Policy Brief

Use of Country Systems for EU Development Cooperation: Can 'Team Europe' do better?

This Brief provides a summary of the main findings of the "Study on the use of Partner Countries' Systems – difficulties encountered and recommendations for the future" commissioned by INTPA.

The study examines the extent to which EU Member States (MS) and the European Commission use partner country systems for the implementation of their bilateral ODA.

The study analyses the trends over the period from 2006 to 2017 and explores factors affecting decisions to use partner country systems (UCS) or not.

The study also presents a set of recommendations on how to increase the EU and EU Member States' use of country systems. This Brief is intended to provide insights for policymakers and practitioners in EU MS and EU institutions, in HQs and at country level, on how to build and strengthen country systems by using them when supporting activities managed by the public sector.

The Brief will be a useful reference on UCS as the European Commission shapes its programming of EU external cooperation for the period 2021-2027, including in the context of "Team Europe Initiatives."

How Does Use of Country Systems Relate to Development Effectiveness?

The use of partner countries' systems (UCS) improves effectiveness of development cooperation by building national capacities, strengthening alignment and increasing the accountability and efficiency of aid and domestic resources.

WHAT DOES THE USE OF PARTNER COUNTRIES' SYSTEMS (UCS) REFER TO?

OECD: Use of systems in 'the entire budget cycle from strategic planning to oversight.' In the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action: "country systems" include national arrangements and procedures for public financial management, procurement, audit, monitoring and evaluation, and social and environmental procedures.

Collaborative Africa Budget Reform Initiative (CABRI): For CABRI the use of country systems refers to the willingness of donors to plan, manage, monitor, report, audit and evaluate their aid resources using country, rather than their own, systems and is linked to two other aspects of effectiveness - aid transparency and aid on budget.

The principle that development cooperation is more effective when it is delivered through partner countries' own systems is based on the understanding that development impacts cannot really be achieved and sustained unless the national systems for implementing development are progressively built and strengthened. The central idea, therefore, is that external aid and development cooperation should use national systems - ie the systems for resourcing and providing services to citizens, for delivering economic and social infrastructure, investment and public goods and for managing the economy - and, by doing so, build and strengthen them.

Using country systems also benefits other aspects of effectiveness. As well as the positive impact on the capacity of recipient countries to implement their policies and manage public resources through their own institutions and systems, it (a) increases the alignment of external resources with national priorities, (b) promotes transparency and accountability for the use of both development cooperation and domestic resources, (c) reduces aid fragmentation and transaction costs by obviating the need for parallel management systems and (d) contributes to the sustainability of development outcomes.

PRINCIPLES FOR EFFECTIVE DEVELOPMENT COOPERATION

Country Ownership

Countries set their own national development priorities.

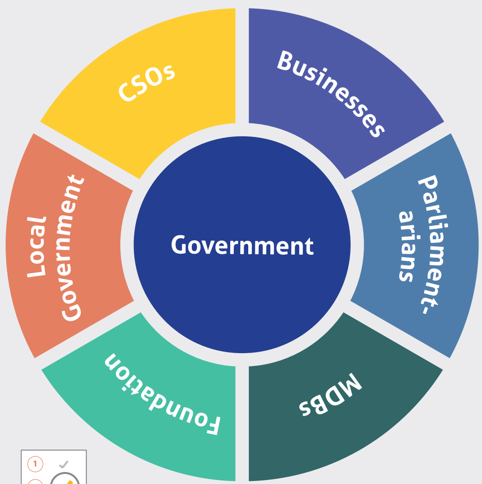
Development partners align their support to national priorities using country systems.

Focus On Results

Development support is directed to achieving measureable results & progress is monitored.

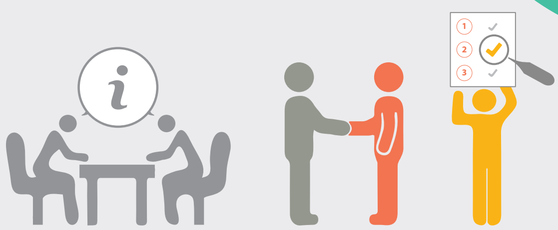
Inclusive Partnerships

Development partnerships are inclusive recognising & building on the different and complementary roles of all factors.



Transparency & Accountability

Countries & development partners are jointly responsible for achieving these goals & ensuring that information is available to partners, citizen & beneficiaries.



Source: GPEDC

What is the Global Commitment to UCS and How is it Monitored? What is the EU's Commitment?

