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## **Are the Paris Principles Being Implemented? An Overview of Localizing Aid in Fragile Settings**

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Lessons from Haiti**

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*“Accompaniment is an elastic term. It has a basic, everyday meaning. To accompany someone is to go somewhere with him or her, to be present on a journey with a beginning and an end. The companion, the accompagnateur, says: I’ll go with you and support you on your journey; I’ll share your fate for a while. And by ‘a while,’ I don’t mean a little while. Accompaniment is about sticking with a task until it’s deemed completed, not by the accompagnateur, but by the person being accompanied.” Paul Farmer*

## Introduction

The aid enterprise has contributed to a number of achievements – notably, higher rates of child survival and reduced mortality from HIV, malaria and other infectious diseases. However, the gains achieved through transfers of technology and expertise cannot be sustained if we fail to strengthen the public institutions that are responsible for the ongoing delivery of healthcare and similar goods to all members of society.

The principle that aid dollars are best used to pay people locally, to invest locally, and buy locally, and fall under the purview of locally elected leaders has long been accepted by the aid effectiveness movement, and was codified as policy in the *2005 Paris Declaration on Aid Effectiveness*.<sup>1</sup> In that document, donors agreed to align their aid with national development plans, channel it using the systems of public institutions, and delink funding from requirements to purchase goods and services from specific countries.<sup>2</sup> These principles were reiterated in the *2008 Accra Agenda for Action*<sup>3</sup> and yet again in the *2011 Busan Partnership for Effective Development*.<sup>4</sup> Focusing specifically on aid to fragile settings, the *2011 New Deal for Engagement in Fragile States*<sup>5</sup> included donor commitments to increase the percentage of aid channeled using national procedures for public financial management, accounting, auditing and procurement, with specific targets to be set at the country level.<sup>6</sup> The full cohort of these management tools and processes are commonly referred to as “country systems.” The 2011 New Deal also highlighted the partnership between donors and recipient governments, in which donors accepted the risk of engaging in fragile settings and recipient governments agreed to strengthen their financial management systems.<sup>7</sup>

The response of donors following the Haitian earthquake, however, suggests that the Paris Declaration commitments have not yet led to significant changes in the way aid dollars are spent, particularly with respect to how aid is channeled to local actors.<sup>8</sup> Although aid to Haiti almost quadrupled between 2009 and 2010, increasing from \$1.12 billion to an estimated \$4 billion,<sup>9</sup> hardly any of it went to Haitian institutions. For example:

- Of the \$2.42 billion disbursed by bilateral and multilateral donors to humanitarian relief efforts from 2010-2012, only 0.9 percent (\$22.5 million) was provided to the Government of Haiti;<sup>10</sup>
- Of the \$1.4 billion channeled to international and Haitian organizations participating in the UN humanitarian appeals from 2010 to 2012, Haitian organizations received only 0.12 percent (\$1.7 million);<sup>11</sup>
- Of the \$2.76 billion in recovery and development funding disbursed by bilateral donors from 2010-2012, only 5.4 percent (\$149.2 million) was disbursed to the Government of Haiti using its systems;<sup>12</sup>
- Of the millions of dollars in procurement contracts issued by one of the top five donors following the earthquake, only 1.4 percent was awarded to Haitian businesses.<sup>13</sup>

These trends are reflective of how aid generally is provided to poor and fragile polities in a global political economy, commonly referred to by donors as “fragile settings” or “countries in fragility.”<sup>14</sup>

Countries in fragility together receive an estimated 30 percent of all global aid, approximately \$50 billion a year.<sup>15</sup> Research shows that 80 percent of aid from major bilateral and multilateral donors to fragile settings bypasses the systems of local public institutions (see Table 2 on page 9 for more information).<sup>16</sup> And even when aid is untied in least-developed countries, only four percent of it is used to purchase goods and services from firms in those countries.<sup>17</sup> There is also evidence showing that in some contexts, only 10 percent of the funding of international organizations has a local economic impact.<sup>18</sup>

As the Organisation for Economic Cooperation and Development (OECD) notes, donors accept contextual, programmatic and institutional risks when engaging in fragile settings, yet maintain “organisational cultures whose incentive structures tend to discourage appropriate risk taking.”<sup>19</sup> As a result of donors’ imperatives to reduce their own risk, national and local public institutions are often ineligible to receive their funds, and while local civil society or private sector actors are more likely to be eligible, they generally receive only a very small percentage of any funds disbursed.<sup>20</sup>

Experience in fragile settings suggests that the common tools the international community relies on to solve complex problems in such circumstances often do not help national actors play a more meaningful role in directly managing international assistance. Some trust funds used in countries in fragility have rules that forbid them to disburse to local institutions directly; they and other funding sources may also have minimum fiduciary standards for grantees that most local entities cannot meet. The Haiti Reconstruction Fund is an example – it can only disburse to three multilateral institutions: the Inter-American Development Bank, the United Nations and the World Bank.<sup>21</sup> These organizations function as intermediaries, often adding cost, delaying realization of projects, detracting from ownership by Haitians, and making it complicated for Haitian institutions to access funds. Humanitarian appeals and humanitarian pooled funds provide another example of funding sources that exclude country systems from the outset.<sup>22</sup> Overall, these design characteristics of financial disbursement systems often reflect an over-emphasis on fiduciary risk, and come with serious opportunity costs.

One challenge that states in fragility face as they try to take ownership of their official development assistance (ODA) is setting up aid tracking databases financed by donors. Known as aid management information systems (AIMS), these databases are urged upon governments by donors and international experts as a tool to use data on funders’ planned and ongoing programs, and to manage current assistance. However, a review undertaken by the United Nations (UN) on the use of such systems in fragile settings reported that the most common ones are often expensive to run – costing from \$250,000 to \$300,000 annually in the first years of establishment – when less complex but equally effective models are available much more cheaply.<sup>23</sup> The UN review also found that AIMS were often established in external structures, making it “difficult for governments to take the lead on aid information management” even “once sufficient national capacity is in place.”<sup>24</sup>

ODA is, of course, only one component of a country’s complex development ecosystem. Yet, in many fragile settings it represents a significant proportion of the country’s financial resources. For example, with \$9.04 billion in public and private money, aid to Haiti was more than three times the government’s own revenue expenditure from January 2010- June 2012.<sup>25</sup> In the long-term, managing the government’s own internal revenue is the most important objective. If systemic change is the goal, it is of course domestic revenue that will in the longer run fuel

service delivery and poverty reduction. It is therefore critical to ensure that the systems developed to plan for, manage, track and assess ODA are built with a view that the government be able to utilize those same systems for all of their internal revenue.

Myriad political and economic reasons inform donors' decisions in regard to their ODA investments. This paper focuses specifically on the complexities of localizing aid, including the benefits of investing in country systems and the obstacles in doing so. It considers methods already used by donors to mitigate risks, and suggests ways that the aid community can more effectively increase the amount of funding channelled locally, thereby narrowing the gap between the Paris Declaration and its realization. The paper reviews good practice on deploying mechanisms that include safeguards for accountability and transparency so that more aid to fragile settings can stay in country. It also considers how to make aid spent this way most effective – notably by giving more attention to program implementation. Finally, the paper concludes with suggestions for the donor community about refining the definitions and indicators of their own success when working in fragile settings.

### **Rwanda: An Exception?**

Not one country in the low-income, fragile or conflict-affected settings, which are home to approximately 1.5 billion people, has yet achieved a single United Nations Millennium Development Goal,<sup>26</sup> despite investments of approximately \$50 billion in aid annually.<sup>27</sup> Is aid ineffective? The case of Rwanda—twenty years ago an extremely fragile state wracked by internal conflict—suggests that the mode of delivery needs to be rethought.

Over the past decade, Rwanda has worked out its own approach to aid management and has, at the same time, made historic progress on development measures. Remarkably, it is now on track to achieve many of the MDGs by 2015. Rwanda has seen one of the most dramatic reductions in premature mortality in history, including child and maternal mortality.<sup>28</sup> Since the low point of the 1994 genocide, per capita income has almost tripled and GDP has quadrupled, growing at an average of 8.1 percent annually since 2000.<sup>29</sup>

The Rwandan transformation is a result of many factors, including strong and competent leadership.<sup>30</sup> Beginning in 1998 and 1999, the Rwandan government began to articulate its priorities for aid management, through its Vision 2020 policy. It called on donors to rebuild government systems, institutions and processes by investing in them. Under the leadership of the government, many of the country's donors agreed to provide general budget support beginning in 2000.<sup>31</sup> As part of the Rwandan 2006 aid policy, the government required donors to channel funds in support of the national development strategy and maintained its right to *decline* aid that was not aligned with this strategy or had high transaction costs or conditionalities.<sup>32</sup> In 2009, the Rwandan government developed its Donor Performance Assessment Framework.<sup>33</sup> This mechanism assesses each donor's degree of implementation of the Paris Declaration commitments, as well as other important factors, like the ability to provide timely and high quality data on aid programs. These policies have been extremely effective. In 2005, Rwanda was receiving 37 percent of its aid through country systems; by 2010, the figure had increased to 56 percent.<sup>34</sup> These resources helped to fund the implementation of the government's development strategies, which have resulted in the outcomes described above.<sup>35</sup> Rwanda has now received an "A" rating from the World Bank for the quality of its development policy, one of only two countries to do so and the only country in fragility to receive this top score.<sup>36</sup> In preparation for the Busan conference, the Rwandan government and its development partners signed a statement of action that a) reinforced the commitment to the use of country systems in Rwanda, and b) noted that donors' reluctance to do so was "no longer principally dependent on technical

improvements but rather is subject to political decisions and legal constraints by development partners.”<sup>37</sup>

### The benefits of investing in country systems in fragile settings

A number of governments in fragile settings are – individually and collectively – beginning to take more of a leadership role in aid management. There is also a body of research on the beneficial effects of channeling aid through country systems.

In recent years, a series of evaluations have examined outcomes in cases where aid is channeled through country systems. Programs that fund through country systems typically include the following features: (i) funding through country systems of public financial management, including budgeting, procurement, payment (treasury), accounting and auditing; (ii) dialogue with and conditionality for the recipient agencies; and (iii) the provision of technical assistance that complements the fiscal support. Channeling aid in this way has been shown to have two major benefits. First, such programs provide incentives to both governments and their donor partners to improve the quality of national systems.<sup>38</sup> Greater attention from governments and their donor partners has been shown to strengthen the practices associated with the public financial management systems that a government uses for budgeting, financial reporting and auditing.<sup>39</sup> A 2012 study of financial management reform programs in eight countries in fragility undertaken by the World Bank reported that budget recording and reporting improved across all countries when investments were made in national and local institutions, even in countries with limited overall improvement in financial management ratings.<sup>40</sup> Other evaluations have found that using country systems, with associated dialogue and conditionality, as well as technical assistance, has resulted in the following improved practices:

- *A better budget*, with the Ministry of Finance having greater capacity to manage the budget and disburse funds on time, and the whole of government more fully participating in the budget process;<sup>41</sup> and
- *Improved financial reporting*, with ministries being able to better monitor and account for their use of public funds.<sup>42</sup>

Second, such programs have increased the amount of resources governments can use to pursue their development strategies. For example, in 18 out of 22 reviewed cases, governments that received budget support increased spending on basic services, especially in health and education.<sup>43</sup> This increased spending has had impressive results. For example, one evaluation of sector budget support found that in all cases where government policies aimed to expand basic services, budget support did in fact lead to better access to services, although the quality and equity of the services did not necessarily show an equivalent improvement.<sup>44</sup>

