



Strategy for Strengthening and Use of Country Systems

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Acronyms and Abbreviations

AAA	Accra Agenda for Action
CAROSAI	Caribbean Organization of Supreme Audit Institutions
CFAAs	Country Financial Accountability Assessments
COSO	Committee of Sponsoring Organizations
CPAR	Country Procurement Assessment Report
CS	Country Strategy
DAC	Development Assistance Committee
DEF	Development Effectiveness Framework
EIA	Environmental Impact Assessment
FMHWG	Financial Management Harmonization Working Group
HoP	Heads of Procurement
ICF/ICS	Institutional Capacity of the State Division
ICSF	Institutional Capacity Strengthening Thematic Fund
IDB	Inter-American Development Bank
IIA	Institute of Internal Auditors
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
KNL	Knowledge and Learning Department
LAC	Latin America and Caribbean Region
M&E	Monitoring and Evaluation
MDB	Multilateral Development Bank
MfDR	Manage for Development Results
MFIWGE	Multilateral Financial Institutions Working Group on Environment
NDP	National Development Plan
NOF	New Operational Framework
OECD/DAC	Organization for Economic Cooperation and Development/Development Assistance
OLACEF	Organization of Latin American and Caribbean Supreme Audit Institutions
OVE	Office of Evaluation and Oversight
PBL	Policy-based Loan
PD	Paris Declaration
PDL	Performance-Driven Loan
PEFA	Public Expenditure and Financial Accountability
PET	PRODEV Evaluation Tool
PFM	Public Financial Management
PRODEV	Program to Implement the External Pillar of the MTAP for Development
QRR	Quality and Risk Review
SAI	Supreme Audit Institution
SIAF SIGEF	Integrated Financial Management System
SPS	Strategic Planning System
SWAp	Sector-Wide Approach
TA	Technical Assistance
VPC/PDP	Vice Presidency for Countries/Procurement, Disbursements, and Portfolio
WP-EFF	Working Party for Aid Effectiveness

Executive Summary

This document presents the **Bank’s strategy for strengthening its clients’ country systems**, with the intent of using these systems in designing, executing, and evaluating Bank-financed operations. This is in-line with the Bank’s commitment made to the Board of Executive Directors, in Chapter V of the New Operational Framework: (“Move to Build and Utilize Country Systems”), and Management’s presentation to the Board in February 2009. In addition, it supports the Bank’s commitment to harmonization, the Paris Declaration on Aid Effectiveness, and the Accra Agenda for Action, which is aimed at strengthening the impact of development efforts and focusing on development results.

As this document illustrates, the majority of the countries in the **Latin America and Caribbean Region have made progress**, with the assistance of the multilateral and bilateral development institutions such as the Bank, to reform and strengthen their country systems. Strengthening actions have covered most country systems, albeit with emphasis on financial management systems and primarily in the budget and treasury areas. However, these efforts have not been matched by an institutional approach by the development community to use these systems for project implementation.

The strategy includes all of the country client’s key systems, categorized as fiduciary and non-fiduciary systems. **Fiduciary Systems** consist of a country’s *public financial management* systems (budget planning and management, treasury and public debt, accounting and financial reporting, and internal and external control) and *procurement* systems and provide a framework for countries to use fiscal resources toward the achievement of its public policy objectives. **Non-Fiduciary Systems** include two subcategories: *development effectiveness* (Strategic Planning, M&E, and Statistics¹) and *environmental*. These systems are instruments of public administration that improve the quality of public policy design and implementation but are not necessarily linked to accountability and legality in the use of public funds. Non-fiduciary systems serve several purposes, including ensuring the observance of environmental standards; linking national, regional or sector goals to specific action plans that can then be budgeted and implemented; and enabling governments to monitor and evaluate public policy as an input into the policy-making process. Given the **nature and complexity of fiduciary and non-fiduciary systems**, they require very **different approaches** for their strengthening and use.

Given the benefits that may be derived from strengthening and using a country’s fiduciary and non-fiduciary systems, this strategy is **demand-driven** in its implementation. Some of the benefits, to both the country and the Bank, of implementing this strategy are related to greater efficiencies in public policy and impact in terms of results-based opportunities. Its implementation should also result in reduced transaction costs and increased ownership for clients through improved management of international development assistance.

¹ Statistical systems are part of this framework, but are not considered in the strategy for use, recognizing that these systems are already the source of data for project design, execution and evaluation.

Key principles for the new strategy are as follows:

- Implementation of the strategy will be demand-driven and based on agreements with **country clients**. The Bank's approach will be **gradual**, recognizing each country's environment and capacity. This will result in a gradual increase in the Bank's reliance on country systems or subsystems for project execution.
- Focus on **country ownership** and the country's needs are critical to the success of this strategy.
- The **validation process and determination of using country fiduciary systems** will be **mainstreamed through the country strategy**² cycle. The agreement between the country client and the Bank regarding each party's responsibilities, goals to be achieved, and timeframes will be reflected in the country strategy. Justification for not using country fiduciary systems, at the project level, as prescribed by the country strategy, must be adequately documented by project teams. Lessons learned from specific projects should be incorporated into future programming and country strategy cycles.
- For **non-fiduciary systems**, the degree of reliance on development effectiveness-related systems, that is strategic planning and monitoring and evaluation, will be determined on a project-by-project basis by project teams, based on the application of technical guidelines to the particular requirements of the operation. In the case of the **environmental assessment**, a controlled pilot exercise will be conducted to define a specific course of action, based on the results.
- **Reasonable and achievable targets** for countries should be developed together with the country clients as part of the ongoing dialogue, demand and needed improvements to the country systems and then continually monitored through the development effectiveness matrix for country strategies and at the project level.
- The Bank must help to ensure that **international standards and best practices** are applied consistently across countries. For fiduciary systems, the Bank supports the enhancement of good governance mechanisms and further transparency and accountability in the use of public resources. For non-fiduciary systems, the Bank will follow recognized best practices for results-based management for maximizing development results.
- Continued **harmonization, coordination and dialogue with other development partners** is key to help ensure that donors and multilateral institutions are leveraging resources, developing harmonized and complementary efforts and avoiding duplicating strengthening efforts.
- The implementation of this strategy will be **formally launched after the Board's approval**, and most of institutional and operational arrangements are expected to be in place by January 1, 2010.

² Document GN-2468-6; "Country Strategy Guidelines", paragraphs 4.10 Risk Assessment and Management, and 4.15 Country Systems.

Actions Requested of the Board of Executive Directors

Management recommends that the Board of Executive Directors approve the following:

- i. The key principles, issues, and elements of this strategy as discussed in Sections III, IV and V of this document.
- ii. An amendment (addition) to the Bank's current procurement policies, to include a new Section IV, in documents GN-2349-7 and GN-2350-7, as indicated in Annex 1 to this document. This amendment will allow for the use of procurement methods provided by any country system that the Bank determines acceptable for their use in Bank-financed operations.

Strategy for Strengthening and Use of Country Systems

I. Introduction

1.1 **The purpose of this document is to present the Bank’s strategy for strengthening country systems and mainstreaming their use in the design, implementation, and evaluation of Bank-financed operations.** Following the commitment made to the Board of Executive Directors in Chapter V of the New Operational Framework (NOF): “Move to Build and Utilize Country Systems”, this document takes into account the current use of country systems in the Bank’s project cycle and presents a strategy to gradually increase the Bank’s reliance on such systems¹. This strategy is consistent with the Bank’s commitment as signatory to the Paris Declaration² (PD) on Aid Effectiveness and the Accra Agenda for Action (AAA), subscribed to by the development community at large and aimed at strengthening the impact of development efforts and focusing on development and results.

1.2 **The strategy focuses on six country systems divided into fiduciary and non-fiduciary systems.** This division is useful as each particular strategy to use and strengthen systems differ significantly between these two categories. **Fiduciary Systems** (defined in Box 1) typically reside in Ministries of Finance and/or Administration and External Audit entities at the national level and provide a framework for countries to use fiscal resources towards the achievement of public policy objectives. Well-developed fiduciary systems allocate funds based on established criteria; ensure that their actual use is in line with the intended purposes, while promoting cost-effectiveness and transparency; ensure accountability of individuals and institutions; produce information for legal, managerial and policy-making purposes; and incorporate the external review of activities to assess compliance with legal requirements and value for money.

Box 1: Fiduciary Systems

- *Public Financial Management Systems* include the legal framework, organizational structure, procedures and information systems used by country entities and statutory bodies for managing public finances. Such systems primarily include budget planning and management, treasury and public debt, accounting and financial reporting, and internal and external control.
- *Procurement Systems* incorporate all policies, procedures, instruments, controls, and organizational structures that govern the acquisition of goods, works, and consulting services required by public sector institutions. The fundamental principles that effective country procurement systems need to address are efficiency, transparency, economy, equal opportunities for all eligible bidders, and due diligence.

1.3 **Non-Fiduciary Systems** are instruments of public administration that improve the quality of public policy design and implementation but are not necessarily linked to accountability and legality in the use of public funds. Non-fiduciary systems serve several purposes, including

¹ Paragraph 5.1 of the NOF, introducing the chapter on “Move to Build and Utilize Country Systems”, indicates that the chapter “... analyzes the reasons for increasing the Bank’s reliance on country systems and summarizes the strategy to build up and use these systems that will be submitted shortly to the Board of Executive Directors”.