Globally, the commitment to UCS by donors is spelt out in the Busan partnership framework monitored through the Global Partnership on Effective Development Cooperation (GPEDC). It forms part of the wider commitment to promoting country ownership – see the diagram on previous page. For the EU and its MS, the EU Consensus on Development explicitly echoes this global commitment, with additional elements linking budget support to enhanced UCS.

The Fourth High Level Forum on Aid Effectiveness, held in Busan in 2011, stresses the commitment of donors to promoting country ownership and UCS as the default approach for all development cooperation, regardless of the type of delivery mechanism. It draws from the previous commitments made in the Paris Declaration (2005) and the Accra Action Agenda (2008).

Additionally, the EU has emphasised its commitments to the use of budget support, as a key way in which to use country systems effectively, through the 2012 'Council conclusions: *The Future Approach to EU Budget Support to Third Countries*'. The decision by donors to use budget support is typically linked to the partner countrys' commitments to strengthen public financial management (PFM) systems to ensure the effective and credible use of funds and accountability.

Through explicit policy commitments made in Busan, and through the EU Consensus on Development, the EU MS have expressed their commitment to development effectiveness, which hinges on the importance of strengthening and using country systems.

"The EU and its Member States will further promote and monitor the use of country systems in all aid modalities, where quality allows, including at local level, in order to help improve the democratic ownership and effectiveness of institutions at national and sub-national level. They will jointly assess the effectiveness of partner country systems, to ensure an informed and coordinated approach" *Article 116, EU Consensus on Development*

The monitoring of the extent to which development cooperation uses country systems is carried out biannually through the GPEDC Monitoring Rounds (GMR) - previously, until 2011, through the Paris Monitoring Survey - which assesses the volume of aid that donors provide through the different elements of partner countries' PFM systems (budget formulation, execution, procurement, financial reporting and audit).

EU Study on UCS: How, Why, What and Where

Focusing on the EU Institutions and the 11 Member States that had consistently reported relevant data over the study period , the study examined the trends in the volumes of aid using country systems and analysed what factors have influenced the observed trends.

How was it conducted? The analysis covered the EU institutions and those MS for which the Paris Declaration and GPEDC monitoring rounds (GMR) have provided relevant and sufficient UCS data. The study used the primary country level data used for calculating the UCS indicators and secondary sources of data which provided comparative information on the changes in aid modalities used by donors over the same period, including:

- Paris Monitoring Survey and GMR;
- OECD Creditor Reporting System (CRS) and Country Programmable Aid (CPA) databases;
- Qualitative information gathered through questionnaires and interviews with EU and Member States officials and other stakeholders;
- PFM and governance assessments: PEFA assessment data for partner countries, Open Budget Index (OBI), and Corruption Perceptions Index (CPI) scores;
- Risk assessment and monitoring scores.

Why was it conducted? The study aims to provide a deeper understanding of the extent to which EU institutions and Member States use country systems, the trends over time and, through interviews and surveys with development practitioners, to identify the key factors that influence whether or not country systems are used. Based on this analysis, the study proposes a number of measures to increase the UCS for the delivery of European ODA, which has been and is a key priority for EU development cooperation.

What did it measure? The study measures the trends in the UCS over time since 2005, as reported in the monitoring system. It looks at the shifts in the way aid is delivered and it explores factors behind decisions on UCS.

Which donors were looked at? EU institutions and 11 EU MS are targeted: Austria, Denmark, Finland, France, Germany, Italy, Ireland, Luxembourg, the Netherlands, Spain and Sweden.

How did The EU and Member States Perform on UCS?

The largest drop in the absolute volume of ODA which used country systems took place after 2010–2011. For some MS, this drop corresponded to a period of fiscal consolidation and policy adjustment, adopted by their national governments in response to the international financial crisis of 2008. For others, the drop in UCS volumes happened after 2013 and seems to be related to changes to their development cooperation policies. Overall, a range of factors and developments impacted on the use or non-use of country systems by EU Institutions and Member States.

The study provides an analysis of the performance of each MS and the European Institutions, showing the patterns and trends in UCS, which are then aggregated to give the general findings – with commonalities and differences identified across the EU providers.

