Promoting Use of Country Systems in Cambodia
A Briefing Note by CRDB/CDC
January 2011

This note has been prepared to inform the preparation of a national workshop on country systems to be held in May 2011. It is to be tabled for discussion at the Partnership & Harmonisation TWG in order to inform the workshop agenda and discussions.

Defining country systems

In the Cambodia context, country systems include the institutional procedures, mechanisms and arrangements for formulating policies and supporting their implementation through planning, budgeting, execution, procurement, reporting, accounting, monitoring and auditing. Beyond these core systems are also more specialized functions, such as social or environmental impact assessments, and management/administrative systems (e.g. human resource management).[1].

The rationale for strengthening and using country systems

Current mechanisms and arrangements for project implementation, including the use of parallel project implementation units (PIUs), may fragment capacity and by-pass or undermine national systems. These approaches are perhaps not the most viable means to develop the public sector in the long-term. The Royal Government of Cambodia therefore emphasises the capacity development role of external assistance.[2] The effort to strengthen country systems and to increase their use by development partners is linked to the effort of the RGC's reform and sectoral programmes to develop sustainable capacity for developing, implementing and monitoring RGC policies in an accountable manner.

The commitment to using country systems

RGC and its development partners have made a formal commitment to strengthening and using country systems. At country level, the Harmonisation, Alignment and Results Action Plan identified this priority, which was endorsed by signatory partners to the "Declaration by the Royal Government of Cambodia and Development Partners on Enhancing Aid Effectiveness in Cambodia" (October 2006). Dialogue at the CDCF meetings has emphasised the importance of strengthening country systems in the context of the RGC reform and sector programmes in order to support the sustainability and effectiveness of external assistance.

At the global level, the Paris Declaration and Accra Agenda for Action included formal commitments to strengthen country systems. The successor agreement of the Paris Declaration, to be formulated in South Korea in late-2011, is expected to continue to emphasise the importance of strengthening and using country systems.

Progress in Cambodia

There has been strong ownership and development partner support for the RGC core reform programmes. There has also been significant investment in sector-focused

[1] This definition is broader than that provided by OECD/DAC for the monitoring of the Paris Declaration, which focuses on budgetary systems, procurement, audit and monitoring and reporting systems.
[2] See, for example, Chapter One of the 2008 Aid Effectiveness Report (RGC, CRDB/CDC).

Technical Cooperation and capacity development initiatives.[3] The use of country systems, however, has remained very low; the 2006 and 2008 Paris Declaration monitoring surveys recorded, respectively, only 10% and 12% of ODA as using RGC budget, reporting and audit systems. Progress since 2008 is not thought to have been significant.

In 2010 a study – "National Structures and Systems for Aid Implementation in Cambodia" – was commissioned by the development partners of the European Union, in coordination with the Partnership and Harmonisation TWG. The study, seen as a first step towards an assessment of country systems, found that

- The importance of core reforms in strengthening sector processes, capacities and systems is central to the development and use of country systems.
- For nearly all systems and ministries there was some use of country systems, with some support from external partners. However the approach has been piecemeal and is unlikely to succeed without both political will and substantive attention to organisational development.
- There is political recognition that systems are weak. Change is slow because of: (i) resistance to change due to vested interests of both RGC and DPs; (ii) motivation, incentives and risk aversity relating to the use of these systems; (iii) a tacit agreement by all parties not to use established systems. Capacity is not always seen as the most limiting factor and managing change proves to be more than a technical challenge.
- The timeframe for implementing change is an area of disagreement between RGC and development partners. RGC has a much longer time horizon based on national context while development partners apply their own norms and shorter timeframes.
- Multiple projects and programs and the number of project implementation units reveal a preference for control and delivery over capacity and sustainability. PBAs represent a possible response to organise aid delivery around the priority of strengthening country system capacity.
- There is often a preference by both RGC and development partners to use PIUs as these mitigate risk and promote (short-term) performance as well as permitting greater latitude in human resource management. A proposed solution is to combine a number of projects or programs under the management of one RGC-led PIU with a common set of procedures.