Notwithstanding these benefits, the use of country systems by donors remains limited in fragile settings, and the question has been raised whether the aid effectiveness movement should continue to advocate for donors to do so.<sup>45</sup> There remains a broad consensus that, while donors will continue to channel aid through a mix of modalities in fragile settings,<sup>46</sup> *increasing* the use of country systems should be a key long-term goal for governments and their donor partners. In addition, the donor community reaffirmed at an April 2013 meeting on the implementation of the New Deal, that governments and their donor partners recognized the need to enhance “efforts to manage risks, increase the use of country systems – with appropriate financial management in place and consistent with national laws and internationally agreed principles – and to support the building of national capacities.”<sup>47</sup>

Donors have continued to set individual goals for the use of country systems and for strengthening the management of their operations. USAID, for example, has committed, as part of USAID *Forward*—its agency-wide reform agenda launched in August 2010<sup>48</sup>—to increasing from 9.7 percent in FY2010 to 30 percent in FY2015 the share of its program funds that are disbursed directly to national and local governments, NGOs and businesses.<sup>49</sup> Both DFID (2011)<sup>50</sup> and the EU (2012)<sup>51</sup> recently published new policies that strengthen the design and management of their budget support operations, and the World Bank and the African Development Bank (AfDB) published a paper on budget aid in fragile contexts,<sup>52</sup> including budget support and other types of funding that support the state. The EU policy highlights budget support as a “vector of change” that can be used to address the challenges of state building in fragile settings.<sup>53</sup> Similarly, the World Bank and AfDB paper called for greater consideration of how “budget aid can play an important role” in state building and strengthening state capacity.<sup>54</sup> Both the DFID and EU policy statements also name budget support as a modality through which donors can help strengthen country systems for financial management and accountability.<sup>55</sup>

As part of determining how to invest resources in a given context, each donor must first assess the risks associated with different funding modalities and then decide if and how it will manage them. The OECD identifies three basic categories of risk when investing in fragile settings: contextual, programmatic and institutional.<sup>56</sup> But although each is significant, many institutions and individuals who have studied the question—from the OECD,<sup>57</sup> to the independent review of the Paris Declaration,<sup>58</sup> to development experts like those from the UK-based think tank the Overseas Development Institute<sup>59</sup>—see fiduciary risk as one of the “highest areas of sensitivity” for donors. One reason for this is that any donor perceived to have lost an undue portion of its aid to corruption faces potentially devastating criticism from its constituency, especially in this era of fiscal austerity.<sup>60</sup>

### How donors assess the fiduciary risk of using country systems

The policies of three major donors, USAID, DFID and the World Bank, on how to evaluate fiduciary risk when considering investment in country systems were reviewed for this paper and are summarized in Table 1.

In 2011, the *New Deal for Engagement in Fragile States* included a commitment by donors to conduct joint risk assessments. The rationale is that it is a burden on a recipient country with limited capacity to undergo separate risk assessment processes for every donor. Additionally, it is often extremely cumbersome and difficult for governments to adhere to multiple, different sets of donor conditions.

As Table 1 shows, all three donors conduct formal fiduciary risk assessments using their own specific tools and their own staffs.<sup>61</sup> These assessments are designed to evaluate the quality of the financial management systems of the recipient government, with particular attention to risk of corruption or loss of funds through other kinds of mismanagement. In its report *Managing Risks in Fragile States* the OECD defines fiduciary risk as the risk of “loss” or “failure” resulting from “corruption or financial mismanagement.”<sup>62</sup> DFID gives a broader definition, including situations where “funds are not used for the intended purposes; do not achieve value for money; and/or are not properly accounted for.”<sup>63</sup> Corruption, which is specifically mentioned in the OECD definition, is defined by the World Bank as “an abuse of public office for private (financial or political) gain.”<sup>64</sup> Distinctions are often made between grand corruption, involving senior level politicians and civil servants, and petty corruption, involving frontline civil servants.

**TABLE 1 - HOW THE USG, UK AND THE WORLD BANK MAKE DECISIONS IN REGARD TO THE USE OF COUNTRY SYSTEMS**

	<b>US Government (USAID)</b>	<b>UK Government (DFID)</b>	<b>World Bank</b>
Policies for using country systems	"When bilateral political conditions allow, when use of country systems will not empower a government at the expense of its people, and when fiduciary risk from use of partner country systems can be identified and mitigated appropriately." <sup>65</sup>	<p>Step 1: Assess against governments' commitment to:</p> <ol style="list-style-type: none"> <li>1. Poverty reduction and the Millennium Development Goals;</li> <li>2. Respecting human rights and other international obligations;</li> <li>3. Improving public financial management, promoting good governance and transparency and fighting corruption; and</li> <li>4. Strengthening domestic accountability.</li> </ol> <p>Step 2: Compare the "value for money" of budget support vs. other aid modalities.<sup>66</sup></p> <p>Note: DFID also requires a "credible commitment to reform" as part of their fiduciary risk assessment process.</p>	<p>World Bank staff prepare a Country Assistance Strategy (CAS), which determines aid modalities, including<sup>67</sup> different types of budget support.<sup>68</sup></p> <p>The Bank also has the ability to provide untied direct budget support through its Development Policy Operations (DPO). Selection is based on an assessment of the country's policy and institutional framework - in particular, the country's macroeconomic policy and past performance, as well as its institutional capacity and capacity building efforts.<sup>69</sup> PFM quality is seen as an outcome rather than a pre-requisite.<sup>70</sup></p>

<p>Are PFM capacity assessments conducted before using country systems?</p>	<p>Yes, they are mandatory. Determined through a formal process: the Public Financial Management Risk Assessment Framework (PFMRAF).  Stage 1: Assessment of PFM systems  Stage 2: Assess risks and whether and how they can be mitigated.  If the assessment does not support the use of country systems, then ADS 220 directs USAID to develop a plan with the government to address shortcomings.<sup>71</sup></p>	<p>Yes, mandatory, through a formal process: the Fiduciary Risk Assessment (FRA). In addition, DFID commits to undertaking a Public Expenditure and Financial Accountability (PEFA) assessment once every five years.<sup>72</sup></p>	<p>Yes, as part of CAS. There are no minimum thresholds to be met. Guidance remains broad, suggesting that World Bank staff preparing the CAS can draw on the many analytic tools developed by the World Bank to assess fiduciary capacity and risks. These include: Public Expenditure and Financial Accountability (PEFA) assessments; Country Financial and Accountability Assessment (CFAA); Public Expenditure Reviews (PERs); Country Procurement Assessment Reports (CPARs); and Public Expenditure Management and Accountability Review (PEMFARs).</p>
<p>Are service delivery capacity assessments conducted before using country systems?</p>	<p>Service delivery capacity is a consideration; There is no formal assessment mentioned in ADS 220, but it does refer to the following consideration: "whether the proposed implementing ministry/agency/other unit of government has staff with sufficient technical capacities to implement directly the assistance."<sup>73</sup></p>	<p>DFID does not undertake service delivery capacity assessments.<sup>74</sup></p>	<p>Yes. The CAS includes a focus on both institutional and implementation capacity. Likewise, guidance seems to be to drawn from the use of a range of tools developed by the World Bank and there is no minimum threshold that the country must meet.<sup>75</sup> According to the common approach paper, it is rare to find systematic assessments of a country's absorptive capacity (at the World Bank, African Development Bank or European Commission).<sup>76</sup></p>

USAID's risk-assessment process makes use of a five-stage tool called the Public Financial Management Risk Assessment Framework (PFMRAF) which helps it decide whether and how to distribute funding.<sup>77</sup> Recipient government must accept the findings<sup>78</sup> before any monies can be disbursed. The first stage of PFMRAF (which operates differently depending upon whether the grantee government is above or below USAID's democracy threshold,<sup>79</sup>) assesses: (i) the government's commitment to transparency and accountability, as well as the efficiency and effectiveness of its use of public funds; (ii) the quality of PFM systems and democratic accountability mechanisms; and (iii) the risk of corruption, waste, fraud or other abuse.<sup>80</sup> Stage two of the PFMRAF, in which a more in-depth risk assessment is conducted, includes testing of PFM systems as needed "to validate overall systems operations and internal controls, and identify performance risks" and PFM capacity.<sup>81</sup> The USAID Mission Director then decides whether or not to use country systems on the basis of the stage-two assessment; stages three to five involve the preparation of the broader program design.<sup>82</sup>

DFID's risk assessment tool, the Fiduciary Risk Assessment (FRA), is its mandatory process for deciding whether or not to provide budget support to a government.<sup>83</sup> Also focused on the potential risks stemming from the quality of PFM systems and corruption, it performs an analysis of PFM systems' broader governance, economic and political contexts, and past performance. It also assesses the risk of corruption; the potential financial impact of such risk; the extent of PFM and anti-corruption reform efforts; and the 'residual risks' after short-term mitigation measures have been implemented.<sup>84</sup> In addition, as part of its process, DFID commits to performing a Public Expenditure and Financial Accountability (PEFA) assessment, an extensive evaluation of a government's public financial management and procurement systems endorsed by seven key international donors, every five years.<sup>85</sup>

The World Bank determines its levels and shares of aid modalities through the Country Assistance Strategy (CAS). Assessments of local corruption and PFM are key aspects of a broader evaluation of the country's governance, with emphasis on how these features might affect program results.<sup>86</sup>

All three donors note the importance of weighing risks and benefits of using country systems. They have also given consideration to those mechanisms by which fiduciary risk, once identified, can subsequently be mitigated. (Examples of these strategies will be discussed in the next section.<sup>87</sup>) USAID's guidance note specifies that the identification of risks must be followed by "positive actions ... required for mitigation"<sup>88</sup> and, in the case of corruption, that government efforts to combat corruption should be weighed favorably when considering the use of country systems.<sup>89</sup> DFID's FRA includes a list of actions that can be taken to mitigate potential risks; it also features an analysis of the relative value of budget support as compared to other aid modalities.<sup>90</sup>

Once the risks have been evaluated, donors may decide whether they are justified in not giving funds through country systems, or that channeling through those systems can in fact be managed, using appropriate mitigation and/or capacity-building measures. While donors clearly place the highest priority on identifying risk when working in fragile settings, it is less clear whether or not there is a consistent positive correlation between their assessments and their willingness or reluctance to fund through country systems.<sup>91</sup> For example, although the World Bank has a system for rating country systems for corruption and other aspects of fiscal responsibility, the OECD found that the relationship between higher ratings and donors' use of a country's systems is "at best weak."<sup>92</sup> Data gathered for the OECD's 2011 *Survey on the Implementation of the Paris Declaration* makes visible a wide range of donor behavior towards countries with the same ratings;<sup>93</sup> the figures are presented in Table

2 (page 8), and show great variation in the proportion of aid that donors channel through country systems even when they have received identical World Bank rating. This is especially true for countries in fragile settings.<sup>94</sup> For example, while Cameroon and Nigeria both had a PFM rating of three in 2010, Cameroon receives only 7.7 percent of its aid through its systems, while Nigeria receives 25.0 percent. This variance suggests that donors are not relying on the World Bank ratings to make their disbursement decisions, and that other factors are influencing those decisions.

