Effective Engagement of Accountable Local Governments in Development Assistance Projects: A Comparative Analysis

Prepared in Consultation With
The United States Government Accountability Office

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Foreword

The La Follette School of Public Affairs at the University of Wisconsin–Madison offers a two-year graduate program leading to a Master of International Public Affairs degree. In this program, students develop analytic tools with which to assess policy responses to issues, evaluate implications of policies for efficiency and equity, and interpret and present data relevant to policy considerations. A team of students in the Master of International Public Affairs program produced this report in consultation with the United States Government Accountability Office. The students are enrolled in the Workshop in International Public Affairs, the capstone course in their graduate program. The workshop challenges the students to improve their analytical skills by applying them to an issue with a substantial international component and to contribute useful knowledge and recommendations to their client in a clear and balanced fashion. It provides them with practical experience by applying the tools of analysis acquired during three semesters of prior coursework to actual problems clients face in the public, non-governmental, and private sectors. Students work in teams to produce carefully crafted policy reports that meet high professional standards. The reports are research-based, analytical, evaluative, and (where relevant) provide prescriptive responses and always recommendations for real-world clients. This culminating experience is the ideal equivalent of the thesis for the La Follette School degrees in public affairs. While the acquisition of a set of analytical skills is important, it is no substitute for learning by doing.

The opinions and judgments presented in the report do not represent the views, official or unofficial, of the La Follette School or of the client.

Timothy Michael Smeeding
A&S Distinguished Professor of Public Affairs and Economics
May 2014
Madison, Wisconsin
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I. Executive Summary

Over the past decade a movement has emerged in the international development community to improve aid effectiveness. As part of this movement, the United States, along with many other nations, has supported a series of international agreements to improve development aid practices. One major reform proposed is the increased use of recipient country public financial management (PFM) and procurement systems. Utilizing these local systems is intended to help strengthen local institutions and create sustainable change for developing countries. Some United States aid agencies have already begun to use local systems in their work, but only in a limited capacity. As a result, the United States has not yet met its obligations under these international agreements and has not realized as much success in utilizing local systems as other donors around the world.

As the United States works to align itself with its international commitments, we conducted this analysis in consultation with the U.S. Government Accountability Office (GAO) to assess the use of local PFM and procurement systems to discern best practices via a comparative analysis. We selected four international donors to analyze: the United Kingdom’s Department for International Development (DFID), Sweden, the Asian Development Bank (ADB), and the World Bank. We provide an in-depth analysis of these donors’ models and evaluate their performance on six goals: (1) increase the percentage of effectively managed aid delivered via local systems, (2) increase local institutional capacity, (3) efficiently deliver aid, (4) effectively identify and assess potential risks throughout the project, (5) effectively manage risks throughout the project, and (6) compatibility with the U.S. context. By analyzing the development and risk management strategies of these donors, we provide perspectives of donor models by which the United States may be able to increase responsible administration of aid through recipient PFM and procurement systems.

Our analysis revealed three key recommendations. First, the United States should consider using a standardized risk assessment framework to guide the use of local systems. One specific assessment tool the United States may consider is expanding its use of the Public Expenditure and Financial Accountability (PEFA) Framework. Second, the United States should consider increased cooperation with other donors. Increased use of the PEFA Framework in coordination with other donors could also facilitate this increased cooperation. Finally, we recommend the United States take an incremental approach to expanding its use of local systems. For instance, the United States may use partner systems for just smaller or shorter projects initially. In addition, the United States does not have to give aid through all three components of a partner country’s PFM system. These incremental approaches would allow the United States to isolate the best ways of utilizing local systems to provide development assistance.
II. Introduction

Over the past decade the international community has embarked on an effort to improve the effectiveness of development aid. The United States, along with many other nations, has made a series of commitments to improve development aid effectiveness. These commitments include the Paris Declaration on Aid Effectiveness (2005), the Accra Agenda for Action (2008), and the Busan Partnership for Effective Development Co-operation (2011).

