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PUBLIC
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**UPDATE OF THE STRATEGY FOR
STRENGTHENING AND USE OF
COUNTRY SYSTEMS**

May 2019

This document is being made publicly available simultaneously with its distribution to the Board for information.

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ABBREVIATIONS

AC	Average cost
CoG	Centers of government
DEM	Development Effectiveness Matrix
ESG	Environmental and Social Safeguards Unit
FMM	Fiscal and Municipal Management Division
FMP	Operations Financial Management and Procurement Services Office
ICS	Institutional Capacity of the State Division
IFD	Institutions for Development Sector
M&E	Monitoring and evaluation
MAPS	Methodology for Assessing Procurement Systems
NSS	National statistical systems
OECD	Organization for Economic Co-operation and Development
OVE	Office of Evaluation and Oversight
PEFA	Public expenditure and financial accountability
PES	PRODEV evaluation system
PRODEV	Program to implement the external pillar of the Medium-term Action Plan for Development Effectiveness
SAI	Supreme audit institution
SAI-PMF	Supreme Audit Institutions – Performance Measurement Framework
TASC	Tool for Assessing Statistical Capacity
USAID	United States Agency for International Development
VPC	Vice Presidency for Countries
VPS	Vice Presidency for Sectors and Knowledge

1. INTRODUCTION

- 1.1 The Strategy for Strengthening and Use of Country Systems (document [GN-2538](#), hereinafter the “Strategy”) was approved in 2009-2010. It established the Bank’s principles and lines of action for strengthening its clients’ country systems, with the intent of the Bank using those systems in designing, executing, and evaluating the operations it finances. The Strategy results from the commitments taken on by the Bank under its New Operational Framework (document GN-2494), the Paris Declaration on Aid Effectiveness, and the Accra Agenda for Action, to strengthen and use client country systems as much as possible, in the recognition that success in development largely depends on governments’ capacities for implementing their policies and managing their public resources through their own institutions and systems.
- 1.2 This document presents Management’s proposal for the Update of the Strategy for Strengthening and Use of Country Systems (the “Strategy Update”) to the Bank’s Board of Executive Directors for approval. This Strategy Update proposal, consisting of eight sections and an annex (“Expected Results of the Strategy Through 2023”), is the result of extensive reflection on implementation of the 2009 strategy contained in document GN-2538, as well as the results achieved through 2018, the challenges faced in doing so, and the lessons learned during the 10 years the Strategy has been in effect. The specific objective of this Strategy Update is to equip the Bank with the necessary elements to:
- Successfully tackle the new challenges to strengthening country systems, while addressing the countries’ development priorities;
 - Maintain a thorough understanding of the region to improve the outcomes of Bank interventions;
 - Continue making progress on the progressive use of country systems; and
 - Bolster operational efficiency for the Bank and the countries.
- 1.3 Section 2 explains the background and scope of the Strategy Update. Section 3 reports the progress made through the Strategy in terms of the expected results. Section 4 sets out the principles of the Strategy. Sections 5 and 6 define the Strategy’s dimensions and lines of action, and the implementation process for fiduciary and nonfiduciary systems. Section 7 identifies the three main risks to Strategy implementation and explains how they will be mitigated: (i) changes in the countries’ priorities; (ii) reduced institutional capacity and strength of the country systems, preventing their use in Bank operations; and (iii) limited progress on strengthening institutional capacity and using country systems. Section 8 presents Management’s recommendation to the Bank Board of Executive Directors to approve the Strategy Update as set forth in this document and described in Sections 4, 5, 6, and 7, as well as the new indicators for objectively measuring the expected results of the Strategy and the 2023 targets, set forth in Annex I Expected Results of the Strategy Through 2023.
- 1.4 The document includes an annex explaining the expected results through 2023, including 25 management, outcome, and impact indicators to measure the progress of Strategy fiduciary and nonfiduciary systems.

- 1.5 Once approved by the Bank's Board of Executive Directors, this Strategy Update will replace the 2009 strategy contained in document GN-2538.

2. BACKGROUND AND SCOPE

- 2.1 In 2005, representatives of developed and developing countries, as well as of bilateral and multilateral development institutions, agreed to adopt various measures to reform the way international aid and other sources of development resources are delivered and administered, in the conviction that improving aid effectiveness will help reduce poverty and inequality, increase economic growth, build capacity, and accelerate the achievement of the Millennium Development Goals. These commitments were incorporated into the Paris Declaration on Aid Effectiveness.¹ The Bank, as the main development partner for Latin America and the Caribbean, was one of the signatories to this important cooperation instrument.²
- 2.2 In 2008, the Paris Declaration signatory countries and organizations signed the Accra Agenda for Action³ to accelerate and further the implementation of the agreements on aid effectiveness reached in Paris. This Agenda confirmed the international community's commitment to eradicating poverty and promoting peace and prosperity by building stronger and more effective partnerships that will enable the countries to reach their development goals. At the same time, it established a number of specific commitments, which notably included strengthening and using the developing countries' national systems as much as possible, in the awareness that success in development largely depends on governments' capacities to implement their policies and manage their public resources through their own institutions and systems. The Agenda stipulated the following measures for strengthening and increasing the use of country systems:⁴
- Use country systems as the first option for aid programs in support of activities managed by the public sector;
 - Establish safeguards and strengthening actions where use of country systems is not feasible;
 - Developing countries and donors will jointly assess the quality of country systems in a country-led process using mutually agreed diagnostic tools; where country systems require further strengthening, the country will define

¹ The Paris Declaration was signed and issued in Paris on 2 March 2005 by ministers from 93 countries, 26 bilateral and multilateral international organizations, and 14 civil society organizations from the international community.

² The Second High-level Forum on Aid Effectiveness, where the Paris Declaration was endorsed in 2005, brought together the agreements adopted at the High-level Forum on Harmonization in Rome (February 2003) and the principles of the Marrakech Roundtable on Managing for Development Results (February 2004). More recently, these agreements have been confirmed at other high-level forums for aid effectiveness in Busan (2011), Mexico (2016), and Nairobi (2016), where the commitment to achieve the 2030 Sustainable Development Goals was also adopted.

³ Accra, Ghana, 4 September 2008.

⁴ Donors also reaffirmed their Paris Declaration commitment to provide 66% of aid as program-based approaches. Furthermore, they will aim to channel 50% or more of government-to-government assistance through country fiduciary systems.

reform programs and priorities, while donors will support the reforms and provide assistance for carrying them out; and

- Donors will develop plans for fulfilling their Paris Declaration commitments on using country systems, providing guidance on how these systems can be used and ensuring that internal incentives encourage their use.

- 2.3 The Bank's 2008 New Operational Framework⁵ (document [GN-2494](#)), in compliance with the commitments undertaken in the Paris Declaration and the Accra Agenda for Action, established for the first time the decision to reinforce and use country systems according to the following premises: (i) analysis, strengthening, and gradual use of country systems; (ii) reduction of transaction costs for the Bank and for the client countries; (iii) the need for a comprehensive strategy that is consistent with the Bank's international commitments and is country-driven and country-focused.
- 2.4 The Strategy for Strengthening and Use of Country Systems (document [GN-2538](#), hereinafter the "Strategy") was approved in 2009-2010.⁶ It established the Bank's principles and lines of action for strengthening clients' country systems, with the intent of the Bank using these systems in designing, executing, and evaluating operations it finances. This initiative is the Bank's response to the commitment made in Chapter V of the New Operational Framework (document [GN-2494](#)): "Move to build and utilize country systems," in connection with the commitments and agreements taken on under the Paris Declaration⁷ and the Accra Agenda for Action, to strengthen and use borrowing member countries' systems to the fullest extent possible.
- 2.5 In 2013, Management submitted a report⁸ to the Bank Board of Executive Directors on the progress of the Strategy and the results achieved until that point. This report provided an account of the positive results of implementation as well as of the effectiveness of the Strategy's key principles, considerations, and elements. In the report, Management concluded that the Bank had mapped out an effective Strategy that had enabled the expected results to be substantially achieved, and progress to be made on the strengthening and use of country systems. In turn, the Board of Executive Directors requested that Management submit the expected results through 2018, as proposed indicators for measuring progress. This conclusion is consistent with the evaluation performed by the Office of Evaluation and Oversight (OVE),⁹ which stated that "the Country Systems Strategy is sound and addresses effectively the main factors that have constrained the increased use of country systems in the past." The evaluation also concluded that the Strategy's

⁵ The New Operational Framework was approved by the Bank's Board of Executive Directors on 11 March 2009.

⁶ The strategy was approved in December 2009, and the process was completed with the March 2010 approval of the authorization conditions for the use of procurement systems and the June 2010 approval of the technical guides to validating the systems.

⁷ The Paris Declaration (2005) not only recognizes that aid can and should yield greater impacts, but also sets down the commitment to agree an international action plan that will ensure that development aid resources are appropriately used, and establishes a monitoring system to assess the progress made on achieving objectives and to hold donors and beneficiary countries accountable.

⁸ Three-Year Review of the Strategy for Strengthening and Use of Country Systems (document [GN-2538-9](#)), 9 August 2013.

⁹ OVE Background Paper: Country Systems (document [RE-429-3](#)), December 2012.