**TABLE 2: USE OF COUNTRY SYSTEMS IN FRAGILE SETTINGS BY COUNTRY IN 2010**

Country <sup>95</sup>	PFM ranking <sup>96</sup>	HR ranking <sup>97</sup>	Total aid <sup>98</sup>	Disbursed through country systems <sup>99</sup>	
				\$	%
Congo Dem.Rep.	2.5	3.5	5954.1	132.7	2.2%
Chad	2.0	2.5	495.5	13.5	2.7%
Liberia	2.5	2.5	1832.9	63.6	3.5%
Guinea-Bissau	2.5	2.5	302.6	14.9	4.9%
Sudan	2.0	2.5	1976.5	125.5	6.3%
Cameroon	3.0	3.5	650.4	50.4	7.7%
Togo	3.0	3.0	545.2	58.4	10.7%
Gambia	3.5	3.5	106.8	11.5	10.7%
Haiti <sup>100</sup>	3.0	2.5	3890.7	421.60	10.8%
Timor-Leste	3.0	3.0	291.0	36.9	12.7%
Sao Tome & Principe	3.0	3.5	47.6	6.1	12.7%
Comoros	2.0	3.0	55.4	7.3	13.1%
Central African Rep.	3.0	2.5	269.1	36.5	13.6%
Niger	3.5	3.5	738.6	120.6	16.3%
Solomon Islands	2.5	3.0	345.1	56.9	16.5%
Papua New Guinea	3.0	2.5	551.8	93.5	16.9%
Afghanistan	3.5	3.0	6428.3	1,171.2	18.2%
Burundi	3.0	3.5	630.3	126.4	20.0%
Tajikistan	3.5	3.0	427.0	104.6	24.5%
Nigeria	3.0	3.0	2085.7	522.1	25.0%
Kenya	3.5	4.0	1853.6	470.9	25.4%
Sierra Leone	3.5	3.5	452.3	117.4	26.0%
Tonga	3.5	4.0	72.3	19.3	26.6%
Uganda	3.5	3.5	1709.6	633.6	37.1%
Nepal	2.5	4.0	946.2	426.2	45.0%
Ethiopia	3.5	4.0	3469.9	1,826.0	52.6%
Rwanda	4.0	4.5	1021.6	567.9	55.6%
<b>Total</b>			<b>37,150.25</b>	<b>7,235.26</b>	<b>19.5%</b>

## Other means of evaluating the degree of fiduciary risk

The evidence reviewed for this paper suggests that a) risks of corruption may not be significantly higher in fragile settings than elsewhere; b) the amount of aid actually lost to corruption is quite difficult to measure; and c) there is little or no established relationship between the distribution of aid through country systems and a greater risk of its loss through incompetence or corruption.

### a) The risks of corruption in fragile settings

The OECD has reported that the quality of financial management systems in fragile settings is only marginally worse than that of other countries participating in its aid effectiveness surveys<sup>101</sup> (fragile settings have an average rating of 2.9 out of 6.0 compared to the average of 3.6 out of 6.0 for other countries.<sup>102</sup>) In addition, slightly greater progress on improving the quality of these systems has been seen in fragile settings: 44 percent (4/9) of fragile settings improved their scores on the CPIA rating by at least 0.5 points between 2005 and 2010,<sup>103</sup> versus 38% (20/52) for all countries.<sup>104</sup>

The World Bank Enterprise Survey (WBES) also provides survey data on the payment of bribes by businesses. This data allows for comparison between countries in fragile settings and others.<sup>105</sup> The WBES produces 13 measures bearing on the prevalence of corruption (but not on the *amount* lost to it), such as “percent of firms expected to give gifts to public officials to get things done.” Countries in fragility, on average, do have a worse score than the average for all other countries on 12 out of 13 measures. But this average obscures the fact that some countries in fragility performed well. In fact, Rwanda stands out, with better scores than the global average for all 13 measures; on 7 of the 13, it even has a lower score than the average for high-income OECD countries.<sup>106</sup>

### b) Corruption in context

For this paper, an online search was conducted of all 25 donor members of the OECD’s Development Assistance Committee seeking information on the relationship between aid and corruption.<sup>107</sup> Of the 25 donors, six published data on aid determined to be lost to corruption or fraud: these six are AusAID; Belgium; Denmark; DFID; European Commission and USAID. Together, they gave an estimated \$47.8 billion in aid in 2011,<sup>108</sup> funds that together amounted to approximately 31.7 percent of all aid reported to the OECD.<sup>109</sup> As shown in Table 3 (page 13), however, the quantity of aid that these donors detected either as being lost to fraud or as being an improper payment ranged from only 0.015 to 0.16 percent (see table 3).<sup>110</sup> While this data must be treated with caution—as it reflects only corruption that has been detected—it is much lower than figures commonly used in the international community when discussing how much aid is lost to corruption.<sup>111</sup>

It is useful to note that USAID uses a different measure (counting “improper payments,” which may include “overpayments or underpayments, and occur when funds go to the wrong recipient, the recipient receives the incorrect amount of funds, documentation is not available to support a payment, or the recipient uses funds in an improper manner.”<sup>112</sup>) This USAID category is a much broader concept than *detected fraud*, which is the basis of the figures presented for the other donors. (It is also interesting that out of 66 US federal government programs for which data is available online, including domestic programs run by the US Department of Defense, Department of Health and Human Services, and various other state agencies, USAID had the eighth lowest “improper

payment rate"<sup>113</sup>)

Of course, these figures refer to ODA generally, not specifically to aid delivered through country systems, so they do not tell us whether more aid is lost when it is distributed that way. The relationship between aid channeled through country systems and corruption is discussed further below, but there is no clear evidence of higher losses when this kind of aid is used. It is interesting to note that DFID spent over approximately \$10.9 billion in aid in 2010-2011, of which only 0.015 percent (\$1.9 million) was reported as losses due to fraud – the lowest rate of any donor included in Table 3.<sup>114</sup> Yet it channeled the highest amount of any donor included in Table 3 through country systems in fragile settings, according to the 2011 survey on the implementation of the Paris Declaration.<sup>115</sup> More research and analysis are needed in this area to gain a better understanding of how much aid provided through country systems is lost to fraud, and how this compares to aid channeled through other modalities.

**TABLE 3: ESTIMATES OF AID THAT IS FOUND TO HAVE BEEN UNACCOUNTED FOR BASED ON PUBLICLY AVAILABLE DATA**

	Evidence of aid affected by fraud, corruption or improper payments <sup>116</sup>			Percent using country systems in fragile settings in 2010 <sup>117</sup>	Percent of aid channeled to fragile settings in 2010 <sup>118</sup>
	Percent	Terminology	Timeframe		
AusAID <sup>119</sup>	0.017%	Fraud	July 2004 - Dec 2010	9.0%	28.9%
Belgium Development Agency <sup>120</sup>	0.038%	Financial loss	2010 - 2011	4.4%	44.0%
Denmark <sup>121</sup>	0.022%	Fraud or abuse	2007 - 2010	21.0%	15.5%
DFID <sup>122</sup>	0.015%	Fraud	April 2010 - March 2011	29.4%	23.8%
EU <sup>123</sup>	0.132%	Fraud	2007 - 2010	22.1%	22.6%
USAID <sup>124</sup>	0.163%	Improper payments	Oct 2010 - Sept 2011	0.8%	29.8%

**c) There is no established empirical relationship between aid through country systems and higher fiduciary risk or corruption**

As shown in Table 3, the estimated amount of aid lost to fraud or improper payments varies across the six donors, but does not appear to correlate with the proportion that a donor invests through national systems in fragile settings. Studies have examined whether funding through country systems does in fact entail greater risk of loss of funds. While the results have been mixed, they do not conclusively show that aid through country systems is subject to greater corruption.<sup>125</sup> A 2013 ODI survey of literature commissioned by USAID also suggested that the fiduciary risks of using country systems in fragile contexts are not necessarily greater than the risks associated with bypassing them. It notes that donors can mitigate these risks, and it makes clear that investing through country systems is likely to have the effect of strengthening these systems to make them more effective in the long run.<sup>126</sup>

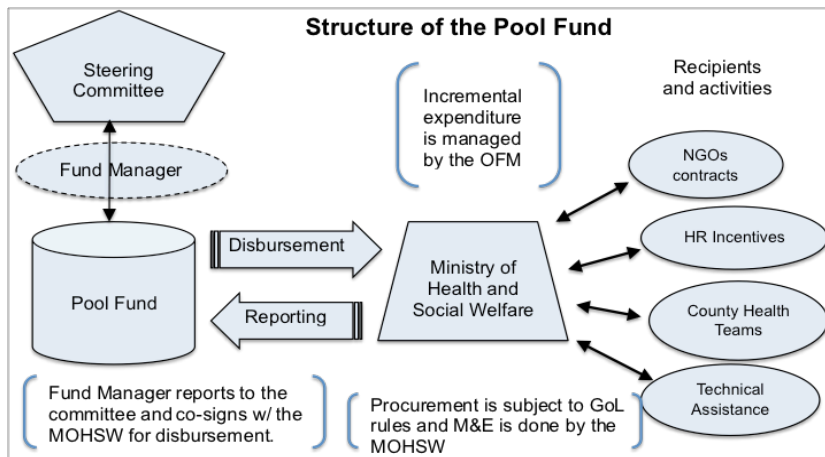
**Mitigating fiduciary risk of using country systems: best practice**

Mutual accountability between donors and governments is an important concept when establishing good practice in fragile settings. It starts with the premise that the two partners in the development relationship—donors and governments—have responsibilities both to each other and to their own constituents. The good practice examples below were generally developed within this context of mutual accountability—with both parties working within a mutually agreed upon system to hold each other accountable.

Donors have provided funds for civil servant salaries and continue to do so in some fragile settings. For example, in Uganda, the UN supplemented the salaries of all staff in Ministry of Finance, increasing their income from \$20 a month to \$150 a month for professionals and \$90 a month for support staff.<sup>127</sup> The project lasted from 1989–1996 and was phased out when a new living wage salary scheme for the entire civil service was introduced.<sup>128</sup> As noted by an ODI report, the total cost of the initiative “was less than that of a single expatriate technical assistant,” yet it was “consistently rated one of the most effective capacity-building projects and by the end of it the ministry was considered to be one of the strongest finance ministries in Sub-Saharan Africa.”<sup>129</sup> More recently, the World Bank, African Development Bank and the EU in the DRC, and USAID in Liberia have covered the salaries of teachers and nurses on a reimbursement basis, providing much needed support to the national budgets in these fragile settings.<sup>130</sup>

There are numerous examples, in a range of settings, of donors who have had success investing locally. The sector-wide approach (SWAP) is often used, for example, to fund a particular sector or policy under the direction of the government. While SWAPs do often provide sector budget support, even when country systems are not used, they can serve to align policy priorities with government leadership. This paper examines several examples of good practices that helped donors and international partners use the tools available to them to best support national institutions when working in a fragile setting. Many of these are funds in fragile settings that are managed by the World Bank, the UN, or governments themselves in partnership with private firms that can enable donors to channel funds through country systems. One successful strategy uses private-sector entities to make contracts with governments that entail the use of specific safeguards and benchmarks designed to help monitor the use of funds.