² The PD, endorsed on March 2, 2005, is an international agreement to which over 100 Ministers, Heads of Agencies and other Senior Officials committed their countries and organizations to continue to increase efforts in harmonization, alignment and managing aid for results with a set of monitorable actions and indicators.

ensuring compliance with environmental standards, linking national, regional or sector goals to specific action plans that can then be budgeted and implemented, and enabling governments to monitor and evaluate public policy to feed back into the policy-making process. A wide variety of institutions are involved in non-fiduciary systems, including Ministries of Planning, Finance, and Environment and National Statistical Institutes. Box 2 describes non-fiduciary systems, in greater detail.

Box 2: Non-Fiduciary Systems

- *Strategic Planning* reflect a roadmap to achieving the country's overall, regional and/or sector development objectives, generally comprised of a government's long-term vision, medium term programs, and public investment initiatives brought together through a systematic and mutually coherent process.
- *Monitoring and Evaluation Systems* are used to measure the quantity, quality, and targeting of the goods and services provided by the public sector and the impact of the results achieved. They typically include the definition of indicators, monitoring tools and systems, reporting arrangements, and impact evaluations that feed back into policy design.
- *Environmental Assessments* are systematic processes whereby the environmental and environmentally-related social effects of a proposed intervention are identified and managed. Environmental assessments can be done at the project level, in which case they typically take the form of an environmental impact assessment (EIA) of a specific activity; or at a strategic level, in which case they apply mostly to the likely consequences of policies, plans, and programs.
- *Statistical Systems* generate information that improves the policy-making process and supplies the data needed for M&E tools to work. The quality (timeliness, coverage, reliability, scope) of such systems is critical for the design of programs and projects with expected socioeconomic or demographic effects as well as for their ex-post impact evaluation.

1.4 **Non-Fiduciary Systems can be further divided into two sub-categories: Development Effectiveness and Environmental.** Strategic Planning, M&E, and Statistical systems play an important role in promoting the *development effectiveness* of policy interventions; they ensure that policy options are weighed in the context of a broader strategic framework, help establish and monitor performance indicators, and set the basis for impact evaluations. *Environmental assessments*, on the other hand, are related to measuring compliance with safeguards for environmental protection, derived either from national or regional requirements or those of development finance institutions. This distinction is useful in practice, as each of these sub-categories will follow different strategies.

1.5 **Both the Bank and its country clients can benefit from strengthening and using country systems.** In general, strengthening and modernizing a client's country systems can result in enhancing the transparency and accountability of country fiduciary and non-fiduciary activities. This enhanced transparency and accountability benefits not only the country governments but also the private sector and private citizens within a country, as well as the Bank. Additionally, modernized systems can result in a more efficient and effective use of a client's financial and human resources, allowing them to focus more on other key priorities. For the Bank, an increased use of country systems (i.e., country systems are adequate and reliable) should result in the establishment of fewer parallel systems for Bank-financed operations and provide the Bank with greater assurance that funds are used as intended, in an efficient and effective manner, focused on results. This in turn should result in cost savings to the Bank, as the nature and level of Bank supervision for operations should be reduced across the client's portfolio. Table 1 presents the key benefits of this strategy.

Table 1: Key Benefits of the Strategy for Strengthening and Use of Country Systems

Benefits	Fiduciary Systems	Non-Fiduciary Systems
For the Country	<ul style="list-style-type: none"> ▪ Overall strengthened and modernized fiduciary systems. ▪ Increased transparency and accountability, and more efficient and effective use of resources (better financial and procurement management). ▪ Increased technical assistance (TA) to align systems with international standards and best practices. ▪ Reduced transaction costs for executing Bank-financed operations. 	<ul style="list-style-type: none"> ▪ Increased effectiveness of development interventions. ▪ Improved alignment of programs and projects with national development plans. ▪ Improved overall project management. ▪ Increased TA to strengthen systems.
For the Bank	<ul style="list-style-type: none"> ▪ Reduced need to maintain parallel fiduciary systems for projects. ▪ Clear lines of accountability for fiduciary aspects of projects. ▪ Gradual and joint approach helps to ensure that (best practice) standards are met and enhanced opportunities for local capacity development. ▪ Compliance with international (harmonization) commitments. ▪ Reduced transaction costs for project design, execution and supervision, and evaluation. 	<ul style="list-style-type: none"> ▪ Promotes development effectiveness of Bank-financed operations and alignment with Development Effectiveness Framework (DEF). ▪ Provides strategic alignment of current interventions in several of these systems. ▪ Reduced transaction costs for project design, execution and supervision, and evaluation.

II. Advances and Challenges

- 2.1 **Development of country systems has been an important element of the Region’s public sector modernization agenda for many years.** At least two decades prior to the PD of 2005, countries in the Region began implementing comprehensive reforms in their public administration legal frameworks, institutions, and systems. In terms of fiduciary systems, 21 of 26 of the Bank’s borrowing member countries have implemented some variation of an integrated public financial management system capable of linking the budget, treasury, accounting and reporting processes in an adequately controlled and efficient manner. Of the 26 countries, 16 now have regulations and information systems that contribute to transparency and fairness in public procurement, compatible with Bank principles. Non-fiduciary systems have advanced as well; all countries in the Region have statistical systems led by an autonomous entity and many have cabinet-level environmental authorities. Although the definitions of strategic planning and M&E vary from country to country, most countries are undertaking efforts to strengthen them as well.
- 2.2 **The Bank and other development partners have contributed to the reforms in the Region by providing financial and non-financial products.** Table 2 describes the key instruments that the Bank uses to support public sector reforms and institutional strengthening in the areas discussed.

Table 2: IDB Instruments to Support Strengthening of Country Systems

Fiduciary Systems	Non-Fiduciary Systems
<ul style="list-style-type: none"> ▪ Policy-based loans (PBLs) to support new laws and regulations regarding financial management and procurement. ▪ Investment loans to Ministries of Finance to deploy IFMS and procurement systems and to Supreme Audit Institutions. ▪ Specialized diagnostic reports (CFAA, CPAR, PEFA, and OECD/DAC). ▪ Technical Cooperation operations and specialized TA support. ▪ Institutional Capacity Strengthening Thematic Fund. ▪ Anticorruption Activities Trust Fund. 	<ul style="list-style-type: none"> ▪ Investment loans and PBLs in areas of public sector management (planning, monitoring and evaluation, and others). ▪ PRODEV Technical Cooperation. ▪ Support to statistical systems (leadership of this area under the World Bank). ▪ Policy dialogue with environmental agencies. ▪ Institutional Capacity Strengthening Thematic Fund.

2.3 Despite significant progress in the Region, the adoption of country systems for implementing Bank-financed operations has been ad-hoc. Despite the existence of many diagnostic reports, authored jointly by the IDB and other developing partners, such as Country Financial Accountability Assessments (CFAA), Country Procurement Assessment Reports (CPAR), Public Expenditure and Financial Accountability (PEFA) studies, Organization for Economic Cooperation and Development- Development Assistance Committee (OECD/DAC, Procurement) and others, the Bank has lacked a clear institutional mandate to translate these reports into a decision to move ahead on the use of a particular country’s systems³.

2.4 Recent data confirm that the progress on the use of country fiduciary systems has been uneven and primarily focused on financial management in the areas of budgeting and treasury. Less has been done in the areas of accounting, reporting and internal and external controls. In procurement, there have been some improvements but progress has been uneven.

2.5 There has been virtually no use of country non-fiduciary systems for Bank operations. With the exception of the use of country statistical systems for strategy, program, and project design and evaluation⁴, there has been a very limited use of country strategic planning and M&E systems in the project cycle. Even though a project may be consistent with or even included in the national strategic plans, the national planning processes and instruments used to define the development objectives and key indicators are seldomly used specifically for Bank financed operations. M&E arrangements are often set up on an ad-hoc basis without taking full advantage of existing first time used M&E capacities in the country. Similarly, environmental assessments are carried out by the Bank with very limited input from country systems.

³ In its evaluation of the 2005-2008 New Lending Framework (Report RE-342-1), the Office of Evaluation and Oversight (OVE) found that country systems were treated in general terms in the country strategies, without specific action plans for improvement, making it hard to assess progress in this area. As a consequence, decisions on the use of country systems were often taken in an ad-hoc manner, with no systematic follow-up and reporting. According to OVE’s evaluation, there are three elements to move forward: (i) an institutional process to decide on the use of country systems, mainstreamed through the country strategy preparation and the programming process, which will be developed in the following section of this document; (ii) an explicit mandate to mainstream actions to support strengthening of country systems through the Bank’s operational work, which will come through the linkages with the country strategies; and (iii) the inclusion of strategic planning, statistics, and monitoring and evaluation as critical components to improve the countries’ capacity to manage for results, which have been made an integral part of this proposal.

⁴ Reliance on statistical systems is inevitable due to the difficulty of implementing parallel systems for activities such as impact evaluations or socioeconomic targeting of projects.