Cross-country experience

It is instructive to briefly compare the experience in Cambodia with that of other countries. It may be expected, for example, that, as systems are assessed as stronger, DP use of them will increase. Comparing CPIA assessments of PFM systems and the use of those systems by DPs, however, shows that the relationship is weak:[4]

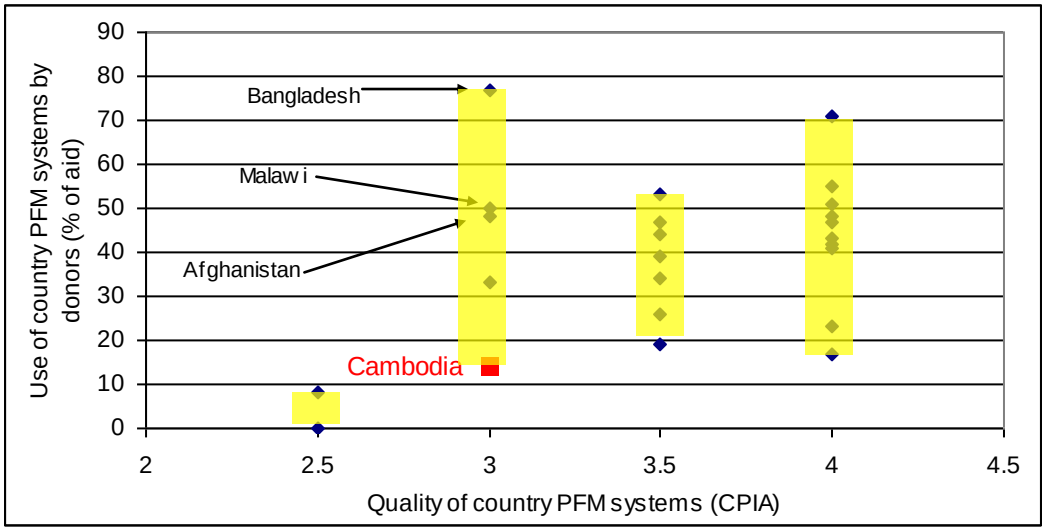
[3] Technical cooperation in 2010 is estimated at USD 267.7 million (27% of total ODA).

[4] The Country Policy and Institutional Assessment (CPIA) is a World Bank tool for assessing IDA countries, their policies and institutional capacities.

- Across each CPIA rating – 3.0, 3.5, 4.0 – there is significant variance in the use of country PFM systems by DPs.
- Within each CPIA rating, there is also significant variation. Amongst countries with a CPIA rating of 3.0, Cambodia DPs channel 12% of their ODA through country systems, compared to nearly 80% in Bangladesh.
- Even in countries with a significantly higher CPIA rating of 4.0, there are countries with a very low DP use-age of country systems.

Empirical data suggests that the DP decision to use country systems may not be closely associated with the quality of those systems.

Use of country systems – does quality matter?



source: Paris Declaration monitoring survey 2008

Of all countries receiving a 3.0 CPIA rating of PFM systems in 2008, use of country systems by DPs is lowest in Cambodia (Afghanistan 48%, Malawi 50%, Bangladesh 77%).[5] This suggests some scope for making progress, including by learning from the experience of other countries. Given the diversity within the range of each single CPIA rating it is instructive to examine more closely the data within the range that includes Cambodia (i.e. a CPIA score of 3.0). Two issues are of particular interest:

1. ***Does the choice of aid modality matter?*** [Increased use of budget support, which uses country systems by default, and PBA-type aid may be associated with increased use of country systems].
   - PBA use (including GBS) is positively correlated with system use at country level (especially for Malawi, less so for Bangladesh), although overall correlation between DP use of PBA and systems is weak (0.41 correlation coefficient).
   - Bangladesh has the highest use of both country systems and PBAs. High levels of PBA use are associated with high use of country systems for

[5] These data need to be interpreted with care as the criteria used for the Paris Declaration monitoring survey – the source of these numbers – may have been inconsistently applied across countries.

some DPs (ADB, WB, UN, GFATM) although some that make little use of PBAs still manage to use country system. There is no blueprint approach.