One provision of these commitments is the increased use of recipient country public financial management (PFM) and procurement systems to implement development programs. By using local systems, donors hope to build institutional capacity, which in turn may lead to sustainable, locally driven economic growth and development.

The United States highlighted its commitment to this provision in the 2010 Presidential Policy Directive on Global Development stating:

[The U.S. government] will strive to help increase the capacity of our partners...by investing in systemic solutions for service delivery, public administration, and other government functions where sufficient capacity exists; a focus on sustainability and public sector capacity will be central to how the United States approaches humanitarian assistance and our pursuit of the objectives set out in the Millennium Development Goals (The White House 2010).

To make U.S. foreign aid more efficient and meet the obligations of the Paris Declaration, the U.S. Agency for International Development (USAID) has undertaken a series of reforms known collectively as USAID Forward. These reforms include efforts to increase the use of partner country systems in development program implementation.

As the U.S. government works to align itself with its international aid commitments, we conducted this analysis in consultation with the U.S. Government Accountability Office (GAO) to better understand the practices of other donors using local PFM and procurement systems. To determine how other donors have used local systems effectively, we reviewed four donors already providing large amounts of aid via local systems—the United Kingdom’s Department for International Development (DFID), Sweden, the Asian Development Bank (ADB), and the World Bank. We evaluate the performance of each donor institution’s local funding policies and practices against six goals.

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1 Guidance for monitoring donor progress on the Paris Declaration defines using a country’s PFM system as: (1) donor funds managed according to national budgeting procedures and subject to normal procedures for authorization, approval, and payment; (2) donors do not require maintenance of a separate accounting system; (3) donors rely on the audit opinions expressed by the country’s supreme audit institution (OECD 2009).
These goals are (1) increase the percentage of effectively managed aid delivered via local systems, (2) increase local institutional capacity, (3) efficiently deliver aid, (4) effectively identify and assess potential risks throughout the project, (5) effectively manage risks throughout the project, and (6) compatibility with the U.S. context. By comparing these donors’ strategies, we identified several important trends and best practices among donors that may help the United States effectively utilize local systems.

Our analysis revealed three key recommendations. First the United States should consider using a standardized risk assessment framework to guide the use of local PFM and procurement systems. One specific assessment tool the United States may consider utilizing is the Public Expenditure and Financial Accountability (PEFA) Framework. Second, the United States should consider increased cooperation with other donors. Increased use of the PEFA Framework in coordination with other donors could also facilitate this increased cooperation. Finally, we recommend the United States take an incremental approach to use of local systems. For instance, the United States could just use partner systems for smaller or shorter projects initially. In addition, the United States does not have to give aid through all three components of a partner country’s PFM system. An incremental approach would allow the United States to experiment with different practices and isolate the best ways of utilizing local systems.

III. Background

A. Impact of Aid Delivery via Local Financial Systems

The efficacy of foreign aid has long been a topic of debate in the United States and around the world. Academic literature discusses the positive and negative attributes of different types of aid, and there is little agreement on the actual impact of foreign aid on economic growth and development. Although some studies find no relation between aid and growth (Osborne 2002), development aid does seem to have a positive effect on growth rates when it is separated from aid given to further the donor’s geopolitical interests (Reddy and Minoiu 2006). In addition, development aid has a larger positive effect when the recipient country has implemented sound policies and institutions (Baliamoune-Lutz and Mavrotas 2009, Burnside and Dollar 2004).