III. Key Principles for a New Strategy

- 3.1 **Country focus is a key guiding principle that will steer the Bank's actions as an active development partner.** The Bank is engaged in providing support for countries' development agendas, which in turn creates strong country ownership. Particular emphasis is placed on facilitating the alignment of Bank interventions to country priorities to ensure better and more sustainable results. To implement country focus, the Bank's approach both for strengthening and use is triggered by client's agreements and will be gradual and tailored to the country's environment and own capacity. Effective leadership from clients will be needed to ensure that the most effective capacity building initiatives in managing external financing resources are implemented.
- 3.2 **Addressing the question of whether or not the Bank uses a country system is an integral part of the Bank's new business model which focuses on effectiveness.** The objectives of this strategy are embedded in the fundamentals of this model, which seeks an increased focus on development results, an enhanced project risk management, strengthened fiduciary oversight that supports improving country capacity and reduced transaction costs. Additionally, the strategy regarding fiduciary country systems is an integral component of the Bank's efforts to modernize and simplify its administration of operations.
- 3.3 **The Bank will ensure that international standards and best practices will be consistently applied and maintained.** Mainstreaming of this strategy in the Bank's project cycle is a key element to promote alignment of Bank's interventions with country systems, ensuring that at all times international standards and best practices are consistently applied. In terms of fiduciary systems, the Bank commits to further support the enhancement of good governance mechanisms to create an enabling environment for transparency and accountability in the management of public resources. The implementation of capacity strengthening activities for non-fiduciary systems will follow well recognized best practices for results-based management with the objective of maximizing the positive outcomes of development interventions, and provide a body of lessons learned that can support evidence-based decision making.
- 3.4 **Fiduciary and Non-Fiduciary Country Systems require different approaches.** A key principle of the strategy is a differentiated approach by type of system that reflects their role as either fiduciary or non-fiduciary, and within the latter, as either development effectiveness or environment related. Given the existence of a legal and contractual fiduciary framework for Bank-financed operations, the use of financial management and procurement country systems will be subject to a formal and rigorous process that will establish precisely the degree to which they can be relied upon for project implementation. The degree of reliance on development effectiveness-related systems (strategic planning and monitoring and evaluation) will be determined on a project-by-project basis by the project teams through the application of a technical toolkit to the particular requirements of the operation. Finally, the strategy for the use of country environmental assessments envisions a controlled pilot exercise that will help define a specific course of action upon its evaluation.
- 3.5 **An active coordination and technical dialogue with development partners will continue to be a priority.** Harmonization efforts are at the core of the Bank's actions to implement this strategy. Through close collaboration with other Multilateral Development Banks (MDB) and

development partners, the Bank expects to optimize and leverage resources in strengthening and increasing use of country systems. Likewise, the Bank is also committed to promote south-south cooperation across the Region and with other regional partners, recognizing that there is a wealth of experiences that could benefit the Bank's country clients. Box 3 outlines the principles under which this strategy is formulated.

Box 3: Principles of the Country Systems Strategy

- *Promote* institutional development through the application of good international practices.
- *Preserve* fiduciary standards in project implementation.
- *Capitalize* on what has already been achieved in the Bank and the Region.
- *Focus* on the Client during all phases of the process.
- *Use* systems that fulfill the requirements as default option.
- *Align* IDB interventions with country's development agenda and priorities.
- *Differentiate* strategies between fiduciary and non-fiduciary systems.
- *Harmonize* with other MDBs and promote South-South collaboration.
- *Mainstream* the process into the Country Strategies⁵.
- *Review and improve* continually.

IV. Issues and Elements of the Strategy for Country Fiduciary Systems

4.1 **This chapter presents the elements of the strategy for adopting country fiduciary systems in Bank-financed operations.** It addresses the institutional mechanism that supports the strengthening and determination of fiduciary systems usage, and continues with a detailed discussion on the technical elements of the strategy for: (i) financial management, and (ii) procurement systems.

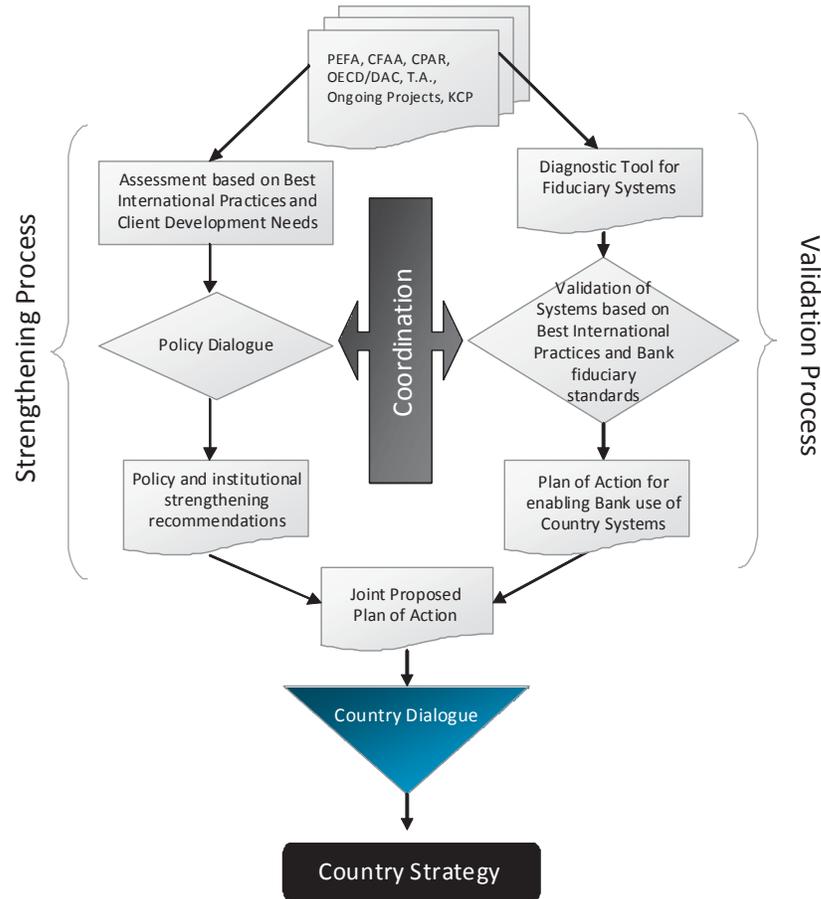
A. Institutional Mechanism

4.2 **The strategy comprises two parallel and interrelated processes to identify strengthening needs as well as determine the use of country systems for Bank-financed operations.** Based on a common set of diagnostic reports and background information, the strengthening focus produces recommendations in the areas of financial management and procurement based on international standards and best practices that may include amendments to the legal, regulatory, or institutional frameworks, improved information management tools, enhanced internal or external controls, revised processes and procedures, or training and capacity building programs. The use focus consists of a technical review to gauge the degree to which a system incorporates the necessary elements to ensure: (i) effective execution of a Bank-financed operation; and (ii) adherence to international standards and best practices consistent with Bank principles. Both the institutional strengthening recommendations and the outcome of the validation process will serve as input to the dialogue with the client. This will result in an agreed

⁵ "Country Strategy Guidelines" (Document GN-2468-6), Paragraphs 4.10 Risk Assessment and Management, and 4.15 Country Systems.

work program and timetable for mainstreaming the use of country fiduciary systems for project execution (see Graph 1).

Graph 1: The Strategy for Country Fiduciary Systems



4.3 **This approach benefits from a wealth of existing diagnostic work and an active policy dialogue with our clients.** In public financial management, both the Bank and other development partners have contributed to building a comprehensive diagnostic toolkit that includes PEFA, CFAA, and other Bank evaluation tools. In procurement, CPAR and OECD/DAC. In addition, the country fiduciary systems guide, numerous policy notes, technical cooperation products, and background reports for Bank-financed operations will contribute to a substantial knowledge base.

4.4 **The strengthening process builds upon the Bank’s significant experience in providing TA in financial management and procurement.** The Bank’s eighth replenishment (1994) placed a strong emphasis on supporting the modernization of the borrowing countries’ public administration systems. Since then, a total of US\$18.5 billion in loans have been approved to support modernization of the state in all countries in the Region, including public resource management and procurement.