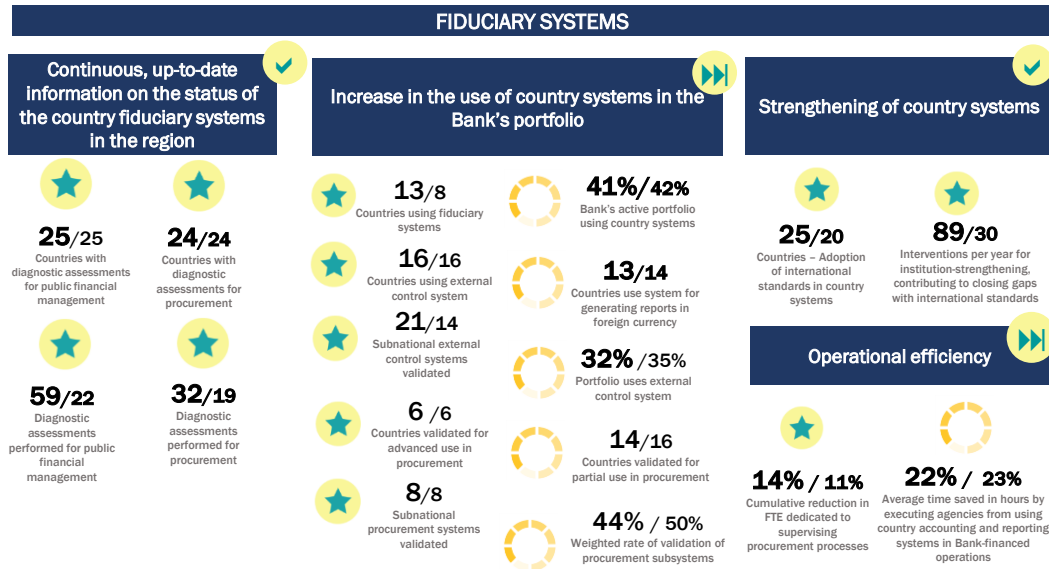
- key principles, considerations, and elements have operated effectively, particularly in the case of fiduciary systems.
- 2.6 In 2014, the document “Strategy for the Strengthening and Use of Country Systems. Expected Results Through 2018” (document [GN-2538-14](#)) was submitted to the Board of Executive Directors. This document established the expected results for 2018, taking into account: (i) the sustainability and continuity of strategic and political dialogue with the countries to advance and deepen strategy implementation; (ii) the gradual increase in the use of country systems in Bank-financed operations, given their different stages of development and progress; and (iii) the existence of stable financing sources for meeting country demand, with the creation of the Special Program for Institutional Development.
- 2.7 Likewise, the document designed and established a total of 31 indicators for fiduciary and nonfiduciary country systems, to measure progress on the expected results of the Strategy through 2018. These results reflect the generation of timely, up-to-date information on the status of country systems; the strengthening of country systems; the increased use of country systems in Bank-financed operations; and the improved operational efficiency and reduced transaction costs for the Bank and the countries.
- 2.8 The document also established that in the first quarter of every year the Board of Executive Directors will be informed on the progress made under the Strategy and the results achieved in the previous year, with a view to identifying and, where applicable, implementing the actions necessary to ensure effective implementation. It also established that a report covering the results achieved through 2018 will be presented in the first half of 2019.
- 2.9 Although the Strategy’s objectives remain in force, the global and regional contexts are changing significantly due to the rapid adoption of new technologies and the increased digitization of many sectors; the need to increase investment resources in the region; and the increasing significance of challenges in crosscutting issues like gender equality and diversity; climate change and environmental sustainability; and institutional capacity and the rule of law.
- 2.10 Therefore, in view of the results achieved through 2018 and based on the experience and lessons learned in the first 10 years of Strategy implementation, Management has deemed it appropriate to revise the Strategy, with the aims of:
- Updating the Strategy’s issues and elements with regard to fiduciary and nonfiduciary matters as set forth in Sections IV and V of the Strategy for Strengthening and Use of Country Systems (document GN-2538), as well as the implementation activities established in Section VI.
 - Adding two new principles regarding promoting the innovation and use of technology and focusing on efforts in countries with less-developed systems. A standardized approach for fiduciary and nonfiduciary systems will also be introduced. This new approach recognizes the differences in these systems but identifies similarities in the implementation logic and the stages of the implementation process.
 - Proposing new indicators to objectively measure the expected results, including a baseline and targets through 2023 for each one.

3. PROGRESS AND CHALLENGES

Results achieved through 2018

- 3.1 The [“Progress Report on the Strategy for Strengthening and Use of Country Systems: Results Achieved Through 2018”](#) reviews the progress achieved through 2018, as well as the evolution and status of the indicators during the period 2014-2018. The report also reflects the Bank’s main efforts to implement the Strategy, highlighting that almost all of the expected results through 2018 have been achieved (70% of results were achieved, while the remaining 30% are in process and are expected to be achieved).
- 3.2 Figure 1 shows the status of the expected results and indicators for the fiduciary systems, including the procurement and financial management systems.

Figure 1. Fiduciary systems results and indicators*



* Results achieved with respect to the planned targets.

- 3.3 The Bank has up-to-date information on most of the fiduciary systems in the countries in the region. All told, 24 of the 26 borrower countries have at least one fiduciary diagnostic assessment, surpassing the expected target. The Bank assessments adhere to international standards, meaning that the Bank uses instruments like the PEFA, the SAI-PMF (for financial management), and the MAPS methodology (for procurement systems), as well as the Bank’s own fiduciary assessments,¹⁰ to diagnose the state of the fiduciary systems, allowing it to better plan the strengthening interventions.
- 3.4 The use of fiduciary systems in Bank operations has also increased significantly. Currently, 24 of the borrowing member countries use at least one fiduciary

¹⁰ Guide for Determining the Level of Development of the Public Financial Management Systems (2012) and the Guide for the Acceptance of the Use of Country Procurement Systems (document GN-2538-13).

- subsystem (financial management or procurement), which amounts to 44% of the 652 projects¹¹ in the Bank's active portfolio at year-end 2018.¹² To date, six countries¹³ have been authorized to fully use their country procurement systems, while 14¹⁴ have been authorized to use one or more subsystems. With regard to financial management, 24 countries use at least two financial management systems in managing Bank-financed operations.
- 3.5 The target of 20 countries that have adopted international standards in their country systems or are in the process of doing so, and the target of 30 strengthening interventions financed by the Bank per year, expected through 2018, have been surpassed. All told, 25 of the 26 Bank borrowing member countries have already implemented or are in the process of implementing practices aligned with international standards in their fiduciary systems, and the number of strengthening interventions to close gaps with those standards is more than double the target set for the expected results of the Strategy through 2018.
- 3.6 One of the most significant expected results for the countries and for the Bank is operational efficiency, reflected in lower transaction costs.¹⁵ For procurement systems, the 2013 baseline 7% reduction in the transaction costs associated with supervision of the processes increased to 14% in 2018, surpassing the expected result of 11%. In financial management, the value for the indicator of the average time saved by executing agencies from using country accounting and reporting systems in Bank-financed operations came to one percentage point below the target of 23%.
- 3.7 As shown in Figure 2, the expected values were surpassed for most of the development effectiveness systems results and indicators. The expected result of improved scores for the strengthening of systems was only partially achieved, principally because: (i) the targets set were optimistic, considering that to a large extent they depend on the countries' willingness to request/accept Bank assistance; (ii) it may take two or more years from the time of the intervention until results are seen; and (iii) measurements using the available tools are not taken as often as necessary. Furthermore, the countries' lack of available resources for institution-strengthening represented a challenge to achieving this result.

¹¹ For fiduciary systems, the scope of application refers to sovereign guaranteed investment projects.

¹² Source: Information from LMS20.

¹³ Brazil, Colombia, Chile, Ecuador, Mexico, and Peru.

¹⁴ Argentina, Bolivia, Colombia, Costa Rica, El Salvador, Jamaica, Panama, Paraguay, Peru, Guatemala, Honduras, Nicaragua, Dominican Republic, and Uruguay.

¹⁵ The reduction in transaction costs attributable to the use of the country system for accounting and reporting is estimated from the average time savings for executing agencies from using this system in the execution of Bank-financed operations. In the case of the procurement system, the reduction in transaction costs is measured as the cumulative decrease in FTE dedicated to the supervision of procurement processes.

Figure 2. Development effectiveness systems results and indicators

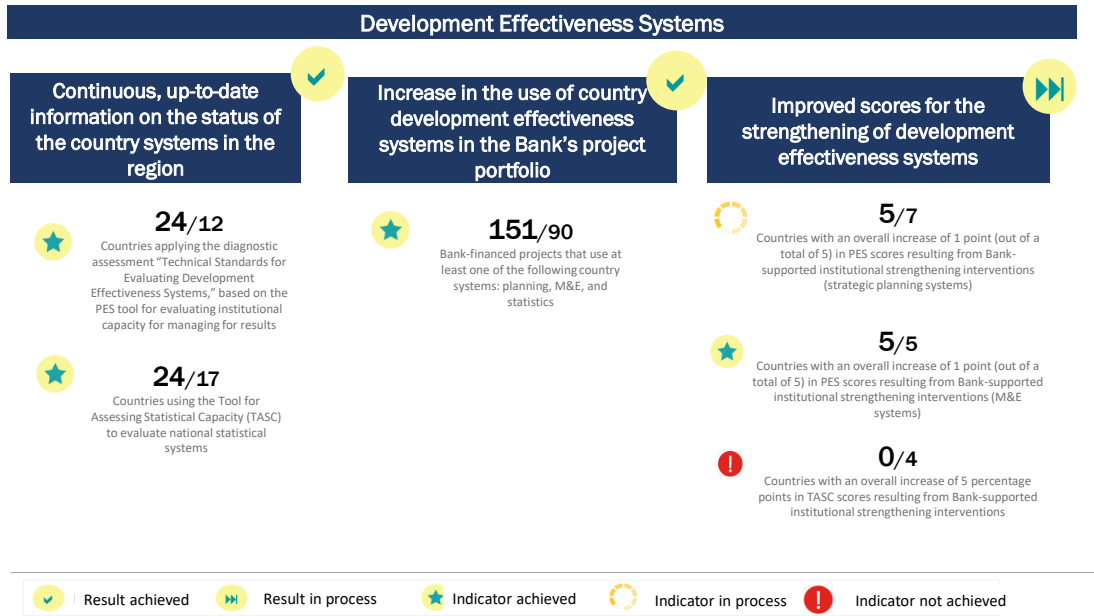
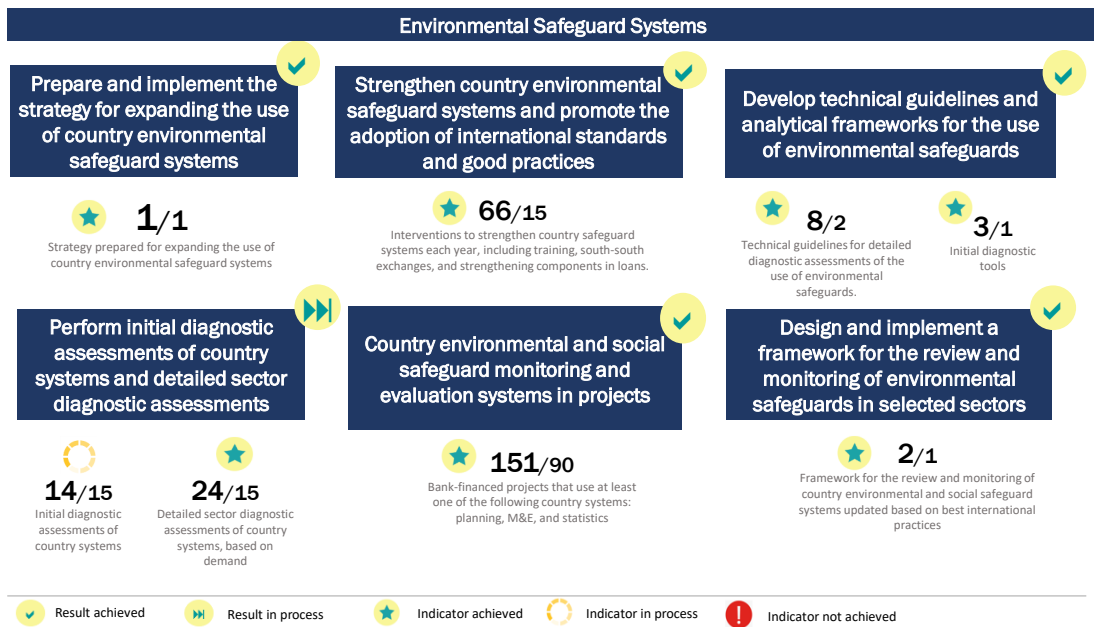