Many researchers cite effective institutions as the catalyst for successful foreign aid strategies. However, there is still considerable debate regarding what types of aid should be given to encourage institution and capacity building. The Paris Declaration reflects the idea that building local institutions helps avoid the aid dependence that many countries fall into. When countries receive a continuous flow of aid over a long period of time, their local institutions may be degraded and experience a reduction in their development potential (Brautigam and Knack 2004). Research shows that tied aid and aid conditionality, such as structural adjustment programs, are not successful forms of aid delivery (Quartey 2005, Barder and Birdsall 2006, Brakman and Marrewijk 1995). However, studies
suggest aid systems that increase recipient participation, ownership, and autonomy while donors increase selectivity and monitoring are more successful at building institutions and lower the risk of aid dependency. These types of systems include the Millennium Challenge Account (Johnson and Zajonc 2006), donor budget support (Quartey 2005), and the Center for Global Development’s payments for progress strategy (Barder and Birdsall 2006). All of these approaches include the use of local systems in implementing aid programs. Emphasis on these types of aid systems, both in academic literature and in practice, illustrates the important role local institutions play in creating sustainable development. By giving aid through local public financial management (PFM) and procurement systems, donors can strengthen recipient capacity and institutions, and encourage sustainable development.

B. Current State of U.S. Use of Local Systems

Since the adoption of the Paris Declaration in 2005, the United States has made some progress in increasing its use of local public financial management (PFM) and procurement systems in recipient countries. As of 2010, the United States used local PFM systems to deliver 11 percent of aid and used local procurement systems to deliver 12 percent of project aid. U.S. use of local systems is significantly below the Paris Declaration target for U.S. use of local PFM systems in 2010 (60 percent), as well as other donor countries’ achievements. Globally, donors gave an average of 48 percent of aid via local PFM systems, and 44 percent via local procurement systems in 2010 (OECD 2012).

The United States has affirmed its commitment to sustainable development and results-based aid allocation in the 2010 Presidential Policy Directive on Global Development (OECD-DAC 2011). The current administration has also committed to develop a government-wide foreign aid strategy across the 27 agencies charged with carrying out aid implementation. However, coordination between these 27 agencies has been challenging. For example, only the primary agencies charged with delivering foreign aid, including U.S. Agency for International Development (USAID) and the Millennium Challenge Corporation (MCC), have recognized and begun to implement the Paris Declaration.

USAID has launched its USAID Forward initiative, a set of reforms to make the agency more efficient and effective at meeting its goals (USAID 2013). Implementing the Paris Declaration is a central focus, specifically through strengthening institutions, and increasing the sustainability of aid. The Government Accountability Office (GAO) released its study of USAID reforms in April 2014, which found that USAID had increased local systems use (GAO 2014). In 2012, 24 percent USAID funding was given through local systems, a significant increase from 9.7 percent in 2010 (GAO 2014). The agency plans to continue this trend and use local systems to deliver 30 percent of aid funds by 2015 (USAID 2013).
The MCC’s unique framework for aid allocation has been successful in meeting several goals of the Paris Declaration, including ownership, predictability, and transparency. However, MCC’s implementation methods only use local systems in specific instances. MCC often creates a “separate entity” for the implementation of compacts that bypasses local PFM and procurement systems in order to limit the risk of corruption or fraud (OECD-DAC 2011, 67). Because of its limited use of local systems, we have chosen not to focus on MCC activities in this analysis (OECD-DAC 2011).

C. International Efforts to Increase Use of Local Systems

The Paris Declaration on Aid Effectiveness (2005), the Accra Agenda for Action (2008), and the Busan Partnership for Effective Development Co-operation (2011) illustrate the global community’s acceptance of increased recipient country ownership in their development. Country ownership empowers foreign aid recipients to be leaders in their own development processes. To increase country ownership, these conferences advise donors to increase recipients’ financial control over development initiatives. As a result, donors and recipients alike promote use of recipient public financial management (PFM) and local procurement systems as key to foreign aid effectiveness. The Paris Declaration, Accra Agenda, and Busan Conference also maintain that transparency and accountability in aid is necessary for sustained development. By supporting these international agreements, the United States has committed to responsibly administer aid in a manner that increases use of recipient systems (OECD 2011a, OECD 2008).