- 4.5 **PRODEV continues to be a critical vehicle in capacity building, and the Institutional Capacity Strengthening Thematic Fund (ICSF)⁶ will greatly support these efforts.** In addition to “regular” lending and technical cooperation, funded through the Bank’s resources or existing donor trust funds, and the Bank’s specialized TA and support for improving public management efficiency, financial management and procurement systems. In tandem, the ICSF will provide another important source of financing and will allow the Bank to offer a quick response to country needs by leveraging additional resources to finance more comprehensive reform and modernization programs.
- 4.6 **The validation process includes a technical assessment and a subsequent quality control review and approval process by Bank management.** Bank staff will utilize a Country Fiduciary Systems Guide to assess the viability of using country fiduciary systems (fully or partially) and propose an action plan for strengthening, as appropriate. This Guide⁷ is comprised of a set of guidelines to manage the process of determining: (i) to what extent the Bank will be able to rely on country systems for the execution of Bank-financed operations, (ii) potential risks, and (iii) agreement with countries on the necessary actions to be followed when technical standards are not met. The guide provides an analytical framework built on internationally accepted standards and best practices in financial management and procurement⁸, specifically oriented to gauge the ability of the systems to adequately track and manage Bank-financed operation resources.
- 4.7 **These processes are largely demand-driven, triggered by agreements between the Bank and the country client, and will be mainstreamed through the country strategy.** Although the Bank will take the initiative to introduce these concepts as part of its ongoing dialogue with the country, both the strengthening needs and validation of these systems are triggered by an explicit request from the country client. The agreement between the Bank and the country will include the parties’ responsibilities, goals to be achieved, and timeframes.
- 4.8 **All new Bank operations will follow the recommendations of the country strategies and other programming documents in terms of partial or full use of country fiduciary systems.** Country strategies will reflect the agreements reached with the country clients regarding the strengthening needs of the country systems and the partial or full authorization granted to use said systems. Any exception to what is established in the country strategies regarding the use (total or partial) of country fiduciary systems for a particular operation will need to be substantiated.
- 4.9 Fiduciary interventions and expected results shown in Tables 3 and 5 reflect the Bank’s ongoing dialogue with country clients, and may be subject to change in the case of shifting client demands and/or priorities.

⁶ Proposal to establish an Institutional Capacity Strengthening Thematic Fund (Document GN-2524).

⁷ The Country Fiduciary Systems Guide was prepared by Bank technical staff, with the support of international experts in Financial Management and Procurement. Desk applications of the guide were performed by fiduciary specialists in four countries (Mexico, Guyana, Paraguay, and Colombia).

⁸ Examples of internationally accepted standards and/or best practices are: International Public Sector Accounting Standards (IPSAS); International Organization of Supreme Audit Institutions (INTOSAI) auditing standards; internal control standards, based on the Committee of Sponsoring Organizations (COSO) framework; and best practices based on CPAR and OECD/DAC indicators. The PEFA methodology was developed using good international practices.

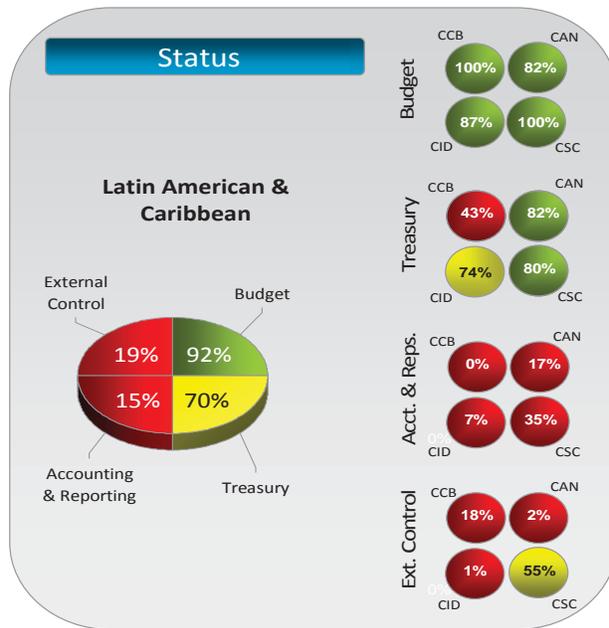
B. Financial Management

4.10 **During the last decade most countries within the Region have made significant improvements in their budgetary, accounting and financial reporting systems.** The initial focus has been on modernizing the legal framework and developing automated public financial management information systems that integrate the resource allocation and public expenditure activities at least at the central ministry, departmental and agency levels. Almost all countries now have such systems in place, but it is clear that, while good systems may be a prerequisite for good public financial management performance, they do not by themselves ensure efficient and effective financial management. Box 4 shows the progress of a sample of countries in financial management.

Box 4: Progress in Financial Management

- For the past two years, the Finance Ministry of the **Dominican Republic** has been developing an integrated financial management system (SIGEF), as well as a subsystem called UEPEX, to account for and report on financial-related transactions for operations that are financed by external resources (i.e., the Bank). Today, more than 50% of Bank operations use the UEPEX module.
- In **Honduras**, the Integrated Financial Administration System (SIAFI) and the single account were implemented in May 2004 and 2006, respectively. These systems facilitate efficient financial forecasting, enhanced use of resources, and successful decentralization of the treasury function. The UEPEX subsystem developed for operations financed by external resources is expected to be fully operational in 2009.
- **Peru's** Integrated Financial Management System (SIAFI) is the repository of information related to all financial transactions involving the Central Government and various decentralized entities. 85% of Bank operations are administered through a special module for operation administration. Before the use of SIAFI, several parts of the preparation and submission process of disbursement requests were performed manually, which led to frequent mistakes and ended up in an average time of 8 days to revise disbursement requests. Today, this revision takes on average 5 days. In addition, the system provides automatic periodic reports, which facilitates project monitoring and reduces the time needed for inspection visits.
- By the end of 2008, almost 50% of **Nicaragua's** portfolio was using the country's Project Management System (SIGFAPRO), a module of the Integrated System for Administrative Integrated Financial Management and Audit System (SIGFA). This produced savings of approximately US\$300,000 in 14 projects, equivalent to the amount Project Implementation Units (PIUs) would have spent in implementing parallel accounting and reporting systems. In addition, the use of SIGFAPRO produces important time savings in the preparation of project financial information and disbursements requests to be submitted to the Bank. The time required for processing each disbursement request has been reduced by about 10 hours.
- In the Caribbean Region, **Guyana's** Integrated Financial Management and Accounting System (IFMAS) is the database for all financial transactions of the Central Government agencies. The Government of Guyana (GOG) utilizes IFMAS for budget formulation, budget execution and payments, which is linked to the government's Consolidated Fund. The Ministry of Finance uses the reports generated by IFMAS to conduct the monthly portfolio reviews of all IDB loans. As a first step, beginning this year, the Bank is performing a pilot test with one investment loan and two TCs, by using the national system for accounting and financial reporting purposes. This move will translate into immediate cost savings of approximately US\$15,000, per new operation, which is the average cost of implementation for accounting software in any given PIU in Guyana. In addition, financial management information will be readily available to GOG officials.

Graph 2: Use of Country Financial Management Systems for Bank-financed Projects



4.11 **In the areas of internal⁹ and external¹⁰ control, progress has been slower.** In internal control, the norm in several countries still is the rigorous application of an ex-ante review of transactions, focused exclusively on verifying that expenditures are valid, eligible, documented, and approved, while largely ignoring the operational efficiency aspects (i.e., costs vs. benefits). Other weaknesses include the lack of consistent standards, qualified staff, budgetary resources, quality control, and mechanisms to correct deficiencies. Regarding external control by Supreme Audit Institutions (SAIs), pending issues include objectivity impairments when

they are involved in executive functions, insufficient staff development, outdated audit methodologies with limited risk-based approaches, and lack of appropriate and timely action to address audit findings.

4.12 **A significant portion of Bank-financed resources flows through country budget and treasury systems.** This has been mainly the result of the countries’ decisions to require external funds to be subject to the same budgeting, financial planning, budgetary execution, and evaluation procedures as countries’ funds. A recent survey (see Graph 2) indicates that 92% of Bank loans are included in the countries’ budgets and 70% flow through their treasury systems. However, only 19% are subject to auditing by the countries’ SAIs, and 15% are monitored through their accounting and reporting systems.

4.13 **The Bank’s approach towards using country accounting and reporting systems should be more flexible.** Usually, countries utilize international standards for budgetary classification of expenditures, and in many cases, they are flexible enough to allow for other types of classification. The Bank requires, for project execution, reporting information built upon investment categories defined in the Bank’s operation documents, which in many instances are not compatible with a country’s own budget classifications. Therefore, whenever country systems are flexible enough to allow for the aggregation of expenditures by project and sub-

⁹ “Internal control,” as defined by the COSO is broadly defined as a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: 1) effectiveness and efficiency of operations, 2) reliability of financial reporting, and 3) compliance with applicable laws and regulations.

¹⁰ “External control” refers to a country’s oversight mechanisms that help to ensure and verify that an entity, organization, system, process or project within the public sector maintains adequate internal control systems and complies with the applicable laws, regulations, and requirements of the country (or the Bank). Oversight includes external audits conducted by audit entities independent from the entity, organization, system, process or project being subject to audit (i.e., the country’s SAI) and oversight by legislative bodies (i.e., the Congress, Public Accounts Committee).

project or by components and sub-components, the Bank should accept the country's classification when designing the project budget.

4.14 Specific intervention to address shortcomings in the areas of accounting and reporting are critical in the short-term. These targeted interventions by the Bank include:

- a. Financial support for the design and implementation of information technology modules, or for the strengthening of existing ones. These modules translate the information under budget classification standards into the formats required according to categories of investment defined in loan contracts (addressing the issue described in paragraph 4.13); and
- b. Beginning on January 1, 2010 and, where assessed by the Bank as being adequate, the project teams should use the financial reports generated from the country's own accounting and reporting system(s) that are acceptable to the Bank, using the financial reporting categories or component line items maintained by the system. Project teams should incorporate appropriate investment categories during the design phase of new operations, when developing the estimated budget for the operation.