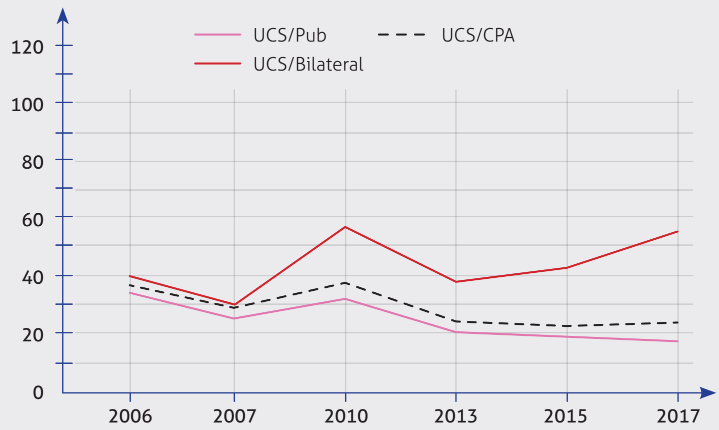
Compared to the previous decade, there has been a global shift towards a risk-averse approach to UCS. Between 2010 and 2015, there has been a significant move away from the use of general budget support (GBS) and sector budget support (SBS) across all the MS, while the EU and other multilateral systems have maintained GBS as a major modality. For the EU, budget support consistently constituted more than 20% of total bilateral ODA while in some EU MS that share dropped due a range of factors.

The general findings:

1. **There was a significant decrease in the volume of EU ODA that uses country systems, with the 2017 levels down by 56% compared to the levels provided in 2010.** This is the case for the EU institutions (down by 43%, see Fig. 1) and all MS (down on average by 62%, see Fig. 2) with the exceptions of Luxembourg and France. However, this fall in the amounts of ODA using country systems was not proportionately reflected in the measurement of UCS performance by the GPEDC GMR indicator – see explanation in box below.
2. **There was a notable change in aid modalities with donors moving out of sector budget support and GBS, while aid was channelled increasingly through multilaterals and NGOs.** This was related to the global shift towards a more risk-averse approach to ODA delivery modalities (i.e. off-budget programmes and use of multilateral systems), less enthusiasm for GBS and the need to respond to increased calls to demonstrate "higher returns" to ODA and the delivery of results directly attributable to individual donor support.
3. **The largest drop in UCS values took place after 2010–2011:** This was partly due to national fiscal consolidations or aid policy adjustments which were adopted by national governments in response to the 2008 financial crisis (Finland, the Netherlands, Ireland, Spain and Portugal). The effect on UCS

The GPEDC monitoring framework does not provide an accurate picture of trends in UCS. The indicator used by the GMR is the proportion of ODA to the public sector that is delivered through country systems. The absolute drop in UCS volumes has, therefore, been masked by the significant shift of ODA away from the public sector over the same period.. For the EU as a whole, the 56% drop in the volume of ODA which uses of country systems since 2010 would be reflected in the GMR as a fall from 57% UCS to 48% UCS – an apparent drop of only 16%. For some MS, the disparity between ODA volumes using country systems and UCS performance measured by the GMR is significantly greater.

EU Institutions Relative UCS Performance



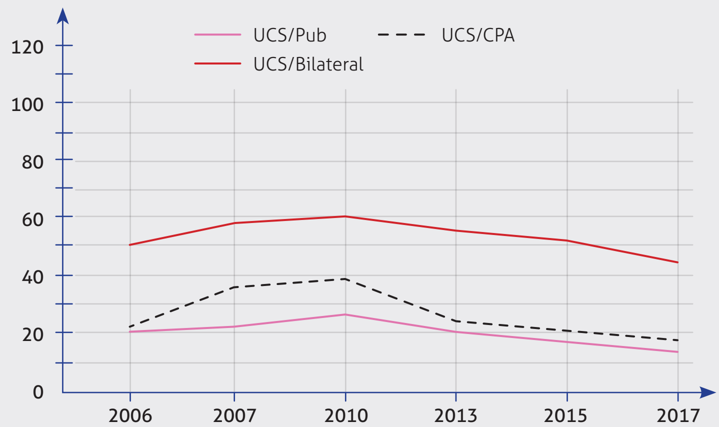
Year	2005-2006	2007	2010	2013	2015	2017
Bilateral ODA	3018	5491	7417	4261	5160	7260
CPA	2523	4321	6003	3120	3765	5084
ODA to Public Sector	2140	3978	4502	2095	2019	2551
UCS Absolute Value	950	1402	2352	815	908	1336
GPEDC Indicator	44%	35%	52%	39%	45%	52%
Nr of Countries	34	55	78	46	81	86
Support to GMR/Total ODA	30%	48%	59%	25%	33%	39%

Source: Paris Monitoring and GMR Data, and OECD CRS Database 2019.

Note: Units of data in Table in millions of current US$ except number of countries in natural numbers and GPEDC in relative terms.