Figure 3. Environmental safeguard systems results and indicators



3.8 Figure 3, on the environmental safeguard systems results and indicators, shows that most of the expected results were achieved and surpassed. However, the expected result for performance of diagnostic assessments was only partially achieved, since the time and resources required to perform a full diagnostic assessment of the safeguard system represent significant challenges, sometimes exceeding what is needed for the project analysis, and there is low demand from the governments for such diagnostic assessments.

External evaluation of the Strategy (2010-2018)

3.9 As input for the preparation of this document, an independent consulting firm was engaged to conduct a comprehensive review the Strategy. It reported the following principal findings (for more details, see the [Report on the Evaluation of the Strategy for Strengthening and Use of Country Systems](#), prepared by the consulting firm Ernst & Young.¹⁶

- The evaluations and diagnostic assessments performed, the identification of gaps with international standards, and the strengthening activities performed during these years, all contributed to achievement of the majority of the indicators established in the Strategy.
- The use of country systems is also helping the countries strengthen their institutions, come into line with international standards, increase certainty as to the law in each country, achieve greater investment, and improve resource allocation. However, obtaining and maintaining these benefits will take time and will require sustained support for the reforms.
- The challenges of initial coordination among the units responsible for Strategy implementation (ESG, ICS, FMM, and FMP) have been overcome.
- Challenges remain to increasing the use of country systems in Bank operations, in particular for procurement systems, given that only processes for less than the international competitive bidding thresholds established for each country are eligible for the use of country systems. This limits the scope of the Strategy and discourages its use, while promoting the application of parallel systems.
- Progress with nonfiduciary systems has been positive; however, there are still opportunities for improvement in Strategy implementation.
- The information gathered while the Strategy has been in effect and the various significant stakeholders' perceptions expressed in surveys and interviews clearly show that in the next strategy, opportunities should be sought for increasing the use of nonfiduciary country systems.
- The results of online surveys conducted as part of the review on more than 170 people, including employees of the IDB, government, and other institutions such as the World Bank, International Monetary Fund, and USAID, show that individuals outside the Bank have a better impression of Strategy implementation. Furthermore, the performance of fiduciary systems is considered to be better than of nonfiduciary systems. On average, 65% of Bank employees surveyed agree or fully agree that the demand principle¹⁷ worked in practice, a dialogue was held with the countries to understand their needs, and the country systems validation process had a positive impact on Strategy implementation. However, only 19% of the employees

¹⁶ Ernst & Young (2018). Informe Sobre la Evaluación de la Estrategia para el Fortalecimiento y Uso de Sistemas Nacionales [Report on the Evaluation of the Strategy for Strengthening and Use of Country Systems], Washington, D.C.

¹⁷ According to the demand principle established in the original Strategy, implementation responds to demand and is based on agreements with the client countries.

consider it easy to reach agreements with the countries for the strengthening and use of country systems.

Challenges

- 3.10 The Bank has made significant efforts to implement the Strategy, and these efforts have been positively received by the relevant stakeholders. Thus far, the Strategy has relied on technical-cooperation resources for the strengthening and diagnostic assessment of country fiduciary systems from the Ordinary Capital institutions fund, other specific technical-cooperation operations for the strengthening of environmental governance and social policy management in Latin America and the Caribbean, and other sources, as well as loan components focused on institutional capacity-building, which has facilitated achievement of the expected outcomes. However, there are still challenges that require Bank action, in order to:
- Promote government prioritization of the Strategy, which is key to effectively achieving the expected results in the next period, especially in less-developed countries;
 - Increase mobilization of resources to cover country needs;
 - The use of country systems in Bank operations results from their solidity in each country. In some countries, their lack of development restricts their use and limits their validation, meaning a long-term strengthening process is required and new work strategies focused on the specific conditions of these countries must be analyzed for the recognition of these country systems;
 - The Bank will continue to promote the use of technology and innovation for strengthening and modernizing country systems; this involves managing the change with the governments and helping them prepare to face the impacts of the technological revolution.

4. STRATEGY PRINCIPLES

- 4.1 The Strategy Update maintains the principles of:
- Agreement with the countries, involving joint responsibility and gradual implementation;
 - Adoption of good practices and international standards; and
 - Active coordination with development partners for resource mobilization.

It further adds:

- Standardization of the approach to the strengthening and use of country systems;
 - Innovation and use of technology; and
 - Focus on less-developed countries.
- A. Agreement with the countries, involving joint responsibility and gradual implementation.** Unlike in the original Strategy, the Bank and the countries may both take the initiative for carrying out activities under the Strategy. These activities must align with the country development priorities

and programs. The country will commit to performing actions to strengthen its systems and promote the necessary reforms to begin sustainable processes for developing its capacities. In turn, the Bank will commit to using, as a first option, country systems that have been validated as solid and that have been authorized for use in projects financed by the Bank through the processes it has established. Likewise, the Strategy will continue to promote gradual implementation, adapted to the circumstances and capacities of the countries and executing agencies.

B. Adoption of good practices and international standards for strengthening country systems in the short, medium, and long term, with a special focus on the following areas:

1. Strengthening of institutional capacity and the rule of law;
2. Closing country gaps in gender equality and diversity policies; and
3. Support for the countries in facing the challenges of climate change and environmental sustainability.

With respect to fiduciary systems, the Bank also commits to continuing to support improvements in the mechanisms of good governance, in order to create an environment conducive to transparency, integrity, and accountability.

C. Active coordination with development partners for resource mobilization, to promote leverage and increase resource mobilization. The Bank will continue to prioritize collaboration with multilateral development banks, international organizations, development agencies, and technical cooperation networks to generate synergies and optimize the use of resources for the strengthening and use of country systems. The Bank also undertakes to promote South-South cooperation (peer-to-peer) and the exchange of human, technical, and financial resources to generate knowledge, experience, and good practices.

D. Standardization of the approach to the strengthening and use of country systems, which should take a holistic view and include the stages of diagnostic assessment, strengthening, validation, authorization for use, and monitoring. Although fiduciary and nonfiduciary systems have different natures and involve different technical tools and analysis and authorization processes, the experience of Strategy implementation over the past eight years shows that they share a similar logic, consisting of the use of diagnostic tools to assess the status of the systems in terms of good practices and international standards; the design and implementation of strengthening interventions to close the gaps identified; validation of compliance with international standards and good practices; authorization for use of the systems in Bank-financed operations; and monitoring to ensure that the conditions under which the systems were validated are maintained.

E. Promotion of the innovation and use of technology, to encourage the strengthening of country systems. The technological revolution of recent years offers an opportunity to accelerate the development of the countries in the region. The digital transformation and the adoption of disruptive technologies help catalyze economic growth, boost the public sector

modernization process, and promote efficiency in resource management, etc. The Bank will continue supporting and fostering the countries' commitments to using digital tools and processes as well as innovative solutions for strengthening institutional capacity. To enhance the impact of the strengthening interventions and reduce gaps as effectively as possible, it is fundamental to encourage the countries to take advantage of the benefits of technology and innovation.

- F. Focus on less-developed countries.** Thus far, the Strategy has provided support to help all of the countries in Latin America and the Caribbean come into line with international standards and good practices. The countries with more robust systems have already met these standards, and their efforts have been recognized by the Bank through validations for use of their country systems in the operations it finances. The Bank commits to prioritizing support for countries that have made less progress, to help them continue their national capacity-building.
- 4.2 The update of the principles is aligned with the focus areas of the Bank's Institutional Strategy;¹⁸ promotes the use of technology and innovation to foster the strengthening of country systems; is aimed at maintaining active coordination and ongoing technical dialogue with the development partners to promote leverage and increase resource mobilization; and encourages the adoption of good practices and international standards with a particular emphasis on strengthening institutional capacity and the rule of law, supporting the region in its efforts to increase transparency and integrity to address the crosscutting issue of institutional capacity and the rule of law, closing gaps in terms of gender and diversity, and addressing the challenges of climate change and environmental sustainability.

5. FIDUCIARY SYSTEMS

- 5.1 Fiduciary systems fall within the spheres of fiscal management or government administration and control, both national and subnational. They provide the regulatory framework and structure necessary for countries to use fiscal resources towards the achievement of public policy objectives. Fiduciary systems include public financial management systems and procurement and contracting systems.
- 5.2 Public financial management systems include the legal framework, organizational structure, procedures, internal control, and information systems used by the country entities and regulatory bodies for managing public finances. These systems encompass budget planning and management, treasury, accounting and reporting, internal audit,¹⁹ and external control.
- 5.3 Procurement and contracting systems incorporate the operating rules (laws, regulations, manuals, guidelines); policy directives; and official decisions; as well as the management and market transaction tools that govern the procurement of goods and contracting of works and consulting and nonconsulting services required by public sector institutions. The fundamental principles upholding

¹⁸ These principles are also aligned with the objectives of a number of different Bank initiatives.