4.15 In the areas of internal and external control, long-term strengthening activities for SAIs and for government internal control systems are envisioned. In particular, actions to address the following issues include:

- a. Improving the capacity to perform financial audits, moving from a compliance and legalistic approach to one that uses modern audit techniques;
- b. Improving capacity to perform different types of audits (procurement, value for money, information systems, etc.); and
- c. Improving institutional capacity through the use of electronic audit software, hardware, facilities, and other tools.

Table 3: Financial Management Interventions and Expected Results

IDB Interventions	Expected Results by 2012 ¹¹
<ul style="list-style-type: none"> ▪ Providing funding and TA for budget information technology modules and strengthening existing ones. ▪ Developing action plans to strengthen the accounting, reporting and external audit areas. ▪ Developing action plans for strengthening of government internal control systems and SAIs. ▪ Including specific support interventions in action plans with the support of international and regional institutions. 	<ul style="list-style-type: none"> ▪ Assessments of country PFM systems completed in all 26 countries. ▪ Expected increase in the use of the accounting and reporting, and external control systems to reach 40% each from the present 15% and 19%, respectively.

4.16 In addition, action plans are to be developed, including specific support programs, in collaboration with regional institutions, such as the Organization of Latin American and Caribbean Supreme Audit Institutions (OLACEFS), the Institute of Internal Auditors (IIA), and the Caribbean Organization of Supreme Audit Institutions (CAROSAI) to provide regional training programs for government internal and external auditors.

¹¹ Expected results are established for 2012, consistent with the strategy review date.

C. Procurement

- 4.17 **In recent years, several countries within the Region have taken important steps to modernize their procurement systems.** Among the most notable improvements are: extensive reforms of legal and regulatory frameworks; sharing of procurement information via web portals; reforms derived from free trade agreements; the deployment of electronic procurement systems; and the integration of procurement data into automated financial management systems. Countries such as Colombia, Panama and Paraguay have passed new procurement laws; Brazil and Chile have advanced in the implementation and modernization of e-Procurement systems; Mexico has implemented standard bidding documents for operations financed by both the World Bank and the IDB; Bolivia has modernized its consultant selection processes by introducing quality-based methods in recent procurement regulation; and Peru is applying best practices in terms of institutional arrangements for procurement. Box 5 includes a sample of regional experiences regarding the impact of these types of improvements.

Box 5: Advancement in Procurement Systems

- Over the past ten years, almost all Latin American and Caribbean countries have made significant progress in improving their public procurement systems. This has enabled the countries to meet or surpass many international best practices, resulting in greater transparency and efficiency in public expenditures.
- As a result of a comprehensive reform in **Chile** to modernize laws, information systems, skill profiles, and procurement methodologies, the number of competitors in bids increased from an average of 1.7 in 2002 to 5.6 in 2008. This has improved prices and generated savings of approximately US\$140 million per year.
- **Brazil** introduced an electronic procurement system "Reverse Auction" (COMPRASNET) to capitalize on important economies of scale and transparency. In 2007, the number of processed contracts that was displayed online reached 35,676 and savings amounted to approximately US\$1 billion.
- The Government of **Barbados**, in addition to undertaking a national procurement modernization program, led an initiative to grant online access for customs auctions. In March 2009, the Barbados Customs and Excise Department used the Barbados Integrated Government portal (BIG) to allow members of the public to bid on goods seized by the Customs and Excise Department through an auction sale. Information on customs duties and taxes, as well as land tax, voting polls, and a government forms repository is also available on the site.
- The use of an electronic auctions system in **Colombia** for the procurement of goods and services has reduced the cost of these procurements by 20% over the past year. Procedures that once took more than 60 days now take 20 days.
- **Nicaragua** implemented an electronic procurement system (SISCAE), which has reduced the processing time of all public procurement procedures from between 7-28 days to about 24 hours, and has eliminated the need for physical documents related to the registration process. Currently, 75 of 85 central government institutions and 26 municipalities use SISCAE.

- 4.18 **Despite these important steps, very few countries have managed to implement a comprehensive procurement reform covering all areas.** The political economy of procurement reform is quite complex as many vested interests come into play and may influence "informal" arrangements between public sector entities and their private sector suppliers. It is common to see progress in certain areas where progress is politically viable, while other necessary reforms remain pending. For example, one country in the Region is leading the deployment of an e-Procurement platform and its integration with the financial management system, but has not been able to revamp its procurement law which has been under review by Congress for nearly a decade. Similarly, another country has enacted new legislation but found it necessary to maintain special, parallel regimes for certain sectors.
- 4.19 **Unlike financial management systems, the use of country procurement systems for Bank-financed operations is limited.** Currently, less than 1% of Bank-financed operations fully use

country procurement systems. Only a few pilot programs and some operations using instruments such as Performance Driven Loans (PDLs) and Sector-wide Approaches (SWAs), have operated entirely using country systems. However, more than 30% of Bank-financed operations use at least one component (primarily electronic procurement platforms).

- 4.20 **The strategy for procurement systems is based on a benchmark of internationally accepted best practices consistent with the Bank’s principles of transparency, effectiveness, efficiency, value for money, and due diligence.** The benchmark builds on the methodology developed jointly by the OECD/DAC, the international community, and selected governments. It consists of 54 indicators reflecting features which should be part of a good procurement system including critical elements related to the regulatory framework, institutional capacity, market practices, controls, integrity and transparency.
- 4.21 **As of today, 16 of the Bank’s 26 borrowing member countries are applying or have applied the OECD/DAC assessment tool¹² with the support of the Bank and other development partners.** The Bank, in collaboration with the World Bank, recently authored a *Protocol for Applying the OECD/DAC Assessment Methodology* to guide countries and donors in the application of the methodology, and to facilitate high-quality assessments. This will help ensure that countries receive reliable input for the development of their reform agendas that are supported by solid analytics, and include concrete action plans.
- 4.22 **The Bank’s decision to rely on a country procurement system, or one of its components, is based on the information gathered during the OECD/DAC assessments and the results derived from the application of the Country Fiduciary Systems Guide.** The guide includes a decision matrix to evaluate each type of procurement, such as public works, goods or consulting services to identify which, if any, of the components meet the established criteria and standards to allow the Bank to rely on these procurement types for the execution of Bank-financed operations (see Table 4).

Table 4: Required Components for the Use of Country Procurement Systems

Type of Procurement	Method	Components						
		Legal	Institutional Capacity	Market Practices	Integrity & Transparency	Control & Auditing	e-GP	IDB Documents
1. Goods 2. Works 3. Services (Non consulting)	International Competitive Bidding	Required				Required or IDB Procedures	Required or IDB Procedures	Required
	National Competitive Bidding							Required or equivalent practices
	Price Comparison							
4. Consulting Services	Firms							
	Individuals							

¹² Several of these evaluations are still in their initial stages, and will be completed in early 2010.

- 4.23 **For international competitive bidding, the Bank will require the use of the standard bidding documents or their equivalents, as their use is considered to be an international best practice.** If control or e-GP systems do not meet the international best practices, the Bank may continue to use the country's *overall* procurement systems, but would use Bank procedures for these specific areas.
- 4.24 **The Bank's policies on procurement (GN-2349-7 and GN-2350-7) will need to be amended** to include a new Section that authorizes the use of procurement methods provided by a country system, once the Bank determines that a system meets the required international best practices as indicated above (see Annex 1)¹³.
- 4.25 Bank interventions to support the strengthening of public procurement systems will focus on the following areas:

Table 5: Key Procurement Interventions and Expected Results

IDB Interventions	Expected Results by 2012
<ul style="list-style-type: none"> ▪ Promoting and performing country procurement system assessments. ▪ Providing TA and funding to countries to help strengthen and modernize the key components of country procurement systems. This includes providing assistance related to effective procurement planning, electronic platforms, development of technical skills and promotion of career development in public procurement, standard bidding documents and guides, enhanced controls and strengthening of executing agencies for Bank-financed operations. ▪ Promoting the procurement of public goods at the regional level, in line with best practices, to help facilitate the exchange of information and tools. 	<ul style="list-style-type: none"> ▪ Complete procurement systems assessments in 20 countries. ▪ Promote concrete actions to enhance country procurement systems in at least 15 countries to ensure consistency with international best practices. ▪ Use (partially or fully) country procurement systems in at least 15 countries.

V. Issues and Elements of the Strategy for Non-Fiduciary Systems

- 5.1 **The strategy for Non-Fiduciary Systems also has two streams: strengthening and use.** However, these are more loosely linked than for fiduciary systems and the assessment process for use will be done at the project level. As in the case of the fiduciary systems, the expected results may change according to actual country demand and priorities.
- 5.2 **The strategies for Development Effectiveness Systems and Environmental Assessments are presented below.** Regarding statistics systems, no particular approach is necessary for their use in the Bank's project cycle. Strengthening activities will be carried out by the Bank through

¹³ It is important to emphasize that the requirements set forth in Section I of said policies (eligibility, retroactive financing, fraud and corruption, etc.) will remain in place for all procurement methods, including those provided by a country system.

various instruments (including loans), and complementing efforts from other development partners, in particular the World Bank¹⁴.

