobago	**Dec-11**	Country systems is one of the IDB intervention sectors in the results matrix. The objective is to promote efficiency, transparency and accountability in the use of public funds. The expected results are to increase the use of the country financial management subsystems in Bank financed projects, and to increase the use of country procurement subsystems in Bank financed projects. It will be measure as the % of the portfolio that uses account and reporting systems, internal audit, external control, national information systems, national price comparison methods, national methods for contracting, or national system for procurement subject to NCB.
Uruguay	**Aug-11**	Low level of fiduciary risk because of the development of public financial management. The country has a well-regarded legal and institutional framework for government procurement, but challenges remain in terms of implementing international best practices. The Bank will continue its support to efforts to strengthen the capacities of the national government and policy regulatory agencies, supporting the adoption of best practices.
Venezuela	**May-11**	Country systems are not going to be used as a management tool. Consequently, information systems consistent with Bank policy will continue to be needed for financial and accounting management, as well as for procurement planning and execution.

ANNEX B. QUANTIFYING PROGRESS IN THE USE OF COUNTRY SYSTEMS

Based on the Bank's loan portfolio, there are two possible proxy indicators of the actual use of national systems in the implementation of the Bank's projects: the share of approved loan projects that used a parallel program implementation unit (PIU) and the proportion of total project cost allocated to "administrative and supervision". This annex has an analysis of these two indicators over the periods 2006-2010 and 2011-June 2012.[22]

A striking finding from the analysis is the lack of systematic information on the existence of PIUs and the usage of country systems in Bank's loans. In this regard, we faced the following three challenged during the portfolio analysis for 2006-June 2012:

- Not all loan projects include the same table with the details on program costs. This said, since 2010 the costs table appears in all Loan Contract Annexes.
- The costs tables do not split the project costs in the same categories. For example, in some cases "administration and supervision" is one category, but in others, "administration" alone is a category, and supervision and evaluation are –altogether- another one. Therefore, it is time consuming and error-prone to estimate the share of project cost allocated to the administrative and supervision category across a large window of time.
- Within the loan project text, there is no systematic language to identify whether a parallel implementation unit has been set in place.

Parallel Project Implementation Units

The Paris Declaration on Aid Effectiveness was agreed upon by donors and partner countries in 2005.[23] The five principles of the Paris Declaration (Ownership, Alignment, Harmonization, Results, and Mutual Accountability) were monitored using a survey of 15 indicators, of which 9 apply to MDBs. Even though the Paris Declaration commitments are not *directly* related to the IDB-9 mandates, the spirit behind many of them is shared by both the IDB-9 and the Paris Declaration goals. This is especially the case in the aspects related to strengthening the use of country systems and, by extension, the institutional capacity of borrowing members.

Even though the Paris Declaration indicators on country systems are limited to financial management and procurement, the indicator on usage of parallel implementation units (PIUs) can be interpreted as a proxy to the usage of country systems: the more a country relies on external agencies to implement a program, the less it applies its own institutional architecture. When the executing agency is not governmental, it is assumed that a parallel PIU was set in

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22 Since project preparation tends to take one year, projects approved in early 2011 most probably incorporate the country systems' mandate of early 2010.

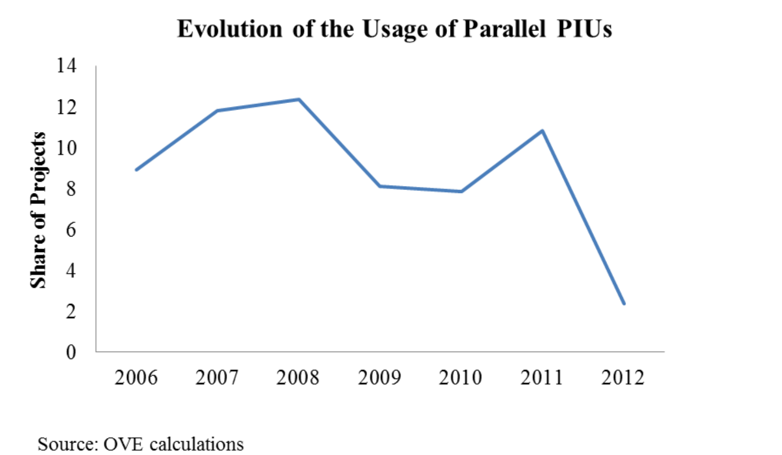
23 Note that the Paris Declaration timeframe has expired in mid-2012 and been substituted by the Busan Global partnership. The Busan Agreement does not include the measurement of parallel PIUs, though it still uses as an indicator of effective institutions whether developing countries' systems are strengthened and used.

place.[24]

This report estimates the usage of parallel PIUs for a dataset of 707 loans approved between 2006 and June 2012. It excludes projects of private sector business units.