D. International Trends

1. Trends in use of PFM and Local Procurement

A 2010 survey\(^2\) of donor adherence to the Paris Declaration found 50 percent of government sector aid disbursements globally went through partner country public financial management (PFM) systems (OECD 2012). This use of local systems was significantly higher than the United States’ reported 2010 average of 11 percent, placing the United States last among the donors highlighted in this analysis (Figure 1) and in the bottom fifth of donors globally (Appendix B). Six national donors (Ireland, France, Japan, Canada, United Kingdom, and Spain) reported using country PFM systems in at least two-thirds of their government sector aid (Appendix B). In terms of government sector aid delivered via local PFM systems in absolute terms, the United States fares better and is in the top third of donors globally (Appendix B), though it ranks second to last among the donors highlighted in this analysis (Table 1).

\(^2\) Note all OECD survey data (OECD 2010, OECD 2012) reported throughout this analysis are self-reported data provided by OECD-DAC donors.
Table 1. Donor Use of Local PFM and Procurement Systems, Absolute Levels, 2010

<table>
<thead>
<tr>
<th></th>
<th>Government Sector Funds via Local PFM Systems (USD millions)</th>
<th>Government Sector Funds via Local Procurement Systems (USD millions)</th>
<th>Number of Partner Countries Receiving Funds via Local Systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank</td>
<td>$11,013</td>
<td>$8,605</td>
<td>62</td>
</tr>
<tr>
<td>Asian Development Bank</td>
<td>$3,279</td>
<td>$1,074</td>
<td>20</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>$1,262</td>
<td>$1,282</td>
<td>18</td>
</tr>
<tr>
<td>United States</td>
<td>$918</td>
<td>$1,041</td>
<td>18</td>
</tr>
<tr>
<td>Sweden</td>
<td>$206</td>
<td>$225</td>
<td>16</td>
</tr>
</tbody>
</table>

Sources: OECD 2010, OECD 2012

Turning to use of local procurement systems, donors reported delivering 44 percent of government sector aid via local procurement systems on average in 2010 (Figure 1) (OECD 2012). At 12 percent, the United States ranked last among countries in this analysis, while Sweden topped the list, using local procurement systems in the delivery of 70 percent of its government sector aid (Figure 1).

Figure 1. Percentage of Aid Using Country PFM and Procurement Systems, 2010

Donors also vary in the extent to which they report providing direct budget support. Direct budget support is aid that goes to partner country treasuries and utilizes the partner country’s entire budget processes (OECD 2011c). Direct budget support gives partner countries a large amount of discretion over how
these funds are used. Of the donors in this analysis, Sweden reported providing the greatest percentage of their aid via local PFM systems in the form of direct budget support of program-based approach work (73 percent) (Table 2). While the Asian Development Bank (ADB) reported providing the lowest percentage at just 35 percent (Table 2). Of the 11 percent of aid it delivered via local PFM systems (Figure 1), the United States delivered 73 percent in the form of direct budget support (Table 2). The United States’ use of direct budget support was largely driven by its aid to Jordan and Pakistan, two important strategic partners (OECD 2010, OECD-DAC 2011).

Table 2. Direct Budget in Support of Program-Based Approach$^3$ as Percentage of Aid Via Local PFM Systems, 2010

<table>
<thead>
<tr>
<th>Donor</th>
<th>Direct Budget Support for Program-Based Approach as Percentage of Aid Via Local PFM Systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>73%</td>
</tr>
<tr>
<td>United States</td>
<td>72%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>64%</td>
</tr>
<tr>
<td>World Bank</td>
<td>58%</td>
</tr>
<tr>
<td>World Donor Average</td>
<td>54%</td>
</tr>
<tr>
<td>Asian Development Bank</td>
<td>35%</td>
</tr>
</tbody>
</table>

Sources: OECD 2010

Donors do not report using all three major components – (1) partner budget execution, (2) financial reporting, (3) auditing – of partner country PFM systems uniformly. Most donors considered in this analysis use the partner country’s budget execution system most frequently, while relying on partner country’s audit system the least frequently (Figure 2).