¹⁹ The internal control system is not included as a separate system, since it consists of functions and processes that cut across all of the aforementioned financial management systems.

procurement and contracting systems are efficiency, effectiveness, transparency, and integrity, economy, value for money, equality of opportunity for all eligible bidders, and due diligence in the processes.²⁰

Lines of action

5.4 The lines of action for the strengthening and use of country fiduciary systems are updated to:

A. Improve knowledge of countries in the region in order to identify opportunities for strengthening and modernizing the fiduciary systems by:

1. Performing periodic diagnostic assessments, at least every five years, or earlier if there have been any significant reforms, based on reputable international methodologies: PEFA, SAI-PMF, MAPS, etc., and with input from relevant Bank units.²¹
2. Identify the strengths of and opportunities for improvement in the fiduciary systems and promote dialogue to strengthen and modernize them.

B. Strengthen country systems with a comprehensive, sustainable, and inclusive approach by:

1. Promoting institutional development through the incorporation of good practices and international standards;
2. Maintaining a client focus at all stages of the process;
3. Focusing on the countries with less developed fiduciary systems without neglecting the other countries;
4. Targeting the strengthening of country systems to specific development areas, namely: institutional capacity; sustainability, including gender equality, diversity, and environmental considerations; transparency, including gender equality, diversity, and environmental considerations; integrity, and accountability; as well as the closing of technical gaps, and the incorporation and fostering of innovation;
5. Promoting South-South cooperation.

C. Expand the use of fiduciary systems in Bank operations by:

1. Using country fiduciary systems that satisfy the requirements set forth in this document as the first option in Bank-financed operations;

²⁰ The recently proposed modifications to the Bank's procurement policies establish a provision according to which the Bank may rely on and apply the procurement rules, procedures, and systems of the borrower at the national, subnational, or executing-agency level, provided that they are consistent with the Bank's core procurement principles and have been satisfactorily assessed and deemed acceptable to the Bank. The assessments and terms of eligibility are the ones expressly indicated in this document.

²¹ A diagnostic assessment is considered to be current if it was performed in the past five years, or earlier if it is confirmed that the results of the most recent diagnostic assessment performed remain valid for the various pillars considered in the assessment.

2. Encouraging validation of the fiduciary systems through a progressive, comprehensive approach that includes:
 - a. Validation and authorization for use of country procurement systems, in full or by subsystem;²²
 - b. Validation and authorization for use of the country procurement systems at the executing agency/project level;
 - c. Validation and authorization for use of the country financial management systems by subsystem: budget, treasury, accounting and reporting, external control.

D. Reduce transaction costs by:

1. Promoting the use of digital technologies in public contracting and procurement and in public financial management;
2. Promoting the use of artificial intelligence, big data, and data analytics tools and technologies like blockchain in financial management and procurement processes;
3. Adopting a vision of joint Bank and country responsibility for supervision;
4. Promoting the use of disruptive technologies as a measure to foster resource mobilization through the use of country systems;
5. Promoting the development and adoption, among Bank borrowing member countries, of programs for ongoing improvement of fiduciary systems.

5.5 The Strategy is being implemented through a five-stage process: diagnostic assessment, strengthening, validation, authorization for use, and monitoring.

A. Diagnostic assessment

1. Thus far, the Bank has performed fiduciary diagnostic assessments in 25 borrowing member countries. The results of these diagnostic assessments form the Bank's body of knowledge on the status of the financial management and procurement systems of the countries in the region and serve as a key element for strengthening and policy dialogue with our clients. For financial management, the diagnostic assessment will be performed using assessment tools like the PEFA, to assess the state of public financial management, and the SAI-PMF, to evaluate the performance of the control bodies compared to internationally accepted standards. These tools can be used at the national and subnational levels.
2. For procurement, MAPS will be used, as a methodology that sets the standard of good practices in public contracting and procurement. At the executing agency or public entity level, the process of diagnostic assessment and defining a strengthening plan will form part of the

²² The country procurement system subsystems are: (i) e-procurement; and (ii) the following subsystems of the procurement system: shopping, national competitive bidding, consulting, and any other procurement method compatible with the Bank's core procurement principles.

institutional capacity analysis to be performed in preparation for investment loans. The MAPS supplementary module will be used for this purpose. In addition, other MAPS supplementary modules may be used; these are offered by MAPS for assessing the performance and governance of the procurement system in matters of sustainable procurement, public-private partnerships, professionalization of public contracting and procurement, specific market sectors, and e-procurement.

3. For both financial management and procurement, the Bank guide²³ will also be used to determine the level of development of the fiduciary systems being assessed. All other assessments, notes, and documents that provide an account of the current situation of any of the country's financial management and procurement systems will also serve as part of the body of information on the state of the fiduciary systems.

B. Strengthening

1. The objective of strengthening the fiduciary systems will be to support the countries in incorporating financial management and procurement good practices and to foster reform processes that promote the use of country systems. This strengthening will result from the Bank's dialogue with the countries and will be reflected in the country strategy and other Bank strategic planning documents.
2. The strengthening will be aimed at closing gaps with respect to international standards and practices, including aspects like institutional capacity and risk-management ability; transparency and integrity; sustainability, including issues related to gender equality, diversity, and environmental considerations; technological tools and the incorporation and promotion of innovation. The strengthening interventions will be carried out in a planned, coordinated fashion among the areas responsible for Strategy implementation, the Bank sector areas, and other Bank units that may inform these efforts.
3. To finance the Strategy strengthening interventions, the Ordinary Capital Fund – Strategic Development for Institutions Program will continue to ensure the necessary flow of funds to allow the Bank to rapidly respond to the countries' needs, mobilizing resources to finance broader country system modernization and reform programs, with a view to expanding the use of those systems. In addition, the Bank will make use of the potential for loan and technical-cooperation operations to strengthen country systems. These operations are financed with Bank resources or existing donor trust funds. The Bank will continue to offer specialized technical assistance and support for improving the efficiency of borrower country public management, financial management, and procurement systems.

²³ The Guide for the Acceptance of the Use of Country Procurement Systems (document GN-2538-13) will be updated by at most six months after the Strategy Update is approved. The current Guide for Determining the Level of Development of Public Financial Management Systems will be used for financial management systems.

4. VPC/FMP, together with IFD/ICS and IFD/FMM, will coordinate implementation with the government of the strengthening activities identified in the diagnostic assessments performed of the systems and recommended in the analysis for the use of country systems. These activities may include loan operations as well as knowledge products like: (i) consulting and advisory services; (ii) policy drafting and capacity-building; (iii) outreach and promotional activities; and (iv) research and development activities. The Bank will also encourage coordination and agreements with other donors to foster joint strengthening initiatives that maximize the potential benefits for the countries.
5. The VPC/FMP coordination with IFD/ICS and IFD/FMM will center on four essential aspects aimed at enhancing the sectors' strategic role in strengthening the institutional capacity of the country fiduciary systems: (i) analysis and inclusion in Bank operations of strengthening activities; (ii) identification of all the opportunities to leverage new loans, derived from the diagnostic assessments; (iii) establishment of strategic medium- and long-term strengthening plans and their implementation by sectors based on the diagnostic assessments performed; and (iv) coordination for identifying strengthening actions in the process of preparing country strategies. To this end, specialists from these units in the country offices and headquarters will be encouraged to interact, and to exchange information on these matters.
6. Strengthening internal control is a priority for the LAC countries seeking to join the OECD, given that adequate internal control is one of the issues the OECD evaluates when reviewing country integrity frameworks. Internal control is the set of rules and processes established by the senior management of public bodies for identifying and mitigating risks in administrative management, to support achievement of the expected results. Its purpose is to ensure that the bodies' operations are effectively, efficiently, ethically, and methodically executed in compliance with the applicable laws and regulations, thereby preventing losses and the misuse of resources. Internal control arrangements are incorporated into administrative management processes, for example the procurement and public investment cycle. They also help improve efficiency in other administrative systems like the human resources system. The LAC countries have poorly developed internal control mechanisms that lack tools for identifying potential risks in the main administrative processes that would allow for timely evaluations and prevent the inefficient use of resources.
7. In LAC, the internal audit subsystems, which form part of the internal control systems, suffer from weak institutional capacity, due to ministries' lack of independence and the countries' failure to prioritize them. Under international auditing regulations and good practices, external auditors leave supervision to the internal auditing office in order to increase the operational efficiency of the country's supreme audit institution. For Bank-financed projects, even with the internal auditing function strengthened, this is not expected to have a major impact on execution nor on the external auditing of projects. Therefore,

internal auditing subsystems will no longer form part of the Strategy, and efforts will instead be focused on diagnostic assessment, strengthening, and validation of the external control. However, internal control is crosscutting and is included in all of the financial management subsystems. The Bank will thus continue to include the creation of government institutional capacity for putting internal control mechanisms into operation on its country system strengthening agenda (in an integrated, not separated way). The design of the risk evaluation frameworks for Bank projects could be improved, so as to cover risks in the execution of the principal processes. This would help improve the quality of execution as well as create the aforementioned institutional capacity for managing these entities.

8. With regard to the external control subsystem, although there has been improvement in the indicator of use based on the number of countries and the percent of projects using the SAI for auditing, the target has not been reached, mainly due to: (i) the SAI low prioritization of financial audits of projects;²⁴ (ii) the SAI preference for conducting performance or program management audits to measure efficiency, economy, or efficacy; (iii) lack of institutional capacity and trained human resources for appropriate compliance with good practices; (iv) failure to generate and deliver the audit report by the Bank's deadline; and (v) the Bank project teams' lack of trust in the quality and timeliness of the SAI work. Bank projects help create knowledge and an assessment culture, which is what the SAI wish to promote. SAI participation in discussions on project design will promote understanding of its vertical logic and help make it possible for the logical framework matrix to be used for expanding SAI audits of results.
9. It is important to highlight that the new strategy will continue to assess, strengthen, and validate the SAI, should they show interest in providing their services to the bank, including: (i) financial or performance audits; (ii) collaboration for project execution; or (iii) relevant advising to the Bank. Although the Bank will continue to monitor use of the services provided by the SAI, the Strategy will not focus on measuring or promoting their increased use; by default, project financial audits will be conducted by the private auditing firms governed by a separate quality review and selection process conducted by the Bank.