In Liberia, for example, after 14 years of conflict, the newly elected Government of Liberia (GoL) established the Health Sector Pool Fund (HSPF) in 2008 to support the new National Health Plan.<sup>131</sup> The HSPF was designed to use country systems in a context of extremely limited government capacity, before the enactment of the 2009 national legal and policy framework formally establishing the government’s systems for managing its finances. To address the fiduciary concerns of potential donors, the GoL solicited donor support to hire a private-sector accounting firm. The firm would help the GoL to first develop a financial management function within the Ministry of Health and Social Welfare (MOHSW) that would meet international standards, including development of policies and procedures and training MOHSW employees on the use of new hardware and software. The Office of Financial Management (OFM) preceded establishment of the HSPF, which employed other risk mitigation strategies, such as retaining an international fund manager to make and to monitor incremental fund disbursements to the OFM, to conduct sample-checking of expenditure, and to provide complementary funding to strengthen the institutional capacity of the MOHSW in areas like sector planning, budgeting, and internal audit.<sup>132</sup> To ensure transparency and improve health sector coordination, the HSPF has a steering committee chaired by the Minister of Health and Social Welfare that includes both contributing and non-contributing donors. All proposed funding allocations originate with the MOHSW, are discussed and approved by the steering committee, and include a fiduciary risk assessment developed by the fund manager that includes a strategy to manage identified risks.<sup>133</sup> The institutional capacity-building gains made in PFM through the support of the HSPF have enabled the MOHSW to increase the total volume of funds it manages from \$12 million in 2007 to \$69 million in 2012. The MOHSW now receives funding from a range of other sources, including the GoL, the Global Fund to fight AIDS, Tuberculosis and Malaria (GFATM), USAID and other non-contributing donors to the pool fund.<sup>134</sup>



In another example, after election-related violence in Ethiopia in 2005, donor resistance to providing direct budget support led to the establishment of the Protecting Basic Services (PBS) fund, which has been the main multi-donor channel for support to education, health, agriculture, water and roads in Ethiopia since 2006.<sup>135</sup> The PBS uses country systems by working through the Government of Ethiopia's (GoE) Federal Block Grant (FBG) subsidy program for funding decentralized levels of government. Through the PBS, donor contributions to the FBG are commingled with GoE's contribution and are therefore indistinguishable from government funds when they reach the decentralized level, where local government systems are fully used. To mitigate the perceived risks of using country systems, the PBS also funds other programs that support financial transparency, strengthening PFM, social accountability and monitoring and evaluation. The GoE reports against core fiscal indicators, known as "tests," to ensure that donor funds are additional to government funds and to ensure that government funds have not been redirected to other priorities. The strategy is underpinned by a robust system of dialogue, based on Joint Budget and Aid Reviews between the GoE and PBS donors. This unusual aid delivery design does not reflect standard definitions of sector support or budget support, but it has bolstered donors confidence that their funds are used for basic services while safely and effectively using country systems and reinforcing the GoE's system of decentralisation.<sup>136</sup>

Since 2010, UNDP has also established national level multi-partner trust funds (MPTF) in four countries (the Democratic Republic of the Congo, Ecuador, Ethiopia, and Mali). Following the first request from the Government of Ecuador, UNDP established a new "legal instrument and related operational procedures that enabled it to provide fund management services to the Government."<sup>137</sup> The model is similar to UN MPTFs which only disburse to UN organizations, but has been adapted to enable UNDP, as the trustee, to disburse directly to the national government, which takes full financial and programmatic accountability for the use of the funds.<sup>138</sup> The government is able to use the funds in accordance with its own regulatory framework, provided that it "do[es] not contravene the principles set out in UNDP's regulations and rules, policies and procedures."<sup>139</sup> The financial statements associated with the fund will be made available on UNDP's MPTF website.

### When funding through public systems is not yet possible

This paper has argued for the benefits of funding through country systems, and has described several examples of successful strategies for doing so. But it is understood that not all governments

in fragile settings are, at any given moment, the best providers of services to their populations. There are circumstances when it is not reasonable or even possible to disburse funds through governments in fragile settings. Under these circumstances, it is necessary to find other local service providers to work with as partners, always keeping in mind that, in the long run, if the government changes or begins to improve, the goal is to return to working with it.

Donors can contribute to aid effectiveness by ensuring that their funds are both recorded in the national budget and disbursed promptly. The International Budget Partnership has been monitoring donor efforts in this area. Data from the 2011 Paris Declaration Survey shows that 67 percent of the aid that was recorded in national budgets in 2010 was reported as disbursed.<sup>140</sup> Yet there remains significant variation from state to state. While 86 percent of aid recorded in the national budget in Ethiopia was disbursed in 2010, only 23 percent of aid recorded the same way in Afghanistan was disbursed in the same year.<sup>141</sup> There is still room for donors to make considerable progress on this issue.

One way to work outside government systems without undermining them is what is called “shadow systems alignment.” This is an aid distribution method designed not to be harmful to or inconsistent with existing or future state structures, such as administrative geographical boundaries or budget cycles. Donors committing to shadow alignment will publish their own financial and programmatic outputs at the same time as the government does, using identical formatting and classifications. In this way, donors can provide services while pursuing a long-term strategy to support the state so that it can manage service delivery in the future.<sup>142</sup> For example, donors may report their aid in the budget of the host government while using government policies and protocols for service delivery, even though their aid is not channeled directly through public institutions.

### **Working with local NGOs – the example of Chiapas**

While Mexico is not a country in fragility, the indigenous residents of Chiapas have struggled with political violence since the mid-1980s. Partners In Health (PIH), the non-governmental organization Paul Farmer co-founded in 1987, supported a local community-based organization, the Team for the Support of Community Health and Education (TCP), in the region in the 1990s.<sup>143</sup> This Team used local health promoters to provide health services to marginalized communities and has been in operation since the mid-1980s. The decision by PIH not to work with the Ministry of Health in Chiapas was made after indigenous residents recounted acts of government-sponsored discrimination against their community. One example involved the destruction of the community’s medical records by the Mexican military—a clear indication that partnering with the government would be counterproductive to efforts to increase access to health care. Thus, despite the presence of nearby state-run clinics, PIH supported a parallel health infrastructure in this case.

PIH continues to work with the institutions created at the behest of the indigenous peoples of the Chiapas region. In recent years, however, it has also launched a project to collaborate with the Mexican Ministry of Health to create an affiliate that complements TCP’s focus on healthcare. While PIH in Chiapas assumes the importance of listening to the poor, it also recognizes that their needs and preferences and the context may change over time, and it is therefore important to continually reassess possible solutions along a continuum between private services and government programs.

## The risk of programmatic failure

While fiduciary risks are significant, other types of risk facing donors are no less important, and evidence shows that if development aid is to become truly effective, more attention to them is required. The OECD defines programmatic risk as the specific risk that a program will fail or cause harm to the external environment: failures caused by “inadequate understanding of the context or flawed assessment of what needs to be done; management and operational failures; and failures of planning and co-ordination.”<sup>144</sup>

In 2010, ODI undertook a major review of sector budget support in Africa.<sup>145</sup> The ten budget-support programs reviewed by ODI demonstrated a lack of attention to capacities for service delivery in relation to the way funds were prioritized; the way government-donor dialogue was structured; and the design of the capacity-development initiatives.<sup>146</sup> One example the ODI paper uses to illustrate a lack of attention to effective implementation of service delivery is an education sector budget support program in Uganda. While funding went through country systems, the funds were earmarked to bypass the district government, which is responsible for the improving the quality of education. Thus, no funding was made available to the district government to strengthen its management capacity. In addition, neither the dialogue between the government and its partners, nor the technical assistance provided as part of the sector program, focused on improving management capacity at the district level. There was a clear need for greater attention to improving this capacity; the ODI paper highlighted gaps in management and funding at the district level that directly affected the quality of services, including “serious” human resource issues (such as teacher absenteeism).<sup>147</sup> Similar findings are also highlighted by the 2006 joint evaluation of general budget support, commissioned by donors, which reported on education performance in Uganda after the introduction of free universal primary education as a “spectacular example” of the “sharp falls in quality” that often accompany the expansion of services.<sup>148</sup>

As noted above, ODI (2010) found that the key inputs of sector budget support programs – (i) funding, (ii) dialogue and conditionality, and (iii) capacity development support – are often so constrained by fiduciary risk mitigation measures that they fail to improve the quality of service delivery. Budget support funds are usually not flexible enough to increase the fiscal decision-making space. As noted by the World Health Organization, “many countries report difficulties in attracting sustained, flexible funding that can be used to support the health system.”<sup>149</sup> Common restrictions applied to funds using country systems include:

- Earmarking by donors, so that funds can only be used in specific areas, typically ones that are perceived as non-recurrent (e.g. infrastructure and supplies);<sup>150</sup>
- Traceability requirements issued by donors, so that funds must be separately identifiable in public expenditure records, and are more easily identifiable when used in specific areas (e.g. infrastructure and supplies);
- Monies are disbursed in a manner that is too unpredictable or short term to allow governments to allocate it to expenditures that require long-term investments (such as salaries and other recurrent expenditures).<sup>151</sup>

Thus funds using country systems are more likely to be allocated to a government’s investment budget (for infrastructure and supplies), and not to recurrent costs, including salaries. Case studies show that when funds are made available for recurrent expenses, programs have more success in

improving the quality of service delivery. For example, the 2011 joint evaluation of budget support to Mali sought to quantify, through econometric analyses, the impact of more flexible resources made available through budget support on basic services. In the health sector, the number of frontline workers increased from 2,312 in 2004 to 4,523 in 2009, with budget support from ODA contributing to the increased salary costs. The increase in numbers of health workers was critical to improvements in the quality and reach of the health system. The evaluators found that 65 percent of the increase in both curative care (on average, it improved by 76 percent) and the rate of assisted births (from 40 percent to 66 percent) was due to increases in the number of frontline health workers.<sup>152</sup>

## Conclusion

At three key gatherings since 2005, a strategy to use aid resources more effectively was announced, then reaffirmed. The leadership of bilateral and multilateral development entities agreed to channel their aid dollars through the structures and systems of national and local institutions “to the extent possible” to advance human development. The goals espoused in these international agreements included the recognition that aid spent in-country benefits the local economy; that strengthening national and local institutions is a higher goal than short-term service delivery; and that investing through national and local institutions is the best way to strengthen them. Yet eight years on, 80 percent of funding to most countries in fragile settings still bypasses the systems of national institutions.

This paper has explored the criteria donors use to plan their investments and suggests that donors have the necessary tools and models to mitigate fiduciary risk. It further describes examples of good practice where donors have successfully strengthened national and local capacity while meeting their own fiscal requirements. The paper highlights questions that require further exploration, including how corruption is being measured; the extent to which ODA is lost to corruption when channelled through country systems; and whether the tools that donors use to assess the capacity of national and local institutions are used to inform their decisions. It also discusses how, in countries where direct budget support is not practical, other approaches including “shadow systems alignment” can help create funding mechanisms that are compatible with and supportive of country systems. The paper also notes that, in certain cases, when investments intended to strengthen the public sector have failed, the failure was not always due to fiduciary mismanagement but instead resulted from a lack of prioritization or understanding of local programmatic needs.

In order to create the national institutions needed to provide basic services and to ensure economic growth and social justice, the policies agreed to in Paris, Accra and Busan should be implemented fully wherever and whenever possible. The know-how to do so exists. Financial management systems have been built and implemented in fragile settings; pooled funds, aid information management systems and tax revenue programs have been deployed successfully in them. And donors know how to mitigate fiduciary risks when investing in countries in fragility. Yet these discrete examples do not add up to more than the sum of their parts because they have not been systematized. Effective models exist; in order to turn them into standard practice, it is necessary to put incentives in place that reward a commitment to localized aid.

Staff members of bilateral and multilateral institutions are not usually rewarded for increasing local procurement or in-country investment. For example, the performance evaluations of senior staff do not, as a rule, include measurements of the amount of funding that was invested locally. An idea for

consideration would be making advancement and retention partially contingent on increasing the proportion of aid invested locally, as a vital metric of program effectiveness. To this end, program staff would report on such factors as: the amount of goods and services procured locally; the proportion of funding channeled through national and local institutions; resources allocated for local job creation, including payment of civil servant salaries. Donor program reviews and evaluations should include these same criteria.

As noted above, without prioritizing the needs of national counterparts at every step of the process, even well-funded programs fail. National and local institutions must, whenever possible, be integrated into the planning and execution of development efforts—an approach referred to as “accompaniment” by Dr. Paul Farmer and his colleagues.

The accompaniment approach to aid delivery starts with pragmatic solidarity with the intended beneficiaries of aid, most often the poor. It requires marrying our policy ideals to commitment to meet implementation challenges on the ground. At its core is the idea that from the outset implementers consider every decision they make within the context of a long-term plan to transfer their functions to local institutions.

The accompaniment approach challenges common assumptions about what is feasible or sustainable in settings of poverty. Certain approaches, however appealing at first sight, prove to be insufficient in the longer perspective. For example, why is investment in “training” considered sustainable when such efforts are not linked to jobs with living wages? Training is of course needed, but it should be linked to quality jobs if it is to have long-term impact. Likewise, why is the “topping off” of salaries of civil servants not considered sustainable when investment in the infrastructure in which they work is? Why, in other times and in other settings, is the converse held to be true?