Country System use and aid modalities in countries receiving a CPIA rating of 3.0

	Use of country systems (global)	Cambodia		Afghanistan		Malawi		Bangladesh	
		Country systems	PBA (% of aid)	Country systems	PBA (% of aid)	Country systems	PBA (% of aid)	Country systems	PBA (% of aid)
Total (all donors, %)	**40%**	**14%**	**28%**	**48%**	**40%**	**50%**	**42%**	**77%**	**50%**
ADB	69	2	31	100	34			100	46
Australia	6	0	15	31	23			0	35
Belgium	24	0	100	79	0				
Canada	42	0	26	100	70	0	30	0	38
Denmark	29	97	92	100	63			0	87
European Commission	40	47	24	48	77	26	25	23	1
Finland	38	0	0	100	9				
France	28	23	10	0	5				
GAVI Alliance	33	33	59						
Germany	35	0	22	52	49	0	0	41	28
Global Fund	41	0	0	22	65	100	100	67	40
Japan	29	19	31	36	0	0	0	49	4
Korea	45	0	2	0	0			31	0
New Zealand	10	0	53	39	26				
Spain	16	0	0	100	0				
Sweden	47	0	0	40	0	100	72	0	0
United Kingdom	75	0	20	74	79	65	60	15	0
United Nations	18	17	47	42	51	11	26	80	41
United States	10	0	0	6	21	0	5	0	86
World Bank	42	27	67	88	75	80	68	82	73

Source: OECD Paris Declaration Monitoring Survey 2008

2. **Are DPs consistent across countries that they support?** Do the same DPs tend to use national systems in different countries?

   - ADB support is 100% using country systems in Afghanistan and Bangladesh, but only 2% in Cambodia. World Bank rates over 80% in other 3.0 CPIA countries but only 27% in Cambodia.
   - The 3 biggest DPs (funds managed) in Bangladesh (total ODA = USD 1.5 billion) are major system users - World Bank (managed 48% of all ODA), ADB (nearly 30% of total ODA), UN system (7% of ODA) are also the 3 biggest system users. Is there an interest for larger DPs in using country systems? [Can this inform a "catalyst strategy" in Cambodia?]
   - There is likely to be good momentum created by focusing on larger DPs first. Other Cambodia DPs may join or support at sector level (e.g. Sweden, which is high globally – 47% – but low in Cambodia)
   - 80% of UN-managed support uses country systems in Bangladesh against 17% in Cambodia. What lessons can be transferred?

Recommendations - Moving Forward in Cambodia

The following actions may be used as a basis for discussion in order to move towards meeting the objectives of strengthening and using country systems.

1. This Discussion Paper is intended to set out the main issues and to stimulate a broad and constructive dialogue on the current status (as detailed in the 2010 study), together with options for future progress.
2. The Partnership and Harmonisation TWG will serve as the body for routine discussion and monitoring of progress, beginning with its first meeting in Quarter One of 2011.
3. A National Workshop is to be held in May 2011 in order to validate the 2010 report and to identify follow-up actions.
4. Without pre-empting the Workshop discussion a number of options may be considered for taking this work forward:
   - Develop an assessment tool for common systems, setting out standards and approaches that can support system development
   - Identify specific sectors and systems where RGC and DPs are willing to engage. [Planning, budgeting and monitoring systems may be appropriate starting points as their strengthening benefits both RGC and DPs, they are have a low level of fiduciary risk, and can establish the trust and momentum for future collaboration.]
   - Agree how the core reforms and PBA work can provide a framework in which to support further work[6]
5. Within selected sectors, focusing the dialogue may bring best results. This may mean starting to work with a sub-set of DPs on a limited number of systems, and asking that they take a lead/champion role to advance the cause of national systems in the sectors that are chosen, including to catalyse actions by other DPs.
6. Future Aid Effectiveness Reports to be produced by RGC will monitor and analyse progress in use of country systems.

Both RGC and DPs need be willing to make changes to their current approaches if country systems are to be strengthened and used. This Note, and more importantly the National Workshop, provides an opportunity to discuss, validate and agree how to make progress together.

[6] For example, Health, education, gender, Agriculture and Water, Fisheries, Sub-national Democratic Development, mine action, climate change have all expressed an interest in, or are currently implementing, a PBA.