C. Validation

1. Validation includes activities to verify the incorporation of international standards and Bank-accepted practices, as well as analysis of the risks associated with the use of country systems in Bank operations.
2. The validation process includes a technical assessment followed by a quality control test and approval process run by IDB Management. Bank staff will use the guides on country fiduciary systems to assess whether or not using country fiduciary systems (either fully or partially) is viable, and as appropriate, will propose an action plan for

²⁴ By mandate the SAI audit the *country's budget execution and compliance with local laws*; this is not the same as a financial audit.

strengthening them. These guides are made up of a set of instructions for administering the process, with the objective of determining the following aspects: (i) the extent to which the Bank can rely on the country systems for the operations it finances; (ii) the possible risks; and (iii) the necessary measures that the countries must adopt when technical requirements are not satisfied or some practice is not in place. The guides provide an analytical framework based on internationally accepted regulations and best practices for financial management and procurement, specifically geared towards measuring the systems' capacities for administering the resources of the Bank-financed operations and adequately monitoring them.

3. The validation process comes out of the Bank's dialogue with the country. The system's strengthening needs and system validation can be activated through the client country's explicit request. The Bank will analyze the relevance and origin of the request, taking into consideration the country's priorities and this Strategy's principles, objectives, and lines of action.
4. For public financial management, the following systems are subject to validation: (i) budget, treasury, accounting and reporting, and external control. For procurement, the following systems are subject to validation: (i) e-procurement; and (ii) procurement, which includes the following subsystems: shopping, national competitive bidding, consulting, and any other procurement method included in the Bank's procurement policies.²⁵
5. The procurement system can be validated to two different extents: (i) full, when the validation and recommendation for use includes all the subsystems; and (ii) partial, when the system does not comply with all of the required practices but one or more of the subsystems can be recommended for use, as it or they comply with all of the called-for practices.
6. Furthermore, a country system or subsystem may be validated, or its use recommended, for only a certain type of procurement; for example, for the contracting of goods, services, consulting, or works.
7. The public financial management or procurement systems, or any of the subsystems, can be validated and recommended for use nationally; federally, where applicable; subnationally; or for the executing agency.
8. In all cases, the validation and recommendation for use must be operational and practical for the executing agencies in Bank-financed operations; the use of the public financial management and procurement systems must always represent a significant contribution to the projects.
9. If the procurement system or subsystems do not fully satisfy all of the requirements but do comply with most of the practices and only need

²⁵ The Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank currently in effect and future modifications thereof.

minor adjustments, their use may be validated and put up for the Bank's consideration. The strengthening, risk mitigation, and exclusion measures to be implemented in the short term must be agreed upon with the country. For procurement systems, in no case will restrictions be established that hamper or fully preclude their use more than 12 months post-approval.

D. Authorization for use

Procurement systems will be approved for use in accordance with the following:

1. When a country's procurement system has not been previously authorized, it is the Bank Board of Executive Directors that will authorize it fully or partially, at Management's suggestion. In this case, the use of the system or subsystems will be authorized only up to the international competitive bidding threshold amounts for the procurement of goods and nonconsulting services, as well as for the contracting of public works, and to the international shortlist requirement threshold for contracting consulting firms. Also in this case, Management's recommendations on the use of the procurement systems will be included in the respective Report for the Acceptance of Use of the Country System in question, which will be submitted for consideration and approval by the Bank Board of Executive Directors.
2. Use of the procurement system at the executing agency/project level in specific Bank-financed projects, regardless of the contract amount, will be authorized by the Board of Executive Directors, at Management's suggestion.²⁶ In this case, authorization of the use of the procurement system must be expressly established in the loan proposal and in the corresponding Annex III²⁷ and will not be limited by the international competitive bidding thresholds for the procurement of goods and nonconsulting services as well as the contracting of public works, nor by the threshold for the international short list requirement for the contracting of consulting firms.
3. Management will authorize e-procurement systems or tools²⁸ for use in Bank-financed operations. This authorization will not be limited by amount.

²⁶ Management's suggestion and the Board's authorization for use of the procurement system at the executing agency/project level are contingent on that system's consistency with the Bank's basic procurement principles and its evaluation with results satisfactory and acceptable to the Bank as compliant with all the required practices and standards.

²⁷ One of the main benefits of this proposal is the recognition of the institutional capacity of those organizations that meet international standards such that their procurement procedures and practices may be used in Bank-financed operations, thus increasing operational efficiency for the country and for the Bank.

²⁸ In compliance with the various provisions set forth in the Bank's current procurement policies and future amendments to them, and the Three-Year Review of the Strategy for Strengthening and Use of Country Systems (document GN-2538-9), Management has the power to authorize the use of electronic tools used by the borrowers for posting bid notices, sending out bidding documents, receiving bids, and other functionalities described in the procurement policies.

4. Management will be responsible for authorizing the partial use of procurement systems (shopping, national competitive bidding, consulting, any other procurement method provided for in Bank policies, as well as the comparable methods in each country) in Bank-financed operations, for processes limited to the international competitive bidding thresholds for the procurement of goods and nonconsulting services and the contracting of public works, and to the international shortlist requirement threshold for contracting consulting firms.
5. For financial management systems, Management has the power to authorize the use of country systems based on the results found with the diagnostic tools and from the implementation of the strengthening plans agreed upon by the Bank and the government.
6. Once the system or subsystem in question has been approved, the decision should be reflected in the next country program document and country strategy.

E. Monitoring

1. The Bank will establish a mechanism to monitor use of the systems. The recommendation to authorize use of the fiduciary systems remains valid as long as the strengths identified during the analysis for acceptance continue to hold. If the conditions under which the use of the systems was authorized cease to be met, the Bank will require immediate application of Bank policies, until those conditions are reestablished. All of the major aspects being monitored, such as implementation of the strengthening initiatives, changes in the systems, validity or cancellation of use in operations, will be reported in the country program document.

6. NONFIDUCIARY SYSTEMS

- 6.1 Nonfiduciary systems include two categories of country systems: (i) development effectiveness systems; and (ii) environmental and social governance systems (previously called environmental and social safeguard systems).

Development effectiveness systems

- 6.2 **Development effectiveness systems** are public administration instruments that improve the quality of public policy design and implementation, gearing them towards results. They are not necessarily associated with accountability and legality in the use of public funds. These systems serve several purposes, namely: linking national, regional, and sector targets with operational documents and the budget; and enabling governments to monitor and evaluate public policy to feed the results thereof back into the process of making and improving policies. These systems play a key role in promoting the effectiveness of the interventions; they ensure that policy options are established with relevant, consistent, and trustworthy information and weighed in the context of a broader strategic framework; help establish and monitor performance indicators; and lay the foundations for the impact assessments. Therefore, the countries that have strengthened development effectiveness systems will fortify their public management cycles;

make better, more informed decisions; increase their transparency and the quality of accountability to citizens; and will be able to reach more efficient, effective solutions for the population's needs, thereby saving resources and achieving better results.

- 6.3 A wide variety of institutions are involved in development effectiveness systems, including ministries of planning and finance as well as the national statistics institutes. These systems are designed to promote development effectiveness through strategic planning, monitoring and evaluation (M&E), and statistical systems.

Lines of action

- 6.4 **Strategic planning** is a road map to achieving the countries' overall, regional, and/or sector development objectives. The tools that traditionally turn these objectives into programs and projects are the governments' long-term visions; medium-term development plans; sector plans; and the planning of public investment initiatives, brought together through a systematic, coherent process. Planning of the governments' key priorities to ensure coherent, actionable, and measurable targets under the centers of government (CoG) is a more recent development that has gained popularity, since it helps make strategic management more effective. The Bank supports strengthening planning systems nationally (including for investments) and at the subnational, sector, and institutional levels, through more traditional approaches and the CoG.
- 6.5 In the past decade, the countries of LAC have expanded the institutional capacity of the planning systems. This expansion was triggered by: (i) the strengthening of CoG capacities for defining government management priorities and monitoring compliance. The strength of the CoG drives the alignment of sector plans and budgets with these priorities, leading public spending to increasingly respond to these priorities; and (ii) the increased production of data, which has made it possible for central and sector planning systems to foster the design of evidence-based policies, helping to strengthen the CoG as evidence-based public policy generators.
- 6.6 The planning systems produce development plans that identify and prioritize the government's objectives and the policies to follow. Typically, during preparation of these plans, multilateral organizations are invited to provide suggestions on the development challenges and the most appropriate policies. The use of planning processes for development organizations to inform the States of challenges, and of options for addressing them, is an institutional pathway whose consolidation will help improve policy identification, as well as lead to better contributions to policies through operations.
- 6.7 **M&E systems** are used to quantify the goods and services provided by the public sector, determine their quality and targeting, and measure the effect of the results obtained. They typically include the definition of indicators, monitoring tools and systems, information-reporting mechanisms, and results assessments that feed back into policy design. There is a close relationship between M&E and planning, since often the set of indicators being monitored matches the ones developed in the planning process. The Bank has supported country evaluation activities, but most of its activity is geared towards monitoring systems for investment projects

and programs. The use of M&E systems improves management and increases transparency in accountability.

6.8 **Statistical systems** generate information that improves the policy-making process and supplies the data needed for M&E tools to work. Neither evidence-based policy nor results-based public management can effectively operate without trustworthy, timely data. Likewise, without specialized, quality statistics, achievement of the Sustainable Development Goals cannot be adequately monitored, and the development plans' effectiveness cannot be assessed. The Bank seeks to strengthen the region's statistical capacities through four areas of intervention: the institutional structure of the national statistics offices, data production, the use of information, and innovation.