While much has been written about how foreign aid has “failed,” a look at Rwanda suggests that, with an accompaniment approach and a willing national leadership, foreign aid can achieve many of its most important goals. While Rwanda is seen by some as an exceptional case, the other success stories cited in this paper suggest that it is not. Rather, these examples demonstrate that foreign aid can work in a wide range of settings, and that we can build effective systems when we place equal emphasis on managing both the fiduciary and the programmatic risks of failure. Scores of colleagues in Rwanda, Haiti and beyond have stated their commitment to national and local institutions and leaders. The successful partnerships they have created show that our aspiration to break the cycle of poverty and disease is within reach.

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<sup>1</sup> Organization of the Economic Cooperation and Development (OECD), ‘The Paris Declaration on Aid Effectiveness,’ (‘Paris Declaration’) (Paris, 2005). Available at: <http://www.oecd.org/dac/effectiveness/34428351.pdf>

<sup>2</sup> Ibid, para 15, 21 and 31.

<sup>3</sup> OECD, ‘The Accra Agenda for Action,’ (‘Accra Agenda’) (Paris, 2008), para 12, 15 and 18. Available at: <http://www.oecd.org/dac/effectiveness/34428351.pdf>

<sup>4</sup> OECD, ‘Busan Partnership for Effective Development Cooperation,’ (‘Busan Partnership for Effective Development’) (Paris, 2011a), para 11, 18 and 19. Available at: [www.oecd.org/dac/aideffectiveness/49650173.pdf](http://www.oecd.org/dac/aideffectiveness/49650173.pdf)

<sup>5</sup> OECD, ‘A New Deal for Engagement in Fragile States,’ (‘New Deal’) (Paris, 2011b). Available at: [www.newdeal4peace.org/wp-content/themes/newdeal/docs/new-deal-for-engagement-in-fragile-states-en.pdf](http://www.newdeal4peace.org/wp-content/themes/newdeal/docs/new-deal-for-engagement-in-fragile-states-en.pdf)

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<sup>6</sup> Ibid. p. 3.

<sup>7</sup> Ibid.

<sup>8</sup> In its 2011 Survey on the Implementation of the Paris Declaration, the OECD found that the goals related to (a) the alignment of aid flows with national priorities; (b) use of public financial management and procurement systems; and (c) untying aid had not been met. See: OECD, 'Aid Effectiveness 2005-10: Progress in Implementing the Paris Declaration' (Paris, 2011c), p.19. Available at: [www.oecd.org/dac/effectiveness/48742718.pdf](http://www.oecd.org/dac/effectiveness/48742718.pdf)

<sup>9</sup> Office of the United Nations' Special Envoy for Haiti (OSE), 'Has Aid Changed? Channeling Assistance to Haiti Before and After the Earthquake', (New York, 2011), p.12. Available at: [www.lessonsfromhaiti.org/download/Report\\_Center/has\\_aid\\_changed\\_en.pdf](http://www.lessonsfromhaiti.org/download/Report_Center/has_aid_changed_en.pdf)

<sup>10</sup> OSE, 'International Assistance to Haiti: Key Facts as of December 2012,' (New York, 2012a), p. 1. Available at: [www.lessonsfromhaiti.org/download/International\\_Assistance/1-overall-key-facts.pdf](http://www.lessonsfromhaiti.org/download/International_Assistance/1-overall-key-facts.pdf). As this funding was channeled by a number of resident donors in Haiti, it has been difficult to confirm how these funds were channeled. The OSE has thus assumed that these funds were channeled through government systems.

<sup>11</sup> Estimates of the Office of Dr. Paul Farmer based on the data in the Office of the Coordination of Humanitarian Affairs' Financial Tracking Service.

<sup>12</sup> OSE 2012a, *Op. cit.* 10, p.1 and 2. During the consultations on the implementation of the Paris Declaration in Haiti, donors reported the following reasons for not increasing budget support: (a) reform of d'Électricité d'Haiti (EDH); and (b) transparency in the declaration of assets of senior civil servant. The report recommended that the government strengthen its public financial management systems as a means to building the trust of the international community. The report also noted that donors needed to agree on the objectives of budget support and joint conditionalities which it had been unable to do so far. See: OECD, 'Report on Engagement in Fragile States: Haiti,' (Paris, 2011d), p. 50. Available at: [www.oecd.org/fr/pays/haiti/48697932.pdf](http://www.oecd.org/fr/pays/haiti/48697932.pdf)

<sup>13</sup> OSE, 'Can More Aid Stay in Haiti and Other Fragile Settings,' (New York, 2012b), p. 33. Available at: [http://www.lessonsfromhaiti.org/download/Report\\_Center/osereport2012.pdf](http://www.lessonsfromhaiti.org/download/Report_Center/osereport2012.pdf)

<sup>14</sup> Countries listed as "fragile" according to the OECD's 2012 report "Fragile States 2013: Resource flow and trends in a shifting world" are available at: <http://www.oecd.org/dac/incf/FragileStates2013.pdf> (p.17)

<sup>15</sup> OECD, 'Fragile States 2013: Resource Flows and Trends in a Shifting World,' (Paris, 2012a), p. 43. Available at: [www.oecd.org/dac/incf/FragileStates2013.pdf](http://www.oecd.org/dac/incf/FragileStates2013.pdf). Based on data from 2010.

<sup>16</sup> OSE 2012b, *Op. cit.* 13, p. 39. For further information refer to Table 2 (page 10) and notes 99, 102 and 103.

<sup>17</sup> *Ibid*, p. 41.

<sup>18</sup> Building Markets (formerly Peace Dividend Trust), 'Spending the Development Dollar Twice: the Local Economic Impact of Procurement in Afghanistan' (New York, 2009), p 1. Available at: [http://buildingmarkets.org/sites/default/files/pdm\\_reports/pdt\\_spending\\_dev\\_twice\\_report\\_0709.pdf](http://buildingmarkets.org/sites/default/files/pdm_reports/pdt_spending_dev_twice_report_0709.pdf). PDT found that international organizations had a local economic impact of 10-20 percent, whereas the Government of Afghanistan had a local economic impact of 70-80 percent. "Local economic impact" was defined as "the value of production undertaken by local workers and businesses, taking into account Keynesian multiplier effects." In order to obtain this value for aid channeled through country systems and aid channeled through international companies and organizations, the study gathered information on the share of aid that is spent locally, including on goods and services as well as on wages. This local spending is then multiplied by an economic multiplier in order to determine the overall impact on the level of economic activity from aid's local spending. See also: Michael Carnahan, William Durch, and Scott Gilmore, 'Economic Impact of Peacekeeping' (Building Markets, New York, 2006), p. 13. Available at: [http://buildingmarkets.org/sites/default/files/economic\\_impact\\_of\\_un\\_peacekeeping\\_march\\_2006.pdf](http://buildingmarkets.org/sites/default/files/economic_impact_of_un_peacekeeping_march_2006.pdf). In this report the authors examined the economic impact of nine peacekeeping missions and found that in 88 percent of cases less than 10 percent of the peacekeeping budgets entered the local economy, and in 44 percent of cases less than 10 percent of the peacekeeping budgets entered the local economy.

<sup>19</sup> OECD, 'Managing Risks in Fragile and Transitional Contexts,' (Paris, 2011e), p. 18 and chapter 1. Available at: [www.oecd.org/dac/incf/48634348.pdf](http://www.oecd.org/dac/incf/48634348.pdf). With respect to the organizational culture of donors, see also: Andrew Natsios, 'The Clash of the Counter-bureaucracy and Development,' (Centre for Global Development, Washington D.C, 2010). Available at: [www.cgdev.org/publication/clash-counter-bureaucracy-and-development](http://www.cgdev.org/publication/clash-counter-bureaucracy-and-development)

<sup>20</sup> For example, the Office of the UN Special Envoy for Haiti reviewed funding requested and received by UN humanitarian appeals in 2012 according to organization type: UN entity, international and local NGOs and unspecified. (Governments are not eligible to include projects in the appeals.) This review found that of \$4.27 billion channeled to activities in the appeals, 0.6 percent (\$24.44 million) was channeled directly to local organizations. See: OSE 2012b, *Op. cit.* 13, p. 40 and 41.

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<sup>21</sup> The Haiti Reconstruction Fund (HRF), ‘Operations Manual (revised July 2012),’ (Port-au-Prince, 2012), p.5. Available at: [www.haitireconstructionfund.org/sites/haitireconstructionfund.org/files/documents/HRF%20Operations%20Manual%20-%20revised%20July2012.pdf](http://www.haitireconstructionfund.org/sites/haitireconstructionfund.org/files/documents/HRF%20Operations%20Manual%20-%20revised%20July2012.pdf). This document states: “Partner Entities currently include the Inter-American Development Bank, United Nations Development Program (through its Multi-Donor Trust Fund Office) on behalf of the UN organizations, the World Bank, and the International Finance Corporation. Partner Entities will meet the fiduciary and management standards as required by the Steering Committee and Trustee. Trustee consent is required for the addition of new Partner Entities.” No other Partner Entity has been approved since the inception of the HRF in 2010.

<sup>22</sup> With respect to humanitarian appeals, the website of the United Nations Office for the Coordination of Humanitarian Affairs states: “Governments have other mechanisms to seek funding from the international community. However, governments participate in the consultations and the [appeal process] workshop in the run up to producing the appeal document.” See: [www.unocha.org/cap/about-the-cap/faqs#t57n1611](http://www.unocha.org/cap/about-the-cap/faqs#t57n1611)

<sup>23</sup> UNDP, ‘Aid Information Management Systems in Post-Conflict and Fragile Situations,’ (New York, 2010). Available at: [www.undp.org/content/undp/en/home/librarypage/capacity-building/aid-information-management-systems-in-post-conflict-and-fragile-situations/](http://www.undp.org/content/undp/en/home/librarypage/capacity-building/aid-information-management-systems-in-post-conflict-and-fragile-situations/)

<sup>24</sup> *Ibid*, p. 21.

<sup>25</sup> *Ibid*, p. 21.

<sup>26</sup> The World Bank, ‘World Development Report 2011: Conflict, Security and Development,’ (Washington D.C., 2011a), p. 1, 5 and 63. Available at: <http://web.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/EXTWDRS/0,,contentMDK:23256432~pagePK:478093~piPK:477627~theSitePK:477624,00.html>

<sup>27</sup> OECD 2012a, *Op. cit.* 15

<sup>28</sup> Paul E. Farmer, Cameron T. Nutt, Claire M. Wagner, Claude Sekabaraga, Tej Nuthulaganti, Jonathan L. Weigel, Didi Bertrand Farmer, Antoinette Habinshuti, Soline Dusabeyesu Mugeni, Jean-Claude Karasi, Peter C. Drobac. ‘A decade of steep declines in premature mortality in Rwanda: exploring claims of causality’, *British Medical Journal*, 2013; 346:365.

<sup>29</sup> Estimates of the Office of Dr. Paul Farmer based on the World Bank’s World Development Indicators database.