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$^3$ The Organization for Economic Cooperation and Development (OECD) defines direct budget support as “a method of financing a partner country’s budget through a transfer of resources from a donor to the partner government’s national treasury.” It defines program-based approach as those with, “(i) Leadership by the host country or organization; (ii) A single comprehensive programme and budget framework; (iii) A formalized process for donor co-ordination and harmonization of donor procedures for reporting, budgeting, financial management and procurement; (iv) Efforts to increase the use of local systems for programme design and implementation, financial management, monitoring and evaluation” (OECD 2011c).
2. Trends in Risk Assessment
Donors use various assessment tools to determine countries to which they will deliver aid via local systems. These assessments review potential risks, including lack of budget credibility, corruption, poor accounting practices, instability, and inadequate audit quality, among other factors.

In addition to the scope of risks assessed, donors vary in the extent to which they coordinate with or borrow from other donor institution assessment instruments and exercises. In the Paris Declaration, donors committed to adopting “harmonized performance assessment frameworks for country systems so as to avoid presenting partner countries with an excessive number of potentially conflicting targets” (OECD 2008, 4). Beyond avoiding potentially conflicting targets, harmonized assessments have the potential to reduce the administrative burden on partner countries, which must devote limited staff time and resources to participate in donor assessments. All the donors considered in this analysis use a mix of their own assessments along with evaluations carried out in coordination with or borrowed wholesale from other donors (Table 3). Globally, donors reported 55 percent of analytic assessments of local funding partner countries were carried out in conjunction with at least one other donor in a 2010 (Figure 3). The United States and the Asian Development Bank (ADB) ranked the lowest among donors reporting joint assessment efforts at 37 percent, while the United Kingdom and Sweden ranked the highest, at 60 and 76 percent respectively (Figure 3) (OECD 2010).
Although understanding donor institutions’ official partner country assessment protocols is informative, a review of the characteristics of the countries that donors ultimately partner with for local funding is very important to consider as well. The World Bank provides high-level ratings on the overall quality of country financial management systems as part of its Country Policy and Institutional Assessment (CPIA) (World Bank 2011c). The CPIA is a somewhat subjective rating system, but it provides a general idea of the quality of PFM systems across countries (see Appendix G for details). Among the donors highlighted in this analysis, Sweden channels its funds through countries with the highest average rated PFM systems\(^4\) (3.65 weighted average rating on a scale of 1 low – 6 high), while the United States’ partners are ranked the lowest (2.17\(^5\) weighted average rating) (OECD 2010) (Figure 4). In terms of average local partner country corruption levels,\(^6\) Sweden’s partners also rank the best (-0.52 control of corruption rating) while ADB’s partners rank the worst (-0.90 control of corruption rating) (World Bank 2013a) (Figure 5). Sweden uses democracy and human rights as a major determinant for aid partnership (SIDA 2013). This approach, combined with Sweden’s relatively small aid profile, which allows it to work with a select subset of countries, likely allows it to maintain a portfolio with such high ratings.

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\(^4\) We calculated average partner PFM ratings as weighted averages by local partner funding levels

\(^5\) CPIA PFM system quality ratings were not available for all partner countries, and these gaps disproportionately affected U.S. partners. Because of this, U.S. partner PFM system rating is particularly uncertain and should be treated as just a general estimate.