Fig. 1 Relative UCS performance for EU institutions and absolute values of relevant indicators

EU Member States Relative UCS Performance



Year	2005-2006	2007	2010	2013	2015	2017
Bilateral ODA	9809	18777	20963	11648	15653	16428
CPA	8003	11496	14192	8250	11539	11152
ODA to Public Sector	4047	6969	8818	4734	4351	43390
UCS Absolute Value	2020	4016	5242	2518	2255	1979
GPEDC Indicator	50%	58%	59%	53%	52%	45%
Nr of Countries	34	55	78	46	81	86
Support to GMR/Total ODA	23%	41%	44%	25%	30%	27%

Source: Paris Monitoring and GMR Data, and OECD CRS Database 2019.

Note: Units of data in Table in millions of current US$ except number of countries in natural numbers and GPEDC in relative terms.

Fig. 2 Relative UCS performance for EU Member States and absolute values of relevant indicators

performance levels is linked to the reduction in aid budgets and in management capacity and the shift towards outsourcing ODA delivery to multilaterals and international NGOs to obtain 'efficiency gains', 'value for money', and 'comparative advantage'.

4. **The drop in UCS values which happened in some countries after 2013 also reflects changes in development cooperation policies**. The increasing importance placed on the role of non-state actors in providing improved livelihoods and in reaching the most vulnerable target groups, which resulted in a growing share of their support channelled through non-state actors, rather than the public sector.

5. **The increased use of ODA to support trade and investment has tended to reduce UCS.** ODA aimed at catalysing private investment or increasing international trade is largely provided to non-state actors, negatively affecting the UCS proportion of bilateral aid. This was particularly evident in countries at a more advanced stage of development (e.g. MICs), where the domestic capacities to resource the public sector and basic service delivery are greater – and external resources are less important and influential.

6. **UCS remained higher in fragile states.** This appears to reflect the recognition that: i) reducing fragility requires state building; and ii) donor governments' foreign affairs or security policies call for state strengthening. Increased support to the public sector, which is a preferred approach for many donors in fragile countries (e.g. France, Germany, Belgium, Italy, the UK, and EU institutions), tends to have a positive effect on UCS performance.

7. **Use of country systems and the choice of aid modalities is connected to the history and quality of donor-partner country relationships.** Where a long relationship exists between a donor and a partner country, it appears that the role of historical, linguistic or cultural connections in building trust leads to increased UCS performance. This is evident, at least as a starting point across a number of Member States, including Italy, Germany, France, the UK, Luxembourg and Belgium.

CONNECTED OR COINCIDENCE? UCS AND BUDGET SUPPORT

The abandoning of the budget support modality by the majority of MS has had a negative effect on their UCS levels. The contrasting, continued and increased use of the instrument by EU institutions seems to be based on the capability to detect, prevent or manage the political or fiduciary risks associated with the instrument. The same seems to hold for the multilateral systems.

There is a consensus that the support to public sector is still needed for traditional development activities, in particular in low-income countries. This implies that UCS is relevant for good governance programmes, or programmes to support to basic social services (e.g., health, education and social care), provided that the political and fiduciary risks of using national systems are manageable. This is the case for all MS.

What Factors Drive UCS Performance?

A variety of factors influence the use and non-use of country systems and explain why EU providers are not performing better in UCS. A significant feature is that there is little evidence to show that the quality of PFM is a major driver of UCS performance. Other more influential factors are fiscal constraints, the increased use of alternative delivery channels (i.e. multilaterals, INGOs and non-state actors) as well as the quality and duration of donor relations with individual partner countries.

The analysis of the drivers of UCS can provide insights for further reflections by donors who have steered away from UCS or do not use country systems in delivery of development cooperation. It may also help equip partner countries with qualitative information to better engineer or promote behavioural change and system strengthening that improves the prospects for increased UCS. The main factors can be listed as follows:

- **Reduced levels of bilateral aid from MS:** This has resulted in lower absolute levels of UCS, especially in cases where the support to public sector and UCS have experienced a similar trend;
- **New influencers or channels for development cooperation:** As indicated in the previous section, the increasing use of partners like multilaterals and non-state actors including CSOs has had a mixed effect for bilateral donors' UCS performance. Similarly, the increased focus on trade and investment, in particular in MICs, has been a negative factor on UCS performance, as support in those areas is channelled through other modalities, such as blended finance.
- **Sound long-term relationships between donors and partner countries:** This has an impact on increased UCS performance, especially in cases when development cooperation provides support to the public sector and uses national systems. This was found to be a critical factor driving UCS.
- **Good governance factors and adherence to international best practices:** These are more important for UCS than the quality of PFM system alone. In addition, adherence to international initiatives and standards by partner countries is an important measure against the quality of national systems, and hence has a positive impact on UCS performance.
- **Provision of budget support in fragile countries:** The choice of modality in fragile countries – for the purpose of state building - has a positive effect on UCS performance.