<sup>30</sup> The authors of this paper are aware of criticisms of the current Rwandan administration. For a response to these criticisms see: Richard Johnson, ‘The Travesty of Human Rights Watch on Rwanda’, (2013). Available at: <http://travesty-of-hrw-on-rwanda.blogspot.ch/>

<sup>31</sup> IDD and Associates, ‘Evaluation of General Budget Support: Rwanda Country Report,’ (University of Birmingham, Birmingham, 2006a). Available at: [www.bmz.de/en/publications/type\\_of\\_publication/evaluation/international\\_joint\\_evaluations/GBS\\_Rwanda.pdf](http://www.bmz.de/en/publications/type_of_publication/evaluation/international_joint_evaluations/GBS_Rwanda.pdf)

<sup>32</sup> Rwanda Ministry of Finance and Economic Planning, ‘Rwanda Aid Policy,’ (Kigali, 2006) p. 4, 7-8. Available [http://www.minecofin.gov.rw/fileadmin/documents/Aid\\_Policy.pdf](http://www.minecofin.gov.rw/fileadmin/documents/Aid_Policy.pdf). See also:

<sup>33</sup> For information on the Government of Rwanda’s donor performance assessment framework, see: [http://www.devpartners.gov.rw/index.php?option=com\\_content&task=view&id=68&Itemid=49](http://www.devpartners.gov.rw/index.php?option=com_content&task=view&id=68&Itemid=49). For a description see: OECD 2011c, *Op. cit.* 8, p.101. Available at: [www.oecd.org/dataoecd/24/28/46138662.pdf](http://www.oecd.org/dataoecd/24/28/46138662.pdf).

<sup>34</sup> Estimates of the Office of Dr. Paul Farmer based on the OECD’s Paris Declaration Survey, see: <http://stats.oecd.org/Index.aspx?DataSetCode=SURVEYDATA> and the OECD’s Creditor Reporting Scheme, see: <http://stats.oecd.org/index.aspx?DataSetCode=CRS1>. Refer to note 99 for more explanation of the methodology.

<sup>35</sup> For information of the contribution of aid through country systems to development progress in Rwanda, see: Tim Williamson and Catherine Dom, ‘Sector Budget Support in Practice: Synthesis Report’ (Overseas Development Institute, London, 2010). Available at: [www.odi.org.uk/resources/download/4733-english.pdf](http://www.odi.org.uk/resources/download/4733-english.pdf)

<sup>36</sup> The only other country to receive an “A” rating, out of 76 countries with available ratings, was Tanzania. For more information, see: OECD 2011c, *Op. cit.* 8, p. 31.

<sup>37</sup> “Kigali Statement of Action of Ninth Biennial Government of Rwanda and Development Partners Meeting”, 4-5 November, 2010, Kigali, Rwanda, p. 2.

<sup>38</sup> For a more comprehensive overview of the evidence, see: Jonathan Glennie, Alistair McKechnie, Gideon Rabinowitz, and Ahmed Ali, ‘Localising Aid,’ (Overseas Development Institute, London, 2013). Available at: <http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8284.pdf>

<sup>39</sup> For more information, see OSE 2012b, *Op. cit.* 13, section 3.2. This analysis on the benefits of country systems is based on an analysis of 22 case studies available in the following reports:

1. David Booth, Andrew Lawson, Tim Williamson, Samuel Wangwe and Meleki Msuya, 'Joint Evaluation of General Budget Support: Tanzania 1995-2004, Revised Final Report' (Overseas Development Institute and Daima Associates, London and Dar es Salaam, 2005). Available at: [www.odi.org.uk/resources/docs/3234.pdf](http://www.odi.org.uk/resources/docs/3234.pdf). This report includes one case: general budget support in Tanzania from 1995 to 2004.
2. International Development Department (IDD) and Associates, 'Joint Evaluation of General Budget Support, 1994-2004: Synthesis Report' (University of Birmingham, Birmingham, 2006b). Available at: [www.oecd.org/document/51/0,3746,en\\_21571361\\_34047972\\_36556979\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/51/0,3746,en_21571361_34047972_36556979_1_1_1_1,00.html). This report includes seven cases: general budget support in Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda and Vietnam from 1995 to 2004.
3. Andrew Lawson, Gyimah Boadi, Ato Ghartey, Adom Ghartey, Tony Killick, Zainab Kizilbash Agha and Tim Williamson, 'Joint Evaluation of Multi-Donor Budget Support to Ghana. Volume One: Evaluation Results and Recommendations on Future Design & Management of Ghana MDBS' (Overseas Development Institute, London, 2007). Available at: [www.odi.org.uk/resources/download/189.pdf](http://www.odi.org.uk/resources/download/189.pdf). This report includes one case of general budget support in Ghana from 2003 to 2006.
4. Williamson and Dom 2010, *Op. cit.* 35. This report includes ten cases: sector budget support in Mali (education), Mozambique (health and agriculture), Rwanda (education), Tanzania (health and local government), Uganda (education and local government), and Zambia (roads and health).
5. Development Research Network (DRN), 'Evaluation des opérations d'aide budgétaire de la Commission Européenne à la Tunisie entre 1996 et 2008' (Paris, 2011). Available at: [www.oecd.org/countries/tunisia/48071332.pdf](http://www.oecd.org/countries/tunisia/48071332.pdf). This report includes one case: general budget support in Tunisia from 1996 – 2008.
6. Eco Consult et al., 'Evaluation Conjointe des Opérations d'Aide Budgétaire au Mali, 2003-2009' (Paris, 2011) p. 130. Available at: [www.oecd.org/dataoecd/30/46/48670047.pdf](http://www.oecd.org/dataoecd/30/46/48670047.pdf). This report includes one case: general budget support in Mali from 2003 – 2006.
7. Antonie de Kemp, Jörg Faust and Stefan Leiderer, 'Between high expectations and reality: An evaluation of budget support in Zambia' (Ministry of Foreign Affairs of the Kingdom of the Netherlands, The Hague, 2011). Available at: [www.oecd.org/dataoecd/25/31/49210553.pdf](http://www.oecd.org/dataoecd/25/31/49210553.pdf). This report includes one case: general budget support in Zambia from 2005 – 2010.

<sup>40</sup> Verena Fritz, Ana Paula Fialho Lopes, Edward Hedger, Heidi Tavakoli, and Philipp Krause, 'Public Financial Management Reforms in Post-Conflict Countries: Synthesis Report' (Washington DC, World Bank, 2012), p.38. Available at: <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPUBLICSECTORANDGOVERNANCE/0,,contenMDK:23226311~pagePK:148956~piPK:216618~theSitePK:286305,00.html>

<sup>41</sup> For more information, see OSE 2012b, *Op. cit.* 13, section 3.2. The following improvements to the capacity of budgetary systems have been found in evaluations of budget support, with the support of effective technical assistance:

- Strengthened the capacity of the Ministry of Finance to manage the budget and disburse funds on time. See: IDD and Associates 2006b, *Op. cit.* 31, p. 54-55. IDD and Associates reported overall improvements to the management of the budget process were made in Uganda, Burkina Faso, Mozambique, Rwanda and Viet Nam, but not Malawi and Nicaragua. See also Tim Williamson and Catherine Dom 2010, *Op. cit.* 35.
- Strengthened the whole of government's participation in the budget process. See: Williamson and Dom 2010, *Op. cit.* 35, p. 78; IDD and Associates 2006b, *Op. cit.* 31, p. 54-55; and Eco Consult et al., *Op. cit.* 39.6, p. 130.

<sup>42</sup> For more information, see OSE 2012b, *Op. cit.* 13, section 3.2. See: IDD and Associates 2006b, *Op. cit.* 31, p.56; Eco Consult et al. 2011, *Op. cit.* 39.6; Williamson and Dom 2010, *Op. cit.* 35, p. 95. In Uganda, this increased attention led to improvements in local governments' reporting capacity, achieved through an increase in the number of professionally qualified accountants in local governments from zero in 1998 to 41 in 2007 and in the number of qualified accounting technicians from three in 1998 to 391 in 2007. See: Williamson and Dom 2010, *Op. cit.* 35, p. 100; and Jesper Steffensen, 'Sector Budget Support in Practice: Desk Study, Local Government Sector in Uganda,' (Overseas Development Institute and Mokoro, London, July 2010), p.78. Available at: [www.odi.org.uk/resources/docs/6407.pdf](http://www.odi.org.uk/resources/docs/6407.pdf).

Note: the country case study conducted in Tanzania for the Joint Evaluation of General Budget Support found that budget support was not the primary causal factor for the focus of technical assistance on public financial management reform but increased the scrutiny of its impact. See: David Booth et al 2005, *Op. cit.* 39.1

<sup>43</sup> The Office of the Special Envoy for Haiti reviewed 22 budget support programs that have been evaluated since 2005. Of these 22, in 18 cases (82 percent), budget support was found to lead to increased spending in priority areas from the

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governments' national development plans. Of the 22 cases, five are from countries in fragility; the four cases where spending did not increase are from non-fragile settings (Mozambique, Malawi and Nicaragua). The breakdown of cases is as follows:

- In nine out of ten case studies in Williamson and Dom 2010, *Op. cit.* 35;
- In four out of seven cases in IDD and Associates 2006b, *Op. cit.* 31; and
- In one out of one case in Lawson et al. 2007 *Op. cit.* 39.3; Booth et al. 2005, *Op. cit.* 39.1; Eco Consult et al. 2011, *Op. cit.* 39.6; Mali; de Kemp et al. 2011, *Op. cit.* 39.7; and DRN 2011, *Op. cit.* 39.5.

<sup>44</sup> In all cases where it was a priority, budget support programs helped to expand public service provision. See: Williamson and Dom 2010, *Op. cit.* 34; IDD and Associates 2006, *Op. cit.* 37.2; Lawson et al. 2007, *Op. cit.* 39.3; Booth et al. 2005, *Op. cit.* 39.7; Eco Consult et al. 2011, *Op. cit.* 39.6; Mali; de Kemp et al. 2011, *Op. cit.* 39.7; and DRN 2011, *Op. cit.* 39.5.

<sup>45</sup> See: Jonathan Glennie et al 2013, *Op. cit.* 38.

<sup>46</sup> See: Wood, J. Betts, F. Etta, J. Gayfer, D. Kabell, N. Ngwira, F. Sagasti and M. Samaranayake, 'Evaluation of the Paris Declaration: Phase Two Final Report,' (Danish Institute for International Studies, Copenhagen, 2011). Available at: <http://www.oecd.org/dac/evaluation/evaluationoftheimplementationoftheparisdeclaration.htm>

<sup>47</sup> International Dialogue of State and Peacebuilding, 'The Washington Communique on Peacebuilding and Statebuilding,' (Third International Dialogue Global Meeting, The New Deal: Achieving Better Results and Shaping the Global Agenda, Washington D.C., 2013), para 7. Available at: [www.newdeal4peace.org/wp-content/uploads/2013/04/The-Washington-Communiqué-19-April-2013.pdf](http://www.newdeal4peace.org/wp-content/uploads/2013/04/The-Washington-Communiqué-19-April-2013.pdf)

<sup>48</sup> For more information on USAID *Forward's* reform agenda, see: [www.usaid.gov/usaiddforward](http://www.usaid.gov/usaiddforward). For the most recent update on the status of the agenda, see: USAID, 'USAID Forward Progress Report 2013,' (Washington D.C, 2013). Available at: [www.usaid.gov/sites/default/files/documents/1868/2013-usaid-forward-report.pdf](http://www.usaid.gov/sites/default/files/documents/1868/2013-usaid-forward-report.pdf)

<sup>49</sup> Ibid.

<sup>50</sup> UK Department for International Development (DFID), 'Implementing DFID's Strengthened Approach to Budget Support,' (London, 2011a). Available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/214161/Strengthened-approach-budget-support-Tecnical-Note.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214161/Strengthened-approach-budget-support-Tecnical-Note.pdf)

<sup>51</sup> European Commission, 'Budget Support Guidelines,' (Brussels, 2012) p. 1-2. Available at: [http://ec.europa.eu/europeaid/how/delivering-aid/budget-support/documents/bs\\_guidelines-part\\_i\\_executive\\_guide\\_en.pdf](http://ec.europa.eu/europeaid/how/delivering-aid/budget-support/documents/bs_guidelines-part_i_executive_guide_en.pdf)

<sup>52</sup> World Bank and African Development Bank (AfDB), 'Providing Budget Aid In Situations Of Fragility: A World Bank – African Development Bank Common Approach Paper,' (2011). Available at: [www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/CAP%20Budget%20Aid%20in%20Fragile%20Situations%20English.pdf](http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/CAP%20Budget%20Aid%20in%20Fragile%20Situations%20English.pdf)

<sup>53</sup> European Commission, *Op. cit.* 51.