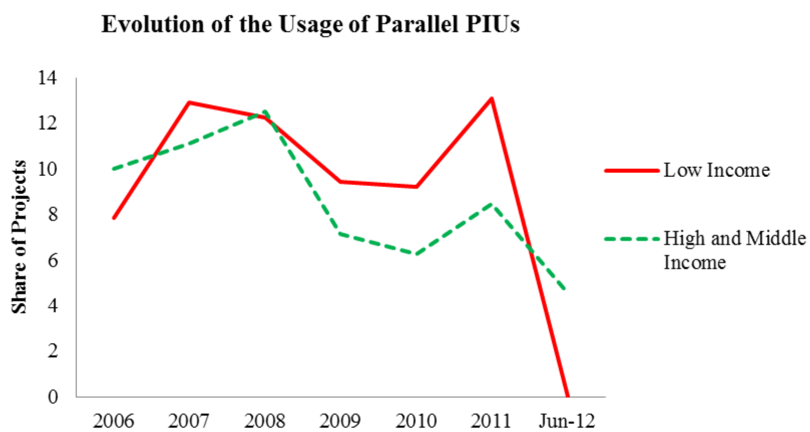
The large majority of the projects were implemented by governmental agencies between 2006 and mid-2012, which implies that only a small minority of operations were executed by parallel PIUs. The largest share of projects implemented by parallel PIUs was in 2008, while the smallest share was in the first half of 2012.

In fact, there is no statistically significant difference between the share of projects implemented with a PIU between 2006-2010 *vis-à-vis* 2011-June 2012. This said, a sharp drop occurred in the first half of 2012.



24 Typically, the non-governmental implementation units are financial / private institutions, NGOs, and international programs or organizations. Note that this identification process is the same as that used by SPD in the DRO. This criterion does not exactly match the Paris Declaration indications on how to identify a Parallel PIU.

As expected, the share of loan projects that used a parallel PIU is slightly higher for low income countries compared to high and middle income countries between 2006 and 2011 (10.6% vs. 9%).[25] This said, the data for the first semester of 2012 indicates that the Bank has done a particular effort in using governmental implementation units in low income countries. Whereas 5% of the projects implemented in high and middle income countries used parallel PIUs (1 in 22), all 20 projects executed in poor countries during the first half of the year relied in governmental agencies.



Source: OVE calculations

Administrative and supervision costs

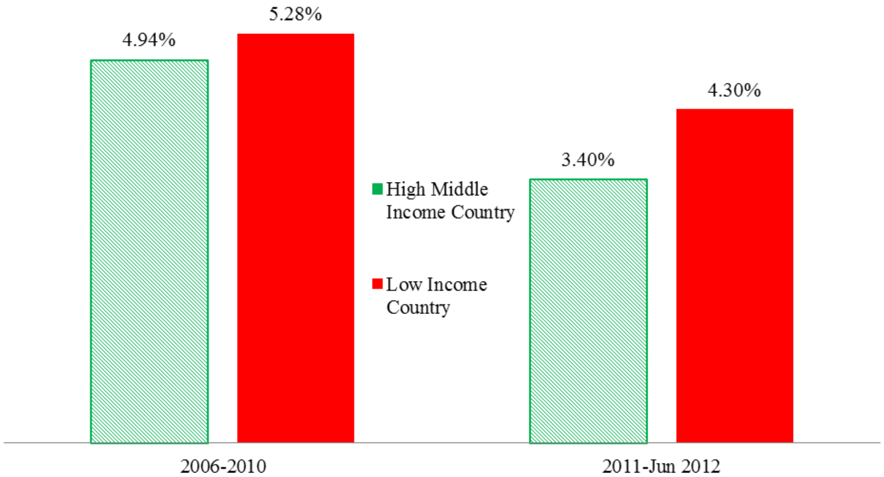
Regardless of the type of PIU, a smaller share allocated to administrative and supervision tasks can be indicative of a greater reliance on country systems. The sample used is composed by 54 loans approved between 2006 and June 2012, for all the Bank units but those related to the private sector.