A. Development Effectiveness Systems

- 5.3 **Strategic Planning is an important tool that enables public policy initiatives to be properly synchronized and placed within a broader national, regional, or sector-specific medium-term framework.** Most of the public goods and services through which the public sector generates public value have a medium and long-term impact (education, health, infrastructure, etc). Given the limited resources of countries in the Region, strategic planning contributes to a more effective and efficient implementation of public policies. Although not all countries consider strategic planning equally important and there is no single model to apply, there are some basic elements that are of best practice: (i) an institutional framework that establishes a uniform methodology and ensures a consistent approach across levels of government, sectors, and institutions; (ii) the practical application of strategic plans in the definition of short-term actions and budgets, including incentive and accountability mechanisms; (iii) mechanisms to monitor and evaluate the implementation of strategic plans, and (iv) human and technological resources to carry out the planning exercises at all the levels and institutions involved. Box 6 illustrates advances in the strategic planning systems (SPS) in LAC.

Box 6: Strategic Planning Systems (SPS) Advances in LAC

During the last years several countries in the Region have experienced advances in their planning systems. However, this process was not common to all countries and it shows different degrees of development in terms of depth and dimension (strategic capacity, operational aspects and participation), as well as in its articulation with other public management systems (in particular budgeting for results). The main planning instruments adopted by countries – either on an individual or complementary basis- have been: long-term visions, medium-term national plans, sector plans and poverty reduction strategies.

- The “Colombia Segundo Centenario 2019” vision was developed by the Colombian Government with inputs from civil society. Four main objectives and 17 strategies were established in areas such as economic growth, infrastructure, human capital, social and territorial development consistent with the 2006-2010 National Development Plan (NDP). The NDP features a Multi-Year Investment Plan that includes all programs to be financed and is approved by the Congress, becoming a national law. The participation of the civil society is facilitated by the existence of a National Planning Council and other accountability mechanisms.
- Brazil is a country with a strong tradition in public sector planning, an area that has been strengthened during the past two decades. Brazil uses long-term planning to establish strategic guidelines for territorial development it also uses Medium-Term Plans, to define a strategic and an operational objectives. The current 2008-2020 multi-year plan (PPA) identifies ten main objectives and is composed of three priority agendas or “strategic clusters”: the Social Agenda, the Education Development Plan and the Growth Acceleration Plan. The PPA is submitted to the Congress to be approved as law. Social participation occurs in several instances during the planning process.

- 5.4 **Despite the existence of several good practices, strategic planning systems across the Region are still evolving.** From the surge of expansive national development plans during the 1970s and 1980s that attempted to consolidate the public sectors’ role as the engines of growth to their demise along many other public sector planning instruments during the late 1980s and 1990s, many countries in the Region found themselves debating on the appropriate role and instruments for strategic planning. Some of the most important challenges at present are the development of proper planning tools at the sector level, articulating plans with the budget, and

¹⁴ It should be noted that the Bank is currently building up capacity to carry out institutional strengthening activities in statistics in the short and medium term.

strengthening the institutions responsible for planning at the national, local and sector levels. Signs are encouraging, however, as regional good practices continue to emerge and expand through networks of practitioners, such as those promoted by the Bank's regional policy dialogue initiative.

- 5.5 **Monitoring and Evaluation systems are important complements to strategic planning and other public administration processes.** At the most basic level, M&E systems comprise an institutional framework, systems, and procedures to monitor public policy implementation through an established set of indicators as well as through carrying out ex-post evaluations to assess the degree to which interventions have met their stated development objectives. M&E arrangements are necessary to monitor the implementation of strategic plans and provide feedback for subsequent iterations of the planning process. Ideally, M&E systems should have clear linkages to the budgeting process and serve as the backbone of a move towards results-based management.
- 5.6 **In general, the development of M&E systems in LAC began over the last decade and is still in an experimental, design or implementation stage.** An important challenge in most monitoring systems is promoting both vertical (government-organization-operational unit) and horizontal (planning-budget-execution-monitoring and evaluation) articulation. In practice, monitoring systems are seen in many countries as an accountability mechanism for high level officials rather than a management instrument that flows through the institutional fabric. The information generated by the monitoring systems, although often comprehensive and of good quality, is seldom used in the budgetary process and does not always flow back to the planning process. Regarding the evaluation component, there are several positive experiences in the Region, but they are mostly focused on externally-financed projects and thus need to be expanded to cover other types of development interventions by the countries (see Box 7 below).

Box 7: Monitoring & Evaluation Systems Advances in LAC

Although the institutionalization of M&E systems is a relatively new endeavor in Latin America and the Caribbean, many governments in the region have already gained an increased understanding of how M&E systems can contribute to generate performance information for budgetary decision processes, and how M&E systems help to track important public investments and interventions. Among the region's best practices we can find the following cases:

Chile: Designed and implemented by the National Budget Office, performance indicators, different types of evaluations, a bidding fund for public programs, management improvement programs linked to performance bonuses for central government employees and comprehensive management reports are tools which are integrated to the budget process and create synergies from the conceptual elements in their design and implementation. Performance information is used to set performance targets for the ministries which are largely met. All M&E findings are reported publicly and are sent to Congress.

Colombia: The National System of Evaluation of Results-based Management (SINERGIA) has been in operation since 1994. Its main objective is to measure and track public sector performance to improve resource allocation, formulate the National Development Plan, and provide information for debate on public policies. It has three components: results monitoring, strategic evaluations, and reporting for accountability/social control. The Preparation and Objectives and Results-based Management System (SIGOB) is a technology tool that has been successfully implemented since 2002 to support the system.

Mexico: M&E system is administered by the National Council of Evaluation of Social Development Policy (CONEVAL). Rigorous impact evaluations are routinely conducted, especially for large social programs (e.g. Progres/Oportunidades). Performance indicators are audited and reported to Congress, which has assumed an active role in the M&E process. Since 2000 exists a Congressional mandate for program evaluations of social programs to achieve greater transparency and accountability and to prevent political manipulation of public programs.

- 5.7 **The key objectives of the strategy for development effectiveness systems are: (i) to continue building capacity in the region, and (ii) to rely on sound country systems for the preparation, supervision and evaluation of Bank-financed projects to the maximum extent possible.** Institutional strengthening interventions will be enhanced through improvements in the Bank's diagnostic capacity, and the application of new and existing sources of financing for technical assistance. Regarding the use of these systems in the project cycle, there are several countries that already have sound planning tools in place (such as a logical framework and indicator methodologies) that can be applied during project design, and/or monitoring and evaluation systems that are capable of producing indicators for monitoring project implementation.
- 5.8 **Using country development effectiveness systems has the potential of increasing the effectiveness, efficiency, impact and country ownership of Bank-financed projects.** This element of the strategy is based on the premise that both the country and the Bank will benefit from increased usage of these country planning systems during the project cycle: The country ensures alignment with other interventions in the sector and promotes the expanded use of its methodologies, while the Bank can optimize its inputs to project preparation and supervision in those areas where there is the most value added. Ensuring the proper insertion of Bank-financed projects into the broader sector planning processes of the country and using similar methodologies than other policy interventions can improve the alignment of objectives and components among interventions, enhancing effectiveness, impact and country ownership. Efficiency gains can be achieved by reducing, for example, the need for parallel monitoring and evaluation arrangements.
- 5.9 **The increased reliance on country development effectiveness systems will be discussed with the client during programming activities.** If the client agrees in principle to use these country systems for the cycle of Bank financed projects, the following events will ensue: (i) the client will be requested to issue instructions to the institutions responsible for strategic planning and monitoring and evaluation regarding the collaboration with Bank project teams in the project cycle; and (ii) Bank project teams will carry out a rapid assessment of the suitability of the existing systems *for the specific project* early in its preparation process. This assessment, based on a standardized toolkit, does not involve an overall diagnosis of each system but rather a review of the key elements it should have for being applicable to the specific project's cycle. Its application will be straightforward and is not expected to be a burden on project preparation. Furthermore, project teams would carry out activities that promote the usage of these systems, such as sector strategic planning workshops or development of interfaces to access indicators from the M&E databases. Box 8 summarizes the process for determining the use of these systems by Bank financed projects.

Box 8: Process for Determining the Use of Development Effectiveness Systems

1. Agreement is reached between the country and the Bank on the principle of assessing and using strategic planning and monitoring and evaluation systems in Bank operations, and is clearly spelled out in the Country Strategy (CS).
2. Early in project preparation, each project team applies the *Development Effectiveness Systems Toolkit* to determine the suitability of these systems to support the particular project’s design, implementation, and evaluation.
3. Project teams involve the entities responsible for the validated systems in project preparation, paying particular attention to these uses:
 - Insertion of project in country’s development plans
 - Identification of linkages with other projects or programs
 - Definition of development objectives
 - Definition of performance indicators
 - Application of country project design methodologies
 - Alignment with Development Effectiveness Framework
 - Assurance of internal consistency of the project
 - Monitoring and reporting of performance indicators
 - Impact evaluations, if required
4. Project teams ensure that project documentation clearly reflects the usage of country systems where applicable, and reflect agreements for monitoring and evaluating the project during its implementation.