<sup>54</sup> World Bank and AfDB, *Op. cit.* 52, p. 29

<sup>55</sup> European Commission, *Op. cit.* 51; and DFID, *Op. cit.* 50, p. 6-7

<sup>56</sup> OECD 2011e, *Op. cit.* 19

<sup>57</sup> Ibid.

<sup>58</sup> Wood et al 2011, *Op. cit.* 46

<sup>59</sup> Jonathan Glennie et al 2013, *Op. cit.* 38. This report includes a specific section on corruption in their analysis of channeling aid to local governments

<sup>60</sup> OECD 2011e, *Op. cit.* 19, p. 68

<sup>61</sup> These include: The Public Financial Management Risk Assessment Framework (USAID); the Fiduciary Risk Assessment (DFID); and a range of tools developed by the World Bank, including the Public Expenditure and Financial Accountability (PEFA) assessments; Country Financial and Accountability Assessment (CFAA); Public Expenditure Reviews (PERs); Country Procurement Assessment Reports (CPARs); and Public Expenditure Management and Accountability Review (PEMFARs). The World Bank Country Policy and Institutional Assessments (CPIA) are an annual exercise, but the PEFA assessments on which they are partially based are only conducted every three years, which is partly why donors conduct their own assessments. Note: the African Development Bank and the Asian Development Bank also perform annual CPIAs, using the same methodology (staff judgments) and questionnaire produced by the World Bank. See:

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<http://web.worldbank.org/WBSITE/EXTERNAL/PEFA/0,,contentMDK:22687121~menuPK:7355930~pagePK:7313176~piPK:7327442~theSitePK:7327438,00.html>

<sup>62</sup> OECD 2011e, *Op. cit.* 19, p. 27

<sup>63</sup> DFID, 'A DFID Practice Note: Managing Fiduciary Risk when Providing Budget Aid,' (London, 2011b), p. 4. Available at: [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/67488/how-to-fiduciary-fin-aid.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67488/how-to-fiduciary-fin-aid.pdf)

<sup>64</sup> The World Bank, 'Helping Countries Combat Corruption: The Role of the World Bank,' (Poverty Reduction and Economic Management, The World Bank, Washington D.C., 1997). Available at: [www1.worldbank.org/publicsector/anticorrupt/corruptn/coridx.htm](http://www1.worldbank.org/publicsector/anticorrupt/corruptn/coridx.htm). For a discussion on different versions of this definition, see: Abhijit Banerjee, Rema Hanna and Sendhil Mullainathan, 'Corruption', (MIT, Department of Economics, Working Paper Series 12-08, 2012), p.6-7. Available at: <http://economics.mit.edu/files/6607>

<sup>65</sup> USAID, 'Automated Directives System, Chapter 220: Use of Reliable Partner Country Systems for Direct Management and Implementation of Assistance' (Washington D.C., Revised March 26, 2012). Available at: [www.usaid.gov/policy/ads/200/220.pdf](http://www.usaid.gov/policy/ads/200/220.pdf)

<sup>66</sup> DFID 2011a, *Op. cit.* 50.

<sup>67</sup> The World Bank, 'Guidelines to Staff for CAS Products,' (Washington D.C., 2012), p. 6 and 7. Available at: <http://siteresources.worldbank.org/PROJECTS/Resources/40940-1244163232994/6180403-1337885797985/CASGuidelinesupdated52312.pdf>

<sup>68</sup> DFID 2011a, *Op. cit.* 50.

<sup>70</sup>The World Bank, 'Guidelines to Staff for CAS Products,' (Washington D.C., 2012), p. 6 and 7. Available at: <http://siteresources.worldbank.org/PROJECTS/Resources/40940-1244163232994/6180403-1337885797985/CASGuidelinesupdated52312.pdf>

<sup>70</sup> The World Bank, 'Good Practice Note for Development Policy Lending,' (Washington D.C., 2011b). Available at: <http://siteresources.worldbank.org/PROJECTS/Resources/40940-1244732625424/GPNDesiningDPLJanuary2011.pdf>

<sup>71</sup> USAID 2012, *Op. cit.* 65

<sup>72</sup> DFID 2011b, *Op. cit.* 50

<sup>73</sup> USAID 2012, *Op. cit.* 65, p. 10.

<sup>74</sup> DFID, 'A DFID Practice Note: Country Governance Analysis,' (London, 2008). Available at: <http://webarchive.nationalarchives.gov.uk/+/http://www.dfid.gov.uk/pubs/files/how-to-cga.pdf>

<sup>75</sup> The World Bank, 'Development Policy Lending Retrospective 2012,' (Washington D.C., 2013). Available at: <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,contentMDK:23181694~pagePK:41367~piPK:51533~theSitePK:40941,00.html>

<sup>76</sup> The World Bank and African Development Bank, *Op. cit.* 52.

<sup>77</sup> USAID 2012, *Op. cit.* 65.

<sup>78</sup> *Ibid.*, p. 22.

<sup>79</sup> *Ibid.*, p. 8 and 14. The USAID ADS 220 notes that the Bureau of Democracy, Conflict and Humanitarian Assistance (DCHA) is responsible for the methodology of the democracy threshold, in collaboration with Bureau of Policy, Planning and Learning. For countries below the democracy threshold, USAID conducts an additional review on democracy, human rights and governance, in addition to the standard stage one appraisal.

<sup>80</sup> *Ibid.*, p. 20 and 21

<sup>81</sup> *Ibid.*, p. 21 and 22

<sup>82</sup> *Ibid.*, p. 19 and 22

<sup>83</sup> DFID 2011b, *Op. cit.* 63, p.1

<sup>84</sup> *Ibid.*, p. 12 and 13

<sup>85</sup> DFID 2011a, *Op. cit.* 50, p.3

<sup>86</sup> The World Bank, 'Guidelines to Staff for CAS Products,' (Washington D.C., 2012), p. 6 and 7. Available at: <http://siteresources.worldbank.org/PROJECTS/Resources/40940-1244163232994/6180403-1337885797985/CASGuidelinesupdated52312.pdf>

<sup>87</sup> Donor incentives for investing in systems will vary between donors. See: Jonathan Glennie et al 2013, *Op. cit.* 36; Stephen Knack and Nicholas Eubank, 'Aid and Trust in Country Systems' (World Bank, Washington D.C., 2009). Available at: [www-](http://www-)

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[wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2009/07/20/000158349\\_20090720134118/Rendered/PDF/WPS5005.pdf](http://wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2009/07/20/000158349_20090720134118/Rendered/PDF/WPS5005.pdf); and Stephen Knack, 'When Do Donors Trust Recipient Country Systems?' (World Bank, Policy Research Working Paper no. 6019, 2012). Available at: [www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2012/04/02/000158349\\_20120402091917/Rendered/PDF/WPS6019.pdf](http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2012/04/02/000158349_20120402091917/Rendered/PDF/WPS6019.pdf)

<sup>88</sup> USAID 2011, *Op. cit.* 65, p. 23

<sup>89</sup> USAID 2011, *Op. cit.* 65, p. 23 and 24.

<sup>90</sup> DFID 2011a, *Op. cit.* 50.

<sup>91</sup> For papers which present evidence that quality of PFM systems and corruption do influence donor decision making, see: Stephen Knack and Nicholas Eubank 2009, *Op. cit.* 87; and Stephen Knack 2012, *Op. cit.* 87, p. 16.

<sup>92</sup> OECD 2011c, *Op. cit.* 8, p. 50.

<sup>93</sup> Ibid. See also: OECD, 'Better Aid: 2008 Survey on Monitoring the Paris Declaration: Making Aid More Effective by 2010,' (Paris, 2008), p. 41. Available at: <http://www.oecd-ilibrary.org/content/book/9789264050839-en>

<sup>94</sup> Refer Table 2. See also: Catherine Dom and Anthea Gordon, 'Budget Support in Fragile Situations,' (Oxfam, Oxford, 2011) p. 78. Available at: [www.oxfam.org/sites/www.oxfam.org/files/dp-budget-support-fragile-situations-111111-en.pdf](http://www.oxfam.org/sites/www.oxfam.org/files/dp-budget-support-fragile-situations-111111-en.pdf)

<sup>95</sup> The 27 countries included in this analysis were selected using three criteria: (a) countries included in the OECD's list of states in fragile settings used for its 2010 analysis of aid fragile settings, which consolidates those compiled by the Brookings Institute, the World Bank and Carleton. See: OECD, 'Resource Flows to Fragile and Conflict Affected States 2010: Annex A,' (Paris 2010), p. 2. Available at: [www.oecd.org/dac/incaf/46043478.pdf](http://www.oecd.org/dac/incaf/46043478.pdf) (b) countries included in the OECD's 2011 Survey on Monitoring the Paris Declaration; and (c) countries that are recipients of financing from the World Bank's International Development Association.

<sup>96</sup> These figures are based on the World Bank's Country Policy and Institutional Assessment (2010), indicator 13. See: [www.worldbank.org/ida/IRAI/2010/IRAI-2010-table.xls](http://www.worldbank.org/ida/IRAI/2010/IRAI-2010-table.xls)

<sup>97</sup> These figures are based on the World Bank's Country Policy and Institutional Assessment (2010), indicator 9. See: [www.worldbank.org/ida/IRAI/2010/IRAI-2010-table.xls](http://www.worldbank.org/ida/IRAI/2010/IRAI-2010-table.xls)

<sup>98</sup> These figures are based on the OECD's Creditor Reporting Scheme, total gross aid from donors that participated in the 2011 Survey on the Implementation of the Paris Declaration (conducted in 2010). See: <http://stats.oecd.org/index.aspx?DataSetCode=CRS1>

<sup>99</sup> Estimates of the Office of Dr Paul Farmer based on the OECD's Paris Declaration database. See: <http://stats.oecd.org/Index.aspx?DataSetCode=SURVEYDATA>. In the Paris Declaration survey, aid using country systems is measured as a percent of aid to the government sector. The OECD defines "aid to the government sector" as aid based on an agreement with a government, see: OECD 'Survey on Monitoring the Paris Declaration: Survey Guidance,' (Paris, 2011f). Available at: [www.oecd.org/site/dacsmpr11/46138662.pdf](http://www.oecd.org/site/dacsmpr11/46138662.pdf). The analysis presented in this paper is based on aid using country systems as a percent of overall aid.

<sup>100</sup> The figures for Haiti are based on the estimates of the Office of the Special Envoy for Haiti. See: OSE 2012b, *Op. cit.* 13.

<sup>101</sup> OECD, 'International Engagement in Fragile States: Can't We Do Better,' (Paris 2011g), p. 52-3. Available at: [www.oecd.org/countries/somalia/48697077.pdf](http://www.oecd.org/countries/somalia/48697077.pdf). See also: Paolo de Renzio, Matt Andrews and Zac Mills, 'Does donor support to public financial management reforms in developing countries work? An analytical study of quantitative cross-country evidence' (London, ODI Working Papers Issue 329, April 2011). Available at: [www.odi.org.uk/publications/5719-pfm-public-financial-management-reform-developing-countries](http://www.odi.org.uk/publications/5719-pfm-public-financial-management-reform-developing-countries)

<sup>102</sup> Estimates of the Office of Dr. Paul Farmer based on the World Bank's Country Policy and Institutional Assessment (2010), indicator 13. See: [www.worldbank.org/ida/IRAI/2010/IRAI-2010-table.xls](http://www.worldbank.org/ida/IRAI/2010/IRAI-2010-table.xls). This analysis involves 37 out of the 43 fragile settings included in the OECD's 2010 list, for which data was available in the World Bank's Country Policy and Institutional Assessment, see: OECD 2010, *Op. cit.* 95, p.2.