Between 2006 and 2010, the average share of the total project cost allocated to administrative and supervision was significantly higher than in 2011- June 2012. On average, projects approved between 2006 and 2010 allocated \$5.16 in \$100 to administrative and supervision duties while those approved since 2011 allotted \$3.9 for every \$100. Moreover, the standard deviation decreased from 3.34 to 2 between both periods.

On average, the share of the total project cost allocated to administration and supervision has been smaller for projects in high and middle income countries than in low income countries.

[25] Argentina, Brazil, Chile, Colombia, Mexico, Panama, Peru, Trinidad/Tobago, Uruguay and Venezuela are high middle income countries as in OVE's classification.

Average Share of Total Project Cost Allocated to Administrative and Supervision



Source: OVE calculations

ANNEX C. THE IMPULSE FROM THE BUSAN PROCESS

In 2011, the Busan Partnership agreement called for an agreement by June 2012 on indicators and channels through which global monitoring and accountability would be supported, and a proposal to that effect was approved in July 2012 by the post-Busan Interim Group.

As the table below shows, the Busan Agreement retains those indicators from the Paris Declaration monitoring framework that developing countries have identified as particularly important to them. These have been supplemented with a few additional indicators to capture some of the broader dimensions of the Busan Partnership agreement (e.g. transparency, gender equality, private sector engagement and an enabling environment for civil society organizations).

The Busan agreement gives a much stronger push to the country systems agenda than was contained in the weakly-formulated provisions of the Paris Declaration -- measuring the fit of development cooperation and country priorities by the "extent of use of country results frameworks", and assessing the effectiveness of institutions in part by the quality of PFM systems and, specifically, by the use of country procurement and FM systems.

Assessing Aid Effectiveness: Paris and Busan

Objective			Comments
	Busan Agreement (2012)[26]	**Paris Declaration (2005)**	
CORREPONDANCE PARIS DECLARATION – BUSAN AGREEMENT	Development co-operation is focused on results that meet developing countries' priorities *Indicator: Extent of use of country results frameworks by co-operation providers*	Aid flows are aligned on national priorities	In the Busan Agreement proposal, no link is done to this PD indicator and it even clarifies that "[this] an area where no measurement has been undertaken so far". In the PD, this indicator does not apply to MDBs
	Effective institutions: developing countries' systems are strengthened and used *Indicators: Quality of PFM systems; and use of country PFM and procurement systems.*	Reliable Public Financial Management (PFM) Systems; Use of Country PFM and Procurement Systems	The definitions and criteria that will be used for the Busan framework remain unchanged from those used in the 2011 Survey on Monitoring the PD. In the PD, this indicator does not apply to MDBs
	Aid is untied *Indicator: % of aid that is fully untied.*	Aid is untied	The methodology in the Busan document is the same as that used in the 2011 Survey on Monitoring the PD.
	Development co-operation is more predictable *Indicators: Proportion of aid disbursed within the year within which it was scheduled, and proportion of aid covered by indicative forward spending plans provided at the country level*	Aid is more predictable	The Busan indicator builds on the broad approach used in indicator 7 of the Survey on Monitoring the PD, while introducing modifications that are intended to make it a better proxy
	Aid is on budgets which are subject to	Aid flows are aligned on	The Busan indicator builds on the broad approach

[26] Discussed and approved on 28-29 July, 2012

Objective			Comments
	Busan Agreement (2012)[26]	**Paris Declaration (2005)**	
	parliamentary scrutiny *Indicator*: *% of aid scheduled for disbursement that is recorded in the annual budgets approved by the legislatures of developing countries.*	national priorities	used in indicator 3 of the Survey on Monitoring the PD, while introducing modifications that are intended to make it a better proxy for budget comprehensiveness
	Mutual accountability among actors is strengthened through inclusive reviews *Indicator: % of countries that undertake inclusive mutual assessments of progress in implementing agreed commitments.*	Mutual Accountability	The Busan indicator is a modified version of indicator 12 of the Survey on Monitoring the PD. It introduces changes to better capture the extent of involvement of nongovernment stakeholders.
ONLY IN BUSAN AGREEMENT	Gender equality and women's empowerment *Indicator: % of countries with systems that track and make public allocations for gender equality and women's empowerment.*		The focus on *efforts* and *behavior* is distinct from other existing efforts to monitor gender equality and women's empowerment at the *outcome* level (*e.g.* through the MDG framework and other frameworks).
	Civil society operates within an environment which maximizes its engagement in and contribution to development *Indicator: Enabling Environment Index*		
	Engagement and contribution of private sector *Indicator: To be identified*		
	Transparency: information on development co-operation is publicly available *Indicator: measure to be identified*		
ONLY IN PARIS DECLARATION		Partners have operational development strategies	In the PD, this indicator does not apply to MDBs
		Strengthen capacity by coordinated support	
		Avoid Parallel Implementation Structures	
		Use of common arrangements	
		Joint missions and analysis	
		Results-oriented frameworks	In the PD, this indicator does not apply to MDBs

Source: UNESCO(2012) "Proposed Indicators, Targets and Process for Global Monitoring of the Busan Partnership for Effective Development Cooperation".