6.9 These three systems were included in the Strategy for 2014-2018, which set down the expected results through 2018 in two spheres: (i) use in Bank operations; and (ii) strengthening.

A. Diagnostic assessment

1. In the 2014-2018 period, the strategic planning and statistical systems did not improve as much as expected. The credibility of the targets being established now depends on the availability of a minimum budgetary framework for reaching them, which will impact the achievement of the expected results of having continuous information (diagnostic assessments) and of strengthening country systems through development interventions.
2. Any forecast must take into account that improvements (i.e. strengthening) resulting from the interventions are not typically seen until the last few months of the intervention or the years immediately following it. Furthermore, it is difficult to establish direct causation between the Bank intervention and the strengthening result. These two facts make it imperative to question the premise of using a "results" indicator (i.e., improvements) rather than a "output" one (i.e., a development intervention or strengthening activity).

B. Strengthening

1. The Strategy for strengthening these country systems is based on two types of considerations: (a) diagnostic, that is, considerations that stem directly from implementation and the results in the period that ended in 2018;²⁹ and (b) progress and innovation in public management, that is to say, considerations that provide information on changes in the sphere of public management that should be included in the new Strategy. The Strategy's principal objective is to strengthen the countries' legal and institutional frameworks and institutional capacities to enable effective use of the country development effectiveness systems in coordination with the other systems involved in the public management cycle, so as to increase their effectiveness, efficiency, and transparency.

²⁹ Strictly speaking, the current Strategy is from 2009 (document GN-2538). The 2014 document (GN-2538-14), which established the expected results through 2018, was drawn up because the 2009 Strategy only included the expected results through 2012.

2. In the previous Strategy, the overarching vision of the strategic planning system (for the public sector) focused on the “traditional” national model, that is, the model conceiving of country planning systems as systems that are tightly associated with the preparation and implementation of broad, nonselective development plans with multiple action areas and, consequently, targets to be reached. This vision, as a single model, is very restrictive. Today, there are alternative planning models in which objectives are prioritized and planning is consistent therewith, which increases the effectiveness of public management. A good example of these are the centers of government (CoG).
3. In the past few years, national governments have recognized the importance of paying special attention to public investment, both in terms of planning it and monitoring and evaluating public investment projects, for efficiency, effectiveness, transparency, and accountability. The tools available today for these ends are substantially better than the ones that were available a decade ago. The digital transformation has strengthened governments and empowered citizens.
4. The diagnostic assessments of the national statistical systems (NSS) have made it possible to identify areas where statistical capacity must be strengthened, for example, areas where international standards or good practices are not being fulfilled, and to identify specific strengths so that the NSS areas (including national statistics offices) can themselves help create capacity.
5. There are two strategies for strengthening development effectiveness systems: (1) generate continuous, up-to-date information regarding the status of country systems in the region; and (2) strengthening the country systems through interventions, which can take the form of (i) investment loans, (ii) technical-cooperation operations, and (iii) outreach and knowledge-sharing activities. With regard to the latter, the Bank will continue to support the Latin American and Caribbean Network for Planning and Development (REDEPLAN), which was launched in 2010 with Bank support and will this year be holding its eighth regional seminar, sponsored by the Bank.

C. Validation and authorization for use

1. The use of development effectiveness systems in Bank operations does not require authorization, and therefore there is no validation process for their potential use. The Bank considers it noteworthy if these systems are used (which depends on their development in each country), and for projects, registers such use in the additionality section of the Development Effectiveness Matrix (DEM).
2. In 2014, an expected result through 2018 was established. This result was surpassed in 2015, since most likely the monitoring of registration was a factor that led to greater concern for providing such information in the DEM. The new expected result through 2018 that was established was in turn surpassed in 2017. Lastly, the number of projects approved (cumulative) that used at least one development effectiveness system represented, at the end of the period, 167% of the

proposed target. For the period 2019-2023, the Bank will continue to measure use of these country systems, as it did in previous years.

D. Monitoring

1. Information on the use of development effectiveness systems in individual operations will be monitored, as noted in the preceding paragraph, through the data provided by the DEM. With regard to strengthening, ICS will continue to monitor its projects and activities, as well as those of other Bank divisions, and will make annual reports thereon.

Environmental and social governance systems

- 6.10 It is the Bank's work to support the countries of the region in reaching their environmental and social sustainable development goals. Sustainability requires a long-term vision that considers the benefits from natural capital, social capital, and ecosystem services over long periods of time. The Bank may support the countries in strengthening their existing institutional and legal frameworks, so that the environmental and social governance systems will operate efficiently and effectively.

Lines of action

- 6.11 Unlike for the central public administration areas such as budgeting, strategic planning, and procurement, the systems for protecting environmental and social issues are more complex and disaggregated, involving various subjects, institutions, laws, regulations, standards, and procedures applicable in the national, subnational, and sector spheres.
- 6.12 Therefore, the Bank must focus on the **diagnostic assessment** of the systems particular to each country in order to establish the most effective strengthening measures, in the understanding that these measures require a long-term perspective and strategic dialogue with the country.
- 6.13 Operational policy OP-703 (Directive B.16) allows the use of country systems for identifying and managing environmental and social impacts, upon verification of equivalence and acceptability. However, IDB experience has shown that exhaustively reviewing the equivalence and acceptability of country systems at the project level is costly in terms of both resources and time, and often takes longer than it does to prepare the project, rendering the review moot. Other multilateral institutions like the World Bank and the International Monetary Fund have also failed to successfully implement this type of methodology.
- 6.14 Consequently, in the sphere of this Strategy, the Bank should **focus on precisely defining the parameters for the acceptance of use of a country or borrower system, or part of that system**. Therefore, the Bank must respond to the question of whether the existing governance systems, or parts of those systems, will guarantee acceptable or equivalent results in terms of environmental and social performance in a specific country, borrower, and sector.
- 6.15 In August 2018, the IDB Office of Evaluation and Oversight (OVE), after evaluating the IDB environmental and social safeguards policies, concluded that the Bank should update its safeguard policies and consolidate them in an integrated, coherent policy framework to more effectively respond to the challenges facing the

countries of the region. The evaluation observed that the current set of five separate policies has holes, is inconsistently applied, and lacks clarity. Observing that, in the past few years, other multilateral institutions have consolidated their environmental and social policies into a single integrated framework, OVE recommended that the IDB “develop a new safeguards policy framework that incorporates both environmental and social aspects in an integrated policy, differentiates more clearly between Bank and borrower responsibilities, clearly spells out technical requirements and addresses current coverage shortfalls and ambiguities, rebalances the focus on up-front procedural requirements with effective implementation for results and ensures applicability to operations without clearly designed investments at the time of approval.” In December 2018, Bank Management presented a road map for implementing the recommendations of the Environmental and Social Safeguards Evaluation to the Board of Executive Directors. In this context, IDB Management has committed to updating the IDB environmental and social policies by the end of 2020. Accordingly, all activity established under this Strategy with regard to the use of environmental and social systems is contingent upon the results of this modernization process.

A. Diagnostic assessment

1. The Bank will perform national, subnational, and sector diagnostic analyses to identify the environmental and social systems, establish baselines, and identify governance vacuums with regard to environmental and social issues. These diagnostic assessments³⁰ will serve as a gateway to dialogue with our clients and to determining the activities necessary for strengthening the environmental and social systems in the medium and long terms.

B. Strengthening

1. The objective of strengthening the governance systems for managing environmental and social issues will be to support the countries in strengthening and improving the performance of environmental and social governance systems at the national, subnational, and sector levels, for the enforcement of environmental and social regulations and standards, strategic management, and the surveillance, oversight, and enforcement of the law. This strengthening will result from the Bank’s dialogue with the country and will be reflected in the country strategy and other Bank strategic planning documents.
2. The strengthening will be aimed at closing gaps with international standards and practices, including with regard to aspects like institutional capacity and the promotion of policy reforms that take into account the interrelationship between sector and environmental and social policies to ensure coherence between the economic and environmental and social objectives and the commitments taken on under international agreements.

³⁰ These diagnostic assessments will be started with the support of two technical-cooperation operations: RG-T3371: Strengthening Environmental Governance in Latin America and the Caribbean; and RG-T3455: Strengthening the Management of Social Policies in Latin America and the Caribbean.

3. The strengthening interventions will be planned with the Bank Vice Presidency for Sectors and Knowledge (VPS) units and sector departments, which will coordinate implementation with the governments. These interventions may be loan or technical-assistance operations or regional policy dialogues, etc. The strengthening interventions are divided into two categories:³¹
 - a. **Direct strengthening**, which is meant to improve the institutional capacity for sustainable environmental and social management in environmental ministries, other sector ministries, executing agencies, licensing and enforcement agencies, and other bodies responsible for developing policies and enforcing laws and regulations, including the municipalities and the provincial and regional governments;
 - b. **Specific strengthening based on project needs**. As part of the environmental and social assessment for a particular operation, the Bank will identify the specific, project-level needs of the executing agencies. These needs will be met through kickoff workshops, courses for executing agencies, and online courses, among others.

C. Validation

1. The Bank will develop a simplified methodology to evaluate risk management under the existing systems or parts of those systems, and to analyze whether these systems will guarantee acceptable environmental and social performance results in the specific country and sector. The methodology will use a sector- rather than project-level review, making it possible to systematically establish the acceptability of the full or partial use of the borrower's environmental and social risk management system for multiple projects in the sector in question. Should its use be determined to be acceptable, the system (or part of that system) may only be applied to Category "B," low-risk operations, or to the equivalent under the new IDB Environmental and Social Policies Framework. This methodology will provide guidelines for the project-level and executing-agency strengthening activities, by identifying lingering risks for which Bank support is needed.
2. This methodology may only be developed and implemented once the new IDB Environmental and Social Policies Framework is in effect; this framework is a product of the modernization process that the Bank is undergoing in the period 2019-2020.

D. Authorization for use

1. There will be two levels of IDB reliance on country environmental and social systems,³² described below:

³¹ The Bank will earmark a flow of technical-assistance resources for this work, making it possible to offer a rapid response to country needs.

³² Subject to the provisions of the new IDB Environmental and Social Policies Framework on the use of environmental and social systems.