<sup>103</sup> OECD 2011g, *Op. cit.* 101, p. 53.

<sup>104</sup> OECD 2011c, *Op. cit.* 8, p. 46.

<sup>105</sup> For more information on these surveys, see: [www.enterprisesurveys.org](http://www.enterprisesurveys.org)

<sup>106</sup> Estimates of the Office of Dr. Paul Famer based on the World Bank's Enterprise Survey, see: [www.enterprisesurveys.org](http://www.enterprisesurveys.org)

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<sup>107</sup> For a list of members of the OECD's Development Assistance Committee, see:

<http://www.oecd.org/dac/dacmembers.htm>

<sup>108</sup> Estimates of the Office of Dr. Paul Farmer based on the most recent figures available from each relevant agency converted using UN exchange rates at 1 April 2013. This estimate is based on agency specific estimates for the most recent fiscal year and may cover different timeframes. (The OECD's Creditor Reporting Scheme was not used for all donors, so that agency specific contributions could be compared to the detected fraud within each agency.) The sources are:

1. AusAID (fiscal year 2011-12): <http://www.ausaid.gov.au/Publications/Documents/annual-review-aid-effectiveness.pdf>
2. Belgian Development Agency (calendar year 2011): <http://www.btctb.org/files/web/publication/Annual%20Report%202011.pdf>
3. Denmark (calendar year 2011): OECD CRS, available at: <http://stats.oecd.org/index.aspx?DataSetCode=CRS1>
4. European Commission (calendar year 2011): OECD CRS, available at: <http://stats.oecd.org/index.aspx?DataSetCode=CRS1>
5. DFID (fiscal year 2011-12): OECD CRS, available at: <http://stats.oecd.org/index.aspx?DataSetCode=CRS1>
6. USAID (fiscal year 2011-12): <http://finance.performance.gov/initiative/improper-payment/home>

<sup>109</sup> Estimates of the Office of Dr. Paul Farmer based on the OECD's Creditor Reporting Scheme, available at:

<http://stats.oecd.org/index.aspx?DataSetCode=CRS1>

<sup>110</sup> Refer Table 3.

<sup>111</sup> For example, in statement issued by the UN in 2012 stated: "Last year, corruption prevented 30 per cent of all development assistance from reaching its final destination." See:

<http://www.un.org/sg/statements/index.asp?nid=6185>.

<sup>112</sup> See: <http://finance.performance.gov/initiative/improper-payment/home>

<sup>113</sup> Estimates of the Office of Dr. Paul Farmer based on USG data available at:

<http://finance.performance.gov/initiative/improper-payment/home>

<sup>114</sup> DFID, 'Annual Report and Accounts 2010-11. Volume I: Annual Report' ('Annual Report') (London, 2011), p. 97.

Available at: [www.dfid.gov.uk/Documents/publications1/departmental-report/2011/Annual-report-2011-vol1.pdf](http://www.dfid.gov.uk/Documents/publications1/departmental-report/2011/Annual-report-2011-vol1.pdf)

<sup>115</sup> The OECD Paris Declaration on Aid Effectiveness (stats.oecd.org/Index.aspx?DataSetCode=SURVEYDATA).

<sup>116</sup> Based on a review of data made available by the 25 members of the OECD's Development Assistance Committee. For a list of members of the OECD's Development Assistance Committee, see:

<http://www.oecd.org/dac/dacmembers.htm>

<sup>117</sup> Estimates of the Office of Dr. Paul Farmer based on two OECD sources. These sources are the OECD Creditor Reporting Scheme, see: <http://stats.oecd.org/index.aspx?DataSetCode=CRS1>, and the OECD Paris Declaration on Aid Effectiveness (stats.oecd.org/Index.aspx?DataSetCode=SURVEYDATA).

<sup>118</sup> Estimates of the Office of Dr. Paul Farmer based on the OECD Credit Reporting System using the list of fragile states referred to in note 102.

<sup>119</sup> AusAID, 'Independent Review of Aid Effectiveness' (April 2011), p. 30. Available at:

[www.aidreview.gov.au/publications/aidreview.pdf](http://www.aidreview.gov.au/publications/aidreview.pdf)

<sup>120</sup> Belgian Development Agency, 'Annual Report 2011' (Brussels, June 2012), p. 65-66. Available at:

<http://www.btctb.org/files/web/publication/Annual%20Report%202011.pdf>

<sup>121</sup> Estimates of Dr. Paul Farmer's Office based on data available on the Danish MFA website:

<http://um.dk/en/danida-en/results/risk-management/>. Figures were converted from DKK to USD using UN operational exchange rates as of February 2013.

<sup>122</sup> House of Commons, Public Accounts Committee, 'Fifty-Second Report: DFID Financial Management' (London, 2011) chapter 1, paragraph 8. Available at:

[www.publications.parliament.uk/pa/cm201012/cmselect/cmpubacc/1398/139802.htm](http://www.publications.parliament.uk/pa/cm201012/cmselect/cmpubacc/1398/139802.htm)

<sup>123</sup> Estimates of the Office of Dr. Paul Farmer based on data in the:

1. European Commission, 'The OLAF Report 2011: Twelfth Report of the European Anti-Fraud Office' (European Anti-Fraud Office, Brussels, 2012). Available at: [http://ec.europa.eu/anti\\_fraud/documents/reports-olaf/2011/olaf\\_report\\_2011\\_en.pdf](http://ec.europa.eu/anti_fraud/documents/reports-olaf/2011/olaf_report_2011_en.pdf)

2. European Commission, 'The OLAF Report 2010: Eleventh operational report of the European Anti-Fraud Office,' (European Anti-Fraud Office, Brussels, 2011). Available at: [http://ec.europa.eu/anti\\_fraud/documents/reports-olaf/rep\\_olaf\\_2010\\_en.pdf](http://ec.europa.eu/anti_fraud/documents/reports-olaf/rep_olaf_2010_en.pdf)

3. OECD's Creditor Reporting Scheme, available at: <http://stats.oecd.org/index.aspx?DataSetCode=CRS1>

Note: Figures were converted from EUR to USD using UN operational exchange rates as of February 2013.

<sup>124</sup> See: <http://finance.performance.gov/initiative/improper-payment/agency/usaid>. Note: improper payments are defined as "overpayments or underpayments, and occur when funds go to the wrong recipient, the recipient receives the incorrect amount of funds, documentation is not available to support a payment, or the recipient uses funds in an improper manner."

<sup>125</sup> International Development Department (IDD) and Associates, *Op. cit.* 39.2, p. S14., Ivar Zolstav, Verena Fritz and Tam O'Neill, 'Corruption, Anti-corruption and Aid: Do Donors have the right approach?' (London, 2008), p. 61 and 62. Available at: [www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/2267.pdf](http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/2267.pdf). Jonathan Glennie et al 2013, *Op. cit.* 38, p. 41.

<sup>126</sup> Jonathan Glennie et al 2013, *Op. cit.* 38, p. 41.

<sup>127</sup> Marcus Manuel, Alastair McKechnie, Maia King, Erin Copping and Lisa Denney, 'Innovative Aid Instruments and Flexible Financing: Providing Better Support to Fragile States,' (Overseas Development Institute, London, 2012), p. 24. Available at: [www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/7884.pdf](http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/7884.pdf)

<sup>128</sup> Ibid.

<sup>129</sup> Ibid.

<sup>130</sup> Ibid, p.26.

<sup>131</sup> Jacob Hughes, Amanda Glassman, and Walter Gwenigale, 'Innovative Financing in Early Recovery: The Liberia Health Sector Fund,' (Centre for Global Development Working Paper 228, Washington D.C., 2012). Available at: [www.cgdev.org/files/1425944\\_file\\_Hughes\\_Glassman\\_Liberia\\_health\\_pool\\_FINAL.pdf](http://www.cgdev.org/files/1425944_file_Hughes_Glassman_Liberia_health_pool_FINAL.pdf)

<sup>132</sup> Ibid, p. 10, 11 and 14.

<sup>133</sup> Marcus Manuel et al 2012, *Op. cit.* 127, p. 31.

<sup>134</sup> Ibid, p. 24

<sup>135</sup> Stephen Lister, Karolyn Thunnissen and Gadissa Bultosa, 'ECORYS: Ethiopia: Multi-Annual Review of PBS Programme,' (ECORYS MACRO Consortium, June 2012).

<sup>136</sup> Note: an ODI report highlighted the importance of a technically competent civil service in this type of an approach, see: Marcus Manuel et al 2012, *Op. cit.* 127.

<sup>137</sup> United Nations, 'Review of the UNDP Engagement in Direct Budget Support and Pooled Funding,' (Executive Board of the United Nations Development Programme, the United Nations Population Fund and the United Nations Office for Project Services, New York, 2013), para. 17 and 18. Available at: [www.undp.org/content/dam/undp/library/corporate/Executive%20Board/2013/English/dp2013-7.doc](http://www.undp.org/content/dam/undp/library/corporate/Executive%20Board/2013/English/dp2013-7.doc)

<sup>138</sup> For more information on the national MPTFs, see: <http://mptf.undp.org/>. The national MPTFs are:

1. [DRC Fonds National REDD+](#)
2. [Ethiopia Climate Resilient Green Economy Facility](#)
3. [Ecuador Yasuni Capital Window](#)
4. [Ecuador Yasuni Revenue Window](#)
5. [Mali Climate Fund](#)
6. [Mali Stabilization Fund-FNSSE](#)

<sup>139</sup> For example, see: 'Memorandum of Agreement between the Government of the Federal Democratic Republic of Ethiopia and the United Nations Development Programme for Management and Other Support Services Related to the Ethiopia Climate Resilient Green Economy Facility,' (2012), para. 5. Available at: <http://mptf.undp.org/document/download/10434>

<sup>140</sup> OECD 2011c, *Op. cit.* 8, Table A.7. These figures represent the weighted average.

<sup>141</sup> Ibid.

<sup>142</sup> Overseas Development Institute, 'Harmonization and Alignment in Fragile States,' (Senior Level Forum on Development Effectiveness in Fragile States, OECD, 2004), p. 8. Available at: [www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/3318.pdf](http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/3318.pdf)

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<sup>143</sup> PIH's partner in Chiapas, the Team for the Support of Community Health and Education, was established in 1985 by a small group of Mexican health promoters. They initially worked with Guatemalan refugee communities in the Chiapas border region, and later expanded their work to other marginalized people in Chiapas.

<sup>144</sup> OECD 2011e, *Op. cit.* 19, p. 26. The definition also includes broader risks associated with the “potential for the program to cause harm in the external environment,” such as the impact of aid on macro-economic stability.

<sup>145</sup> Williamson and Dom 2010, *Op. cit.* 39.4.

<sup>146</sup> Williamson and Dom 2010, *Op. cit.* 39.4, p. 106

<sup>147</sup> Williamson and Dom 2010, *Op. cit.* 39.4, p. 103 to 106

<sup>148</sup> IDD and Associates 2006b, *Op. cit.* 39.2.

<sup>149</sup> World Health Organization, ‘Aid Effectiveness and Health,’ (WHO/HSS/healthSystems/2007.2, Working Paper No.9, Geneva, 2007), p. 5. Available at: [www.who.int/hdp/publications/aid.pdf](http://www.who.int/hdp/publications/aid.pdf)

<sup>150</sup> Williamson and Dom 2010, *Op. cit.* 39.4; see also IDD & Associates 2006b, *Op. cit.* 39.2

<sup>151</sup> Williamson and Dom 2010, *Op. cit.* 39.4.

<sup>152</sup> ECO Consult et al. 201, *Op. cit.* 39.6, p. 134 and 135.