5.10 **The Bank will develop technical guidelines to help Project Teams define the extent to which a project can be integrated within the particular country’s strategic planning and M&E systems.** The *Development Effectiveness Systems Toolkit* will be based on good international practices and will capitalize on the Bank’s track record and expertise in these areas, and will help project teams assess the degree to which: (i) the planned operation is properly framed in a sound strategic planning framework from which basic project characteristics (development objectives, timeline, coordination with other interventions) can be obtained; and (ii) the M&E system at both the central and institution levels is capable of defining the project’s indicators and providing sound mechanisms to monitor their progress throughout the project’s life cycle (see Table 6 below).

Table 6: Development Effectiveness Systems Interventions and Expected Results

IDB Interventions	Expected Results by 2012
<ul style="list-style-type: none"> ▪ Developing technical standards for benchmarking strategic planning and M&E systems based on PRODEV Evaluation Tool. ▪ Developing toolkits for the use of strategic planning and M&E systems by Bank project teams. ▪ Introducing the issue of development effectiveness systems and their potential use by Bank-financed projects during programming exercises with the clients. ▪ Enhancing ongoing support to these systems from PRODEV and other sources by expanding supply of technical assistance (e.g. through the Institutional Capacity Strengthening Thematic Fund). 	<ul style="list-style-type: none"> ▪ Technical standards for assessing development effectiveness systems based on PRODEV Evaluation Tool applied for diagnostics in at least 7 countries. ▪ Bank-financed projects using country planning and/or M&E systems in at least 5 countries. ▪ Overall increase of 1 point (out of 5) in the PET ratings for strategic planning and M&E in at least 5 countries with Bank-supported institutional strengthening interventions.

B. Environmental Assessments

- 5.11 **Progress has been observed in the development of environmental protection legal frameworks and institutions.** Important inroads have been made in the area of *environmental protection* by the Region. During the 1990s, the Rio Declaration on the Environment embraced the concept of sustainable economic development, which served as the basis for enhancing the environment as a cross-cutting dimension of social and sustainable development. As a result of this movement, countries of the Region undertook significant initiatives to create national institutions responsible to protect the environment, to strengthen their capabilities for effective environmental management, and to set policy, legal and regulatory frameworks, including the introduction of environmental impact assessments systems and the development of environmental information systems.¹⁵ Nonetheless, gaps in the implementation of these systems have been noted in a number of countries, particularly in the context of devolution of responsibilities to sub-national governments.
- 5.12 **A challenge for the Bank is to find effective ways to strengthen the existing institutional and legal frameworks to enable them to carry out environmental assessments at internationally-accepted standards.** Unlike core public administration areas such as budgeting, strategic planning, procurement, or M&E, environmental institutions have not benefited from a structured and consistent stream of TA from the Bank. Furthermore, many environmental institutions suffer chronic budgetary constraints. The ICSF will provide resources for some institutional strengthening initiatives in this area, which could lead to a more structured approach later on based on that experience.
- 5.13 **Current Bank policy enables the Bank to determine use of country systems for environmental assessments.** Directive B.16 states that the Bank will consider the use of country systems for identifying and managing environmental and related social impacts at the project level. It requires the Bank to determine that the country system is at least equivalent to Bank standards and that its implementation is acceptable. If, during the verification process, gaps are revealed, the Bank and the borrower may agree to an action plan that demonstrates that necessary measures are in place to achieve and maintain equivalence. Gaps in implementation may be addressed through capacity building efforts. The policy limits the use of country systems to specific operations.
- 5.14 **The strategy for using country environmental assessments will seek to introduce use of country systems for identifying and managing environmental and related social impacts on a pilot basis to better inform the Bank on how best to expand the application of use of country systems in this area.** The strategy aims to apply the use of country systems to investments on a two year pilot basis, focusing on operations that have multiple subprojects. A focus on operations with multiple sub-projects offers the quickest tangible pay-off for the effort.¹⁶ The

¹⁵ The experience of the World Bank under their Operational Policy Piloting the Use of Borrower Systems to address Environmental and Social Safeguards Issues in Bank-Supported Projects provides useful lessons learned as well as potential models to guide the IDB strategy.

¹⁶ A project such as Procidades in Brazil would offer distinct advantages, as the program has a large credit-line, is in a country with sound environmental legislation, regulations and good environmental governance, the IDB-government dialogue on environment is productive and the results would be available relatively soon. The comparisons of safeguard outcomes prior to and after the shift to country system would be instructive for the IDB in refining its country system strategy for environmental assessments. A waiver to Directive B.16 may be sought to allow for application on a “programmatically” rather than a project to project basis financed under Procidades.

results of the pilot will be reported to the Board with recommendations on how to further expand the application of use of country systems. Specific interventions and expected results on the environmental assessments are provided in Table 7.

Table 7: Environmental Assessment Interventions and Expected Results

IDB Interventions	Expected Results by 2012
<ul style="list-style-type: none"> ▪ Applying pilot strategy with an initial focus on operations that have multiple subprojects. ▪ Gathering experiences and body of knowledge in terms of reviewing and monitoring frameworks in selected sectors. 	<ul style="list-style-type: none"> ▪ Develop a strategy for expanded use of country environmental assessment based on the pilot results. ▪ Provide the basis for preparation of technical guidelines on the use of country environmental assessments. ▪ Design a framework for reviewing and monitoring environmental assessments in selected sectors.

VI. Implementation

6.1 **The implementation of this strategy involves activities in four broad clusters: 1) Systems Review and Use; 2) Systems Strengthening; 3) Coordination and Dissemination; and 4) Short-term Measures.** The fundamental objective is to have all institutional and operational processes in place by January 1, 2010. By that date, (i) all future country programming exercises and country strategies will incorporate the recommendation regarding the strengthening and use of country systems as foreseen in this strategy; (ii) most of the necessary tools and resources to implement this strategy at the project level will be available to Bank staff; (iii) any required Bank policy or guideline changes have been either implemented or submitted to the Board for approval; and (iv) all short-term measures will have to be in place.

A. Systems Review and Use

- a. **Systematize existing diagnostic work and background information.** A comprehensive country systems repository will facilitate the effective management of all relevant information including assessment work, fiduciary notes, internal and external evaluations, best practice information, etc.
- b. **Institutionalize use of the Country Fiduciary Systems Guide for financial management and procurement systems.** The Country Fiduciary Systems Guide will establish the specific standards that need to be met by a country system in order to be relied upon for the execution of Bank-financed operations.
- c. **Prepare guidelines/toolkits for the assessment of Development Effectiveness systems.** These instruments will support project teams in determining the degree of reliance on strategic planning and monitoring and evaluation systems that is possible for a particular project or sector.

- d. **Develop a plan and associated budget requirements for the pilot application of country Environmental Assessments.**
 - e. **Implement changes to Bank policies.** The amendments to the procurement policies are presented in Annex 1.
- B. Systems Strengthening
- a. **Initiate the operation of the ICSF**, which will be a key source of funding and TA.
 - b. **Prepare a good practice manual for strengthening public financial management and procurement functions.** This instrument will guide the preparation of institutional strengthening proposals.
 - c. **Prepare a good practice manual for strengthening non-fiduciary systems.** This manual will complement the toolkit for assessment of non-fiduciary systems with guidelines and good practices for the institutional strengthening of Strategic Planning systems, M&E, and Statistics.
 - d. **Design a country systems staff training program.** Coordinated with the Knowledge and Learning Department (KNL), this program is geared towards updating staff skills in this area.
- C. Coordination and Dissemination
- a. **With the Client: Disseminate benefits associated with enhanced country systems.** Management is compiling and carrying out research to (i) identify best practice cases as part of south-south cooperation, and (ii) quantify the potential benefits for client countries resulting from enhanced country systems. The resulting materials will be disseminated through printed and virtual means, as well as through specific events or seminars.
 - b. **With the Development Community: Coordination with other development institutions.** Given that this initiative is part of the PD and the subsequent AAA, carrying out activities for harmonization and coordination with other donors is essential to leverage our institutional strengthening support with that being provided by others¹⁷ (see Annex 2).
 - c. **Within the Bank: Institutionalize internal coordination.** Its organizational structure is well suited through the articulation of different roles and responsibilities to undertake these tasks. Close coordination efforts will be reinforced to focus and complement Bank interventions in working with partner countries.
- D. Short-Term Measures
- a. **Address built-up demand for fiduciary diagnostics.** Respond to the growing demand from country clients to partner with the Bank to review and evaluate country fiduciary systems (see Annex 3). For this year alone, eight countries have submitted formal requests to carry out fiduciary system diagnostics (PEFA, OECD/DAC) and to partner with the Bank to design concrete action plans for their strengthening. Many other countries have informally expressed their interest in initiating or continuing work.

¹⁷ Annex 2 describes the harmonization agenda with other donors.