- a. **Automatic use of environmental and social systems.** Country environmental and social systems will be applicable in the following categories³³ and types of operations, without needing to be validated:
- (1) **Category “C” operations with minimal environmental and social impacts.** Country environmental and social systems will be used in order to appropriately perform the environmental and social assessment and analysis, where necessary, and to manage the minimal associated negative impacts and environmental and social risks.
 - (2) **Financial intermediary operations.** Pursuant to the Implementation Guidelines for the Environment and Safeguards Compliance Policy (operational policy OP-703), for financial intermediary operations with low or moderate risk, the Bank requires that implementation of an environmental and social risk management procedure to ensure compliance with the applicable local environmental and social legislation and adequate institutional capacity. For such loans, the Bank will make use of the country environmental and social systems that have been incorporated through the financial intermediary processes.
 - (3) **Policy-based loan operations without significant or direct effects.**³⁴ The initial analysis of a proposed policy-based loan will determine, on a case-by-case basis, if the specific country policies and/or the institutional changes supported by the operation will have significant, direct effects on the environment and the country’s natural resources. For policy-based loans that are not expected to have significant, direct effects on the environment or the population, the country environmental and social system will be used to manage the minor negative impacts on the environment and the country’s natural resources.
- b. **Confidence in the environmental assessment.** Once the new IDB Environmental and Social Policies Framework enters into effect, the Bank will be able to fully trust in the environmental assessments prepared by the country systems for the environmental assessment of low-risk, Category “B” operations in preparation, according the procedure described below:
- (1) **Analytical methodology to validate countries and sectors.** The Bank will develop a simplified methodology for systematic sector validation (see process: validation).

³³ Or the equivalent categories under the new IDB Environmental and Social Policies Framework.

³⁴ As established in the Implementation Guidelines of the Environment and Safeguards Compliance Policy, policy-based loans in such sectors as forestry, energy, transportation, agriculture, mining, water, and other natural resources may have significant direct impacts.

- (2) Low-risk Category “B” operations in validated countries and sectors.** The Bank will validate countries for which the assessment shows that risk management under the existing systems or part of those systems, will guarantee acceptable and equivalent³⁵ environmental and social performance results in the country and sector in question. With this validation, the Bank will accept environmental assessments for projects in the sector in question, as submitted by the borrower, and will be responsible for supervising compliance during implementation of each project.

E. Monitoring

1. Information on the use of country systems in individual operations will be monitored through the Bank’s internal monitoring systems, and the results will be summarized in the annual report on country systems. VPS will keep an inventory of all of the country system strengthening activities performed by its various divisions under loan and technical-cooperation operations and knowledge products, and will report, on a yearly basis, the number of operations using country or borrower systems.

7. RISKS AND MONITORING OF THE STRATEGY

7.1 Risks and mitigation measures

- A. Changes in the countries’ priorities.** The dynamic nature of the countries’ development priorities impacts the country systems agenda. To mitigate this risk, the Bank will ensure that the various dialogue and programming tools identify the strategic priorities associated with the strengthening and use of country systems. The Bank will also focus on disseminating the benefits from the strengthening and use of country systems through impact studies, knowledge products, and regional and international workshops and events.
- B. Decline in the institutional capacity and solidity of country systems, preventing their continued use in Bank operations.** To mitigate this risk, the Bank will ensure it maintains up-to-date information on the state of the country systems by performing diagnostic assessments that make it possible to monitor the systems’ level of development and take the necessary measures to mitigate potential reversals in technical capacity. Furthermore, the Bank will continually monitor the systems that have been validated and approved for use, maintaining the authority to suspend this use when changes are identified in the parameters or practices based on which it had validated and approved the systems.
- C. Limited progress in the strengthening of institutional capacity and use of country systems.** The first stage of Strategy implementation supported strengthening systems in all of the Bank’s member countries. However, systems were brought into line and authorized for use primarily in countries with a relatively higher level of development. In this second

³⁵ With respect to the new Environmental and Social Policies Framework.

stage, efforts will focus on strengthening systems in less-developed countries, with the expectation of obtaining results that will be seen in the medium and long term. To expand the scope of the use of country systems, the Strategy will foster validation and authorization for use at the executing agency/project level.

7.2 Monitoring of the Strategy

- A. Country strategy and the respective country program document.** The country strategy will include the strategic objectives for country systems as well as the actions planned for furthering the strengthening and use of the systems during the country strategy period. The country strategy will also establish the expected results, indicators, and baselines for measuring progress through the results matrix. Furthermore, the fiduciary technical note will report the status of the country fiduciary systems. Yearly monitoring will be based on the country program document.
- B. Annual report and global report on the achievement of expected results through 2023.** In the first quarter of the year, an annual report will be submitted to the Board of Executive Directors on the progress of the Strategy and the results achieved in the previous year. A global report on the results achieved through 2023 will be submitted no later than the first half of 2024.
- C. Indicators of progress on Strategy implementation in the monitoring report for the commitments established in the Paris Declaration.** Progress on the Strategy will continue to be reported through the indicators established in the global agenda for development and effective cooperation country systems monitoring framework.

8. RECOMMENDATIONS

- 8.1 Based on the analysis and the information presented in this document, Management recommends that the Bank Board of Executive Directors approve:
 - (i) The Update of the Strategy for Strengthening and Use of Country Systems, as described in Sections 4, 5, 6, and 7 of this document; and
 - (ii) The Expected Results of the Strategy Through 2023, attached as Annex I to this document, which includes new indicators for the objective measurement of the expected results of the Update of the Strategy for Strengthening and Use of Country Systems and the targets to be achieved by 2023.

ANNEXES

1. EXPECTED RESULTS OF THE STRATEGY THROUGH 2023

- 1.1 The Strategy for Strengthening and Use of Country Systems. Expected Results Through 2018 (document GN-2538-14) established four measurable, concrete results: (i) continuous, up-to-date information regarding the status of country systems in the region; (ii) increase in the use of country systems in the Bank's portfolio; (iii) strengthening of country systems; and (iv) operational efficiency. As indicated in Section 2.1, at year-end 2018 practically all of the targets established for each of the results indicators had been reached, yielding significant positive effects for the countries and the Bank.
- 1.2 In particular, the deployment of the Strategy during these first few years of implementation has made it possible to make progress on developing and improving tools for analyzing and designing country systems, generating state-of-the-art knowledge for public management, promoting reforms and improvement initiatives in the systems, and establishing standards for measuring progress. In turn, the countries and the Bank have been able to progressively and significantly increase their use of country fiduciary systems in projects, which especially helps decrease transaction costs in operations.
- 1.3 The most significant benefits to countries and donors of using country systems include:
- Improved efficiency and effectiveness in the use of resources, which facilitates the execution of operations;
 - Reduced transaction costs associated with the execution and supervision of operations;
 - Reinforcement of country development strategies, strengthening capacities and reaffirming progress and improvements;
 - Elimination of duplication of efforts and streamlined donor activities with a view to improving results;
 - Creation of performance and responsibility standards in accordance with internationally accepted best practices;
 - Development and implementation of new tools to monitor the execution of donor operations, as well as the introduction of support arrangements with lower costs and greater efficiency in achieving project objectives.
- 1.4 In this new stage of the Strategy, further steps will be taken to improve country systems and reduce gaps with respect to international standards and good practices, while bearing in mind that such improvements are gradual and bear fruit in the medium to long term.
- 1.5 Expected results through 2023 are established, and while the four major expected results of the Strategy are maintained, the associated indicators are updated to more accurately reflect the new focus, according to the principles and priorities set forth in Section III. Principles of the New Strategy, and to better reflect the efforts made by the Bank and the countries to strengthen country systems.

Fiduciary Systems

1. Progress in the use of country fiduciary systems is structured into four dimensions (see Table 1): (i) updating information (diagnostic assessments), which allows countries to understand their development status in relation to international good practices, thus favoring strategic decision-making by national authorities and helping to guide the Bank's actions regarding the use of these systems in the operations it finances; (ii) increasing the use of country systems, in terms of both the number of investment loans and the number of country systems validated for use in Bank-financed operations; (iii) strengthening interventions with measurable impact, making it possible to close the gaps between national practices and international standards in priority areas for the Bank and the countries; and (iv) quantitative measurement of operational efficiency through the impact and benefits, for the countries and for the Bank, of using country fiduciary systems.
2. The different VPS/IFD divisions will keep an inventory of all of the country system strengthening activities conducted under the loan and technical-cooperation operations.

Table 1. Expected Results for the Strengthening and Use of Fiduciary Systems, 2019-2023

Indicator	Indicator formula	Unit of measure	Baseline	Expected by 2023
(i) Continuous, up-to-date information regarding the status of country systems in the region				
Countries with current fiduciary diagnostic assessments ³⁶	Total number of countries with diagnostic assessments performed in the past 5 years	Number	24	26
Fiduciary assessments	Number of assessments per year	Number	10	10
(ii) Increase in the use of country systems in the Bank's portfolio				
Countries validated for advanced use in procurement	Total number of countries	Number	6	8
Countries validated for partial use in procurement	Total number of countries	Number	10	18
Projects validated for use of country procurement systems	Total number of projects	Number	-	5
Executing agencies validated for use of country procurement systems	Number of executing agencies	Number	0	8
Subnational procurement systems validated	Total number of provinces or states	Number	8	13
Weighted rate of validation of procurement subsystems	$\frac{\text{Number of subsystems validated nationally}}{\text{Total number of subsystems nationally}} \times 100$	%	35	50
Use of financial management systems in the Bank's portfolio I	Number of operations that use financial management systems / Total number of operations x 100	%	61%	75%
Percentage of financial management systems validated	Financial management systems validated / Total validation financial management systems x 100	%	70%	80%
Use of country fiduciary systems in the Bank's portfolio	$Average_t \left(\frac{\text{Number of projects using country fiduciary system}_i}{\text{Projects in the Bank's active portfolio}} \times 100 \right)$	%	44	45%
Gradual use of country fiduciary systems by country	$\frac{\text{Number of fid. systems validated nationally}}{\text{Total number of fid. systems nationally}} \times 100$	%	35	50
(iii) Strengthening of country systems³⁷				
Country system strengthening interventions	Number of interventions / year	Number	50	50
Countries that incorporate new international practices in their country systems	Number of countries / year	Number	13	13
Countries that have adopted international standards in their country systems as a result of Bank interventions	Total number of countries	Number	25	26
(iv) Operational efficiency				
Reduction of supervision costs in the fiduciary systems	$\sum_{i=1}^{26} \frac{AC \text{ of supervision under country system}_t}{\text{Total AC of supervision in the country}_i} \times 100$	%	10%	15%

³⁶ A diagnostic assessment is considered to be current if it was performed in the past five years, or earlier, if it is confirmed that the results of the most recent diagnostic assessment performed remain valid for all of the various pillars considered in the assessment.