REDEFINING UCS: WHAT DRIVES DONORS TOWARDS LOWER OR HIGHER UCS?

LOWER: Fiscal behaviour, reduced bilateral aid, reduced development support, increased Aid for Trade, Lack of faith in governance (corruption, fraud, etc.), weak PFM systems, increased role of civil society as development actors, etc.

MIXED: Alternative use of multilateral systems, economic development (MIC – more use of private sector instruments, blended finance and loans), reaction of other donors, domestic policy changes in donor countries, robust PFM systems, etc.

HIGHER: Sound political and economic policies, managing risks, budget support, sound long-term country relationships, good governance based on international standards, state building in fragility, etc.

Recommendations to Increase the UCS

The study's recommendations present concrete ways, in the form of prioritized measures and actions, for the EU and MS on one hand and GPEDC and OECD-DAC on the other hand, to address the drivers for use and non-use of country systems. More specifically, the recommendations can help shape the formulation of EU external cooperation for the period 2021-2027, including "Team Europe Initiatives."

The key recommendations are summarised below.

1. **Promote joint programming as a tool to increase UCS:** In the context of joint programming exercises, EU institutions are encouraged to explore opportunities to collaborate with other development partners especially in the framework of trust funds or basket funds, given the potential positive impact on UCS. By ensuring that joint programming systematically supports the strengthening and use of national and sector results frameworks, the EU can help encourage further alignment and use of country systems.
2. **Increase use of joint implementation:** The sharing of risks through joint implementation, including between EU Institutions and MS and with multilateral agencies, should contribute positively to increasing UCS. Given the strong shift away from sector and general budget support, efforts should be undertaken to design new programme-aid instruments that can bring external and domestic resources together, that improve the quality and efficiency of country systems and incrementally rebuild the volumes of ODA delivered through them. Particular attention should be given to joint approaches and messaging on PFM, corruption and governance issues.
3. **Make use of the Global Partnership to raise the debate around UCS:** The GPEDC should engage senior and technical officials in development agencies (e.g. EU institutions, EU MS) as well as in partner countries to take a proactive role in the partner-country level monitoring exercise and ensure a well-coordinated post-monitoring discussion on the use of results on UCS to seek to improve performance (as envisaged in the upcoming Action Dialogues organized by the GPEDC). A priority should be dialogue with partner countries on the causes of reduced use of country systems and what measures and improvements would be required to re-start using them. Noting that other dimensions of good governance and sound public policies and institutions are a stronger factor for increasing UCS than just PFM improvements, it will be particularly useful to unpack these.
4. **Review the definition of UCS in line with the 2030 Agenda:** There is urgency to rethink and broaden the definition of what constitutes country systems beyond PFM and the public sector. This would involve adjusting the concept of UCS to the 2030 Agenda and the increased role for non-state actors and institutions (e.g. CSOs, foundations, private sector, academics, etc) in delivering sustainable development.
5. **Engage in dialogue on the political drivers for not using country systems:** Many of the drivers of the decreasing trend in UCS derive from political and economic factors in donor domestic constituencies. The OECD-DAC should promote debate among its members about the constraints to use of country systems they face and how to address domestic political concerns in ways

that do not negatively affect commitments on effectiveness – including UCS, on both the donors' side as well as on the partners countries' side.

6. **Further develop approaches to UCS in fragile contexts:** Support for fragile countries through budget support, basket funds or multilaterals, as well as being a significant driver of UCS, is a key tool to rebuild the state and public sector, which is essential for a sustainable exit from fragility. It is recommended therefore that EU and MS continue to progressively build the conditions for UCS in fragile contexts and develop the modalities to do so.

7. **Examine a new approach to communication about aid and development results:** The need for visibility and the need to communicate results directly attributable to their cooperation can present an obstacle for donors when making the decision to use country systems as these do not easily meet the reporting and accountability requirements donor domestic public and political constituencies. It will be important to build an approach to communicating about aid, which provides visibility of the donor contribution to a joint effort and recognises that building systems is essential to sustainability and that achieving impact and successful development implies taking and managing risks.

References

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