- b. **Align project financial reporting requirements with the countries' own budget classifications.** Beginning on January 1, 2010 and, where assessed by the Bank as being adequate, the project teams should use the financial reports generated from the country's own accounting and reporting system(s) that are acceptable to the Bank, using the financial reporting categories or component line items maintained by the system. This decision should be made during the design phase of new projects, so that the appropriate investment categories will be incorporated into the required Bank documents (i.e., Proposal for Operations Development) by project teams, when developing the estimated budget for the project.
- c. **Continue promoting the standardization of bidding documents.** Activities to standardize bidding documents with other development partners have been taking place for several years, and should be reinforced in the short term to facilitate the application of the country procurement systems strategy.

E. Costs

- 6.2 **The cost and budget requirements to implement this strategy will be included in the Bank's annual budget exercises.** For reference purposes, the indicative costs per country system intervention range from US\$100,000 to US\$110,000 for fiduciary systems, US\$40,000 to US\$50,000 for development effectiveness systems¹⁸, and approximately US\$360,000 for environmental assessments. In the case of fiduciary systems, these costs mainly cover diagnostic and analytical work¹⁹ performed by consultants, and do not include travel cost from IDB staff. For the non-fiduciary systems, estimated costs relate to activities for applying country strategic planning and monitoring and evaluation systems for use by Bank projects, such as sector-specific strategic planning workshops or development of indicators.
- 6.3 **Additional staff resources will be required to undertake the equivalency and acceptability analysis for environmental assessments and to address country capacity building needs.** Costs related to Bank staff training would also have to be considered.

F. Monitoring and reporting

- 6.4 **The strategy implementation will be monitored as part of the Development Effectiveness Matrix (DEM) for country strategies (GN-2489).** The DEM matrices incorporate information on the use of country systems and strengthening activities, which are reflected in the results matrix. For Country Strategies, these matrices should reflect the country systems analytical work, the action plan progress indicators, and specific targets to be achieved. The expected results included for each system represent the best estimate by Management at this stage. However, it is expected that these targets reflect demand and ongoing dialogue with country clients and may be subject to adjustments.
- 6.5 **At the project-level, the DEM includes information to monitor increased use of country systems by each specific project.** It also requires project teams to identify metrics for capacity

¹⁸ This amount reflects analytical work for assessing potential use and it does not include actual institutional strengthening support.

¹⁹ It includes application of the Country Systems Guide, preparation of Fiduciary Notes and other activities related to implementation of short term action plans.

building and strengthening activities linked to country systems to align each project to the country-level action plan.

- 6.6 **A progress report on the strategy implementation will be prepared and submitted to the Board of Executive Directors three years after its approval.** It will assess achievements based on the specific metrics for each system, review experiences, and recommend adjustments to the strategy if necessary. Such review may include suggestions to add other systems to the strategy.

VII. Recommendations

7.1 Management recommends that the Board or Executive Directors approve the following:

- i. The key principles, issues and elements of this strategy as discussed in Sections III, IV and V of this document.
- ii. An amendment (addition) to the Bank's current procurement policies, to include a new Section IV, in documents GN-2349-7 and GN-2350-7, as indicated in Annex 1, in order to allow the use of procurement methods provided by any country system that the Bank determines partial or total use according to procedures established for their use in Bank-financed operations.



ANNEXES

Amendment to IDB Procurement Policy to Include the Use of Country Systems

Doc. GN-2349-7

Section IV. Use of Country Systems

The borrower may use the methods for the procurement of goods and works included in the country system for contracts that the Bank may consider susceptible of financing with loans funds, in accordance with the criteria and procedures established for such effect.

Doc. GN-2350-7

Section VI. Use of Country Systems

The borrower may use the methods for the selection and contracting of consulting services included in the country system for contracts that the Bank may consider susceptible of financing with loans funds, in accordance with the criteria and procedures established for such effect.

External Coordination & Harmonization Roadmap

Harmonization efforts and work complementarities with other developing institutions are an integral element of the strategy. The Bank will work with other MDBs and donors to closely align international financial resources to national development strategies, sector priorities and medium and long-term planning.

The Bank will step up its efforts to improve coordination with other development agencies. Under the umbrella of the Working Party on Aid Effectiveness (WP-EFF) and other fora, the Bank pledged to actively participate in the definition of the strategic direction as well as the design of harmonized instruments. Likewise, the Bank will consult with other development partners to maximize and complement the use of resources in this area. In particular, the following actions are carried out:

- *Coordination of analytical work, technical tools and sharing of best practices.* Bank staff is meeting on a monthly basis with World Bank staff to coordinate technical interventions as well as fiduciary country diagnostics. Similarly, the Bank works jointly with the World Bank to expand and promote the sharing of experiences through the Latin American and the Caribbean Network of M&E. Under the PARIS21 framework, the Bank and the World Bank are coordinating efforts to develop targeted interventions and complement support to National Statistics Offices in the Region. Priority is also given to identify common issues, challenges and best practice cases to advance in the strengthening of country systems. Through sharing of experiences and knowledge, south-south cooperation will be encouraged among countries in the Region.
- *Active participation in OECD/DAC clusters and task forces.* Under the umbrella of the WP-EFF, the Bank actively participates in the Task Forces on Public Financial Management and Public Procurement under Cluster B (Strengthening and Using Country Systems). Likewise, the Bank will be co-chairing Cluster E (Managing for Development Results) in 2010. In addition, under the WP-EFF, the Bank is providing support to the work of the south-south cooperation Task Team, led by Colombia. The Bank's long involvement with different development partners across the Region brings expertise and assistance in sharing information about successful south-south aid effectiveness experiences and practices that will benefit other regions.
- *Joint work with the MDB's Financial Management Harmonization Working Group (FMHWG).* The Bank, is actively participating in the meetings and activities of this working group. Some of the main issues discussed and coordinated within the FMHWG cover: information sharing on PFM products and developments in each MDB, advances in the implementation of AAA, and other topics related to coordination of PFM activities between World Bank and regional banks, like the IDB.
- *Joint work with the MDB's Heads of Procurement (HoP).* The Bank, together with other multilateral organizations, is engaged in bringing together a harmonized and strategic agenda in procurement in areas such as standardized procurement bidding documents and procurement policies. As part of this agenda, important efforts are being undertaken to work closely with the international procurement industry. Currently, the Bank is co-chair of the HoP's Public Private Partnership Working Group with the World Bank. It also provides active leadership in electronic government

procurement (e-GP) through participation in the discussions of the HoP's e-GP Working Group and other regional fora to facilitate exchange of successful international experiences and cross-fertilization. IDB will host a global conference on e-GP procurement in November 2009 to launch strategies, tools, and a broad dialogue on the policy framework and challenges faced in the implementation of e-GP platforms as part of this strategy.

- *Joint work with the Multilateral Financial Institutions Working Group on Environment (MFIWGE).* The Bank is actively participating in the meetings and activities of this working group. Some of the main issues discussed and coordinated within the MIF working group cover: information sharing on environmental policies and standards, the development of a harmonized approach to environmental assessment and management, and common approaches to emerging issues such as greenhouse gas accounting of projects.
- *Awareness and training initiatives.* IDB will sponsor a working session with national authorities during the autumn to discuss regional experiences and initiatives on how to move forward the AAA's objectives. The Bank participates in a joint initiative of the donor community and INTOSAI where support will be provided to INTOSAI regional working groups to strengthen peer learning and regional capacity building functions.¹
- *Resource optimization.* The Bank actively seeks to leverage resources with other development partners and donors as well as TA to use economies of scale, piloting approaches, and comparative advantages to support increasing use of country systems. The Bank will take the lead in advocating cost-sharing and analytical division of labor as to maximize the use of resources aimed at increasing use of country systems.

¹ As an example, the initiative proposes to assist SAIs in promoting the design and implementation of laws and regulations to: (i) augment their independence, (ii) build their capacity to perform audits, and (iii) increase their impact on public financial management and accountability.

Assessments and Country Strategy Schedule 2008-2010

Department	Country	2008	2009	2010 Tentative
CAN	BOLIVIA		OECD/DAC PEFA	CS (update)
	COLOMBIA	OECD/DAC PEFA		CS)
	ECUADOR			CS (update) OECD/DAC
	PERU	OECD/DAC PEFA		CS
	VENEZUELA		CS	
CCB	BAHAMAS	PEFA CS		
	BARBADOS	OECD/DAC	CS	
	GUYANA	CS		
	HAITI			
	JAMAICA			CS
	SURINAME			CS
	TRINIDAD AND TOBAGO			CS
CID	BELIZE		OECD/DAC PEFA	
	COSTA RICA		OECD/DAC	CS
	EL SALVADOR		PEFA CS OECD/DAC	
	GUATEMALA	CS	OECD/DAC PEFA	
	HONDURAS	OECD/DAC	OECD/DAC PEFA	CS
	MEXICO		CS	
	NICARAGUA	CS	OECD/DAC	
	PANAMA	OECD/DAC*		CS
	DOMINICAN REPUBLIC		CS	OECD/DAC PEFA
CSC	ARGENTINA	CS		OECD/DAC** (tentative)
	BRAZIL	OECD/DAC** CS	OECD/DAC** PEFA**(tentative)	PEFA
	CHILE	CPAR		CS
	PARAGUAY		CS	
	URUGUAY			CS OECD/DAC

* WB, EC, DFID, or IMF, but IDB not a co-leader or team member

** State and Municipality level