³⁷ The annual reports submitted to the Bank's Board of Executive Directors will include the breakdown of strengthening indicators by degree of development of the country systems in the borrowing member countries of the Bank, to identify the interventions targeting less developed countries, as well as the areas toward which they were directed.

Nonfiduciary systems

Development effectiveness systems

3. Although no specific process is required for using country development effectiveness systems, the quantification of their use in Bank projects is a proxy for their development, and the experience of these past five years shows that in approximately one third of the projects that are approved annually, a country development effectiveness system is used.
4. Therefore, the dimension “Increase in the use of country systems in the Bank’s project portfolio” will be kept.
5. The experience gained in implementing the past Strategy and the new trends associated with progress and innovation in public management indicate that the establishment of the objectives and indicators for the expected results should be governed by the following premises:
 - (i) Determine expected results, conditional upon having resources consistent with the efforts that must be carried out to achieve them, following criteria of cost effectiveness in their use;
 - (ii) In the interventions, prioritize strategic planning and the statistical system, for which results were worse than expected under the prior Strategy;
 - (iii) The new Strategy should give the CoG government innovation models a significant role; the primary functions of these models are: (a) strategic planning, management of priority government targets, and performance monitoring; (b) coordination of public policies; and (c) communication of results and accountability.
6. With regard to the expected results measurement indicators:
 - The dimension “Continuous, up-to-date information regarding the status of country systems in the region” will be kept, but the options for using indicators will be expanded, so that instead of only measuring the status of the strategic planning and M&E systems of each country according to a “traditional” planning model, the efforts made to measure the status of country planning and M&E; under the CoG; on planning and monitoring of public investment; etc., will alternatively be reported. For the statistical systems, the Tool for Assessing Statistical Capacity (TASC) will continue to be used, since it has been effective and has captured measurable differences in the statistical capacities of the countries where it was applied (several for the second time).
 - The dimension “Improved scores for the strengthening of development effectiveness systems” will be changed to “Improvement in the efforts to strengthen the development effectiveness systems,” with an indicator that measures the number of interventions to strengthen the development effectiveness systems, in three categories: investment loans, technical-cooperation operations, and outreach and knowledge-sharing activities.

Table 2. Expected Results for the Strengthening and Use of Development Effectiveness Systems, 2019-2023

Indicator	Indicator formula	Unit of measure	Baseline	Expected by 2023
Continuous, up-to-date³⁸ information regarding the status of country systems in the region				
Countries where the strategic planning and M&E systems have been measured ³⁹	Total number of countries in the past three years	Number	7	13
Countries that use the TASC ⁴⁰ diagnostic tool to assess the national statistical systems	Total number of countries in the past three years	Number	8	13
Increase in the use of country systems in the Bank's project portfolio				
Bank-financed projects that use at least one of the following country systems: strategic planning, M&E, or statistics	Number of projects approved (cumulative)	Number	151 ⁴¹	291
Strengthening of country systems				
Countries with strengthening interventions ⁴² for:	Number of countries (cumulative in the period 2019-2023)	Number	0	15
- strategic planning and M&E systems				
- statistical systems	Number of countries (cumulative in the period 2019-2023)	Number	0	12

Environmental and social governance systems

7. Progress on the use of environmental and/or social governance systems will be measured in three dimensions (see Table 3): (i) updating information (diagnostic assessments), which allows countries to understand the development status of their systems in relation to international good practices; (ii) increasing the use of country systems, in terms of both the number of countries and executing agencies; (iii) strengthening interventions, differentiating between the direct strengthening of environmental and/or social systems and the strengthening of the institutional capacity of executing agencies.

³⁸ For development effectiveness systems, "up-to-date" means that a measurement has been taken within the past three years.

³⁹ Using a methodology (for example, public expenditure tracking) that analyzes the country planning and M&E systems or that focuses on the CoG or on the planning and monitoring of public investment.

⁴⁰ Tool for Assessing Statistical Capacity. TASC is a self-assessment tool with the overall objective of measuring and evaluating the statistical capacity of a country's national statistical system. See the IFD/ICS document "Better Statistics, Better Governments. Operational Framework for Statistical Capacity Building in Latin America and the Caribbean."

⁴¹ Corresponds to the cumulative number of projects approved by the Bank in the period 2011-2018 that make use of at least one country development effectiveness system (strategic planning, monitoring and evaluation, or statistics)

⁴² Including: (i) investment loans; (ii) technical-cooperation operations; and (iii) outreach and knowledge-sharing activities. If the latter are regional, they are counted in the country where they take place.

Table 3. Expected Results for the Strengthening and Use of Environmental and Social Governance Systems, 2019-2023

Indicator	Indicator formula	Unit of measure	Baseline	Expected by 2023
(i) Continuous, up-to-date information regarding the status of country systems in the region				
Countries with up-to-date (current) diagnostic assessments of environmental and/or social systems	<i>Total number of countries</i>	Number	0	10
(ii) Increase in the use of country systems in the Bank's portfolio				
Countries and/or executing agencies evaluated with a simplified methodology for validating the use of environmental and/or social systems at the sector level	<i>Total number of countries and/or executing agencies</i>	Number	0	2 ⁴³
(iii) Strengthening of country systems				
Interventions (loans, technical assistance, and knowledge and development activities) to directly strengthen environmental and/or social systems	<i>Number of interventions / year</i>	Number	-	6
Interventions (loans and technical assistance) aimed at strengthening the institutional capacity of executing agencies	<i>Number of interventions/year</i>	Number	-	4

⁴³ The target for countries and/or executing agencies evaluated with a simplified validation methodology for the use of environmental and/or social systems at the sector level takes into consideration the time required for the process of modernization of environmental and social policies and their subsequent implementation.

2. PRINCIPAL CHANGES IN THE STRATEGY UPDATE

	Previous version	Update
Principles	<ul style="list-style-type: none"> ▪ Agreement with the countries, dialogue, and gradual implementation of the use of country systems. ▪ Adoption of good practices and international standards. ▪ Active coordination with development partners. 	<ul style="list-style-type: none"> ▪ The Strategy Update maintains the principles of the previous version and adds three more: <ul style="list-style-type: none"> ○ Standardization of the approach to the strengthening and use of the three groups of country systems; ○ Promotion of innovation and use of technology; and ○ Focus on less-developed countries. ▪ Alignment with the Bank's Institutional Strategy: (i) use of technology and innovation; (ii) coordination with development partners to increase resource mobilization; and (iii) promotion of good practices and international standards with emphasis on strengthening institutional capacity and the rule of law, transparency and integrity; closing gaps in terms of gender and diversity, and addressing the challenges of climate change and environmental sustainability.
Diagnostic assessments	<ul style="list-style-type: none"> ▪ Diagnostic assessments are undefined in terms of periodicity or expiration. ▪ No standardized tools for evaluation of environmental safeguard systems. 	<ul style="list-style-type: none"> ▪ Diagnostic assessments defined in terms of expiration: country systems, 5 years, and development effectiveness systems, 3 years. ▪ Use of improved evaluation tools for procurement systems (new MAPS methodology). ▪ Expansion of diagnostic tools. ▪ Use of internationally recognized evaluation methodologies.
Strengthening	<ul style="list-style-type: none"> ▪ Geared toward the use of country systems. ▪ Strengthening activities financed mainly through technical cooperation. 	<ul style="list-style-type: none"> ▪ Strengthening with a focus on countries with less developed systems without neglecting those that have already reached international standards. ▪ Information on the strengthening activities under different modalities for Development Effectiveness Systems. ▪ Direct, specific strengthening of Environmental and Social Governance Systems at the national, subnational and sector levels in a manner.
Validation	<ul style="list-style-type: none"> ▪ Validation of fiduciary systems for full and partial use across the board at the national or subnational level. 	<ul style="list-style-type: none"> ▪ Validation of fiduciary systems for full and partial use by executing agency/project. ▪ Validation at the national, federal, or subnational level.
Use	<ul style="list-style-type: none"> ▪ Authorization of partial and full use of procurement systems by the Bank's Board of Executive Directors. ▪ Authorization of information system and electronic systems by Management. 	<ul style="list-style-type: none"> ▪ Authorization of full use of procurement systems, partial use if for the first time, and at the executing agency/project level by the Bank's Board of Executive Directors. ▪ Incremental authorization of procurement system and electronic systems by Management. ▪ New approach for Internal Audit and External Control systems. ▪ Automatic use of Environmental and Social Governance systems for low-impact operations, low- and moderate-risk financial intermediaries, and PBLs without significant direct impacts. ▪ Confidence in the environmental assessment for low-risk category "B" operations and with a simplified methodology derived from the new environmental and social policy framework.

Monitoring	<ul style="list-style-type: none"> ▪ Monitoring through the country strategy and the annual report on the progress of the Strategy. ▪ Monitoring that the conditions of approval of country system use still apply is undefined in terms of predetermined periodicity. ▪ Framework for the review and monitoring of country systems for environmental and social safeguards in progress. ▪ 	<ul style="list-style-type: none"> ▪ Monitoring of the Strategy through the country strategy, the annual and cumulative report on progress and results achieved through 2023, and the country systems monitoring framework of the Global Agenda for Development and Effective Cooperation. ▪ Annual monitoring that the conditions of approval of country system use still apply.
Expected results	<ul style="list-style-type: none"> ▪ Performance indicators for measuring progress of the expected results through 2018. 	<ul style="list-style-type: none"> ▪ Improvement of the 25 indicators for management, output, result, effect, and impact selected to measure the progress of the Strategy's four expected results through 2023.