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Management Comments

Mid-Term Evaluation of IDB-9 Commitments
Background Paper: Country Systems
Management Comments

I. INTRODUCTION

1.1 Management welcomes this opportunity to comment on OVE's background paper on the implementation of the Bank's commitment pertaining to the use of Country Systems in its programs, as mandated under the Ninth General Capital Increase in Resources (IDB-9). Management thanks OVE for the constructive dialogue throughout the evaluation process. The findings presented in this paper will contribute to the Bank's efforts to more effectively advance in the use and strengthening of Country Systems.

1.2 Management is pleased to see that many of its comments and suggestions on the earlier draft were incorporated in this final version of the paper.

II. OVERALL FINDINGS AND SUGGESTIONS

2.1 The background paper provides good insights into the implementation of the Country Systems Strategy, especially the implementation of the fiduciary risk-based supervision model. Management appreciates OVE's acknowledgement that the fiduciary aspects of the Strategy have been satisfactorily implemented. Management particularly agrees with the paper's conclusion that "the Strategy is sound and addresses effectively the main factors that have constrained the increased use of country systems in the past."

2.2 Management welcomes the paper's overarching suggestion that the Bank should avoid the impression that "a move to country systems is a quick, costless, and riskless proposition, requiring only a thorough process of diagnosis and a sound validation decision." Management also values the suggestion to further enhance coordination between the diagnosis/validation function and the operational function among the three Divisions directly involved: Financial Management and Procurement Services (FMP), Institutional Capacity of States (ICS), Fiscal, and Municipal Management Division (FMM). Management agrees that it is critical to ensure the fullest possible coordination between these functions and will consider implementing this suggestion, as appropriate.

2.3 While we recognize the overall usefulness of the review, we believe that the paper could have benefited from more clarity on some key issues, namely the rationale for not including in the evaluation the portfolio of Bank-funded interventions, managed by the Sector Divisions, to strengthen country systems. The addition of this important aspect would have enhanced the value of the assessment, as it would reflect more accurately the scope of the Bank's efforts to support and strengthen country accountability and core public sector management systems. The Bank is currently supporting country auditing systems (internal and external controls), in eight countries, with four Technical Cooperation operations (TCs) amounting to US$ 2.2 million and three investment loans that total US$ 52.8 million. The demand for lending and non-lending support in this area is also very strong with a pipeline of US$ 41.0 million. In the areas of integrated financial management and procurement system reforms and strengthening, the Bank

has financed 13 Policy-Based Loans amounting to US$ 1.9 billion, ten investment loans for US$ 261.2 million, and 23 TCs amounting to USD 13.1 million.

2.4 Management would also like to point out that the review focuses on only one of the country development effectiveness systems outlined in the strategy (monitoring and evaluation), overlooking the Bank's work in support of strategic planning and country statistical systems. Likewise, PRODEV, the innovative instrument established by the Bank to strengthen results-based public management in non-fiduciary systems, has been only tangentially addressed by the review. PRODEV has provided over US$ 60 million in technical assistance grants at the national, sub-national and sector levels, since 2007. In addition, 13 countries have benefitted from approximately US$ 5 million of its resources, for their strategic planning functions, while US$ 4.2 million went to 12 countries to strengthen their monitoring and evaluation.

2.5 Finally, with regard to OVE's suggestion to "consider limiting future validation to a specified period of years, after which they would be automatically renewed for subsequent periods", Management believes that the current process of ongoing monitoring, collaboration and coordination is a more effective approach to mitigating the potential risk of slippages and reversals. The Bank's experience and the evidence to date do not support OVE's stance in favor of an automatic re-certification process to mitigate such a risk.

III. LOOKING FORWARD

3.1 Management reiterates its appreciation for OVE's useful suggestions and inputs as these will be helpful for the preparation of the upcoming three-year review of the Strategy to Strengthen and Use Country Systems.