\(^6\) We calculated average partner corruption ratings as weighted averages by local partner funding levels
<table>
<thead>
<tr>
<th>Donor</th>
<th>Donor-Specific Assessments</th>
<th>Harmonized Assessments</th>
<th>Use of Other Institutions' Assessments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asian Dev. Bank</td>
<td>-Country Partnership Assessment (CPA) as part of the Performance Based Allocation process</td>
<td>N/A</td>
<td>-International Development Association’s (World Bank) questionnaires for preparing Country Partnership Assessments</td>
</tr>
<tr>
<td>Sweden</td>
<td>-Assessment of recipients development strategies -Previous development cooperation with Sweden -Recipient country ratification and compliance with human rights conventions</td>
<td>-Human rights cooperation based on UN High Commissioner and Swedish Ministry of Foreign Affairs reports -Other donors aid flows to the country</td>
<td>-World Bank CPIA index -Transparency International Corruption Perception Index -United Nations Development Program (UNDP) Human Development Index -Economist Intelligence Unit’s democracy index</td>
</tr>
</tbody>
</table>

*Data are incomplete
As donors begin to focus on partnering with well performing countries, there is concern that the poorest countries may be left behind in receipt of aid via local systems (OECD-DAC 2011). The quality of partner country PFM systems, however, does not appear to face a tradeoff with partner country wealth, at least among the countries considered in this analysis. In fact, among the donor partner portfolios in this analysis, an inverse relationship exists between country wealth and PFM system quality. Sweden and the United Kingdom deliver aid to the poorest partner countries on average, but their partners have the highest average partner PFM system quality rating (Figure 4). This tendency again may have to do with the relatively smaller size of these two donors’ portfolios in absolute terms, which may allow them to be more selective in the countries they partner with. For a breakdown of the top 10 local funding partner countries by donor see Appendix C.

Figure 4. Average Local Funding Partner Country Characteristics by Donor, 2010

Source: OECD 2010, OECD 2012, World Bank 2010, authors’ calculations

7 2010 PFM system rating not available for Indonesia; 2005 rating used in these calculations. PFM system rating data totally unavailable for some local funding partner countries; partner system rating data missing from 37 percent of 2010 U.S. local funding dollars, 19 percent of World Bank, 18 percent of world donor total, 1 percent of Asian Development Bank, and 1 percent of Sweden. PFM ratings data available for all United Kingdom partners.
3. Trends in Risk Mitigation

Once donors begin to deliver aid via local systems to local partner countries, donors take a variety of approaches to mitigate ongoing risks. Some donors, for example, are very involved in monitoring projects throughout, while others take a more hands-off approach. For instance, the World Bank relies heavily on its borrowers to detect and report instances of corruption throughout the project cycle (World Bank 2007). In contrast, the other three donors considered in this analysis take a more active approach to corruption monitoring. Sweden conducts project audits, and if it finds evidence of corruption, the Swedish International Development Cooperation Agency (SIDA) launches an investigation and demands repayment of funds (SIDA 2013). Sweden, for example, required funds repayment from Uganda in 2012 after detecting corruption in a project (SIDA 2014). The Asian Development Bank (ADB) also actively manages corruption; it created the Office of Anticorruption and Integrity to address reports of corruption and enforce its zero-tolerance policy. The United Kingdom’s Department for International Development (DFID) also actively manages corruption risks by employing a systematic and country-specific approach.

A review of the instances of 25 percentage point or greater declines in government sector aid via local public financial management (PFM) systems reveals donors do at times appear to react to ongoing events in partner countries by significantly reducing the amount of aid they deliver via local systems (Table 4). These data suggest that donors react to changes in PFM system quality as well as other non-PFM-related factors. For example, donors appear to have reacted to the 2007–2008 post-election violence in Kenya that resulted in more than 1,000 deaths and questions about the legitimacy of the national government by reducing aid delivered via local systems (Manson 2013). This reduction in funding in
Kenya occurred though there was no change in PFM system quality rating (Table 4). In contrast, donors significantly reduced their use of local systems in Cameroon in 2010 following the drop in that country’s PFM system rating (Table 4). Finally, not all declines in local-systems use are necessarily due to donor risk mitigation strategies. Sweden, for example, has undertaken a major restructuring of its aid profile to focus on a much smaller number of countries. This decrease may account for some of its changes in funding.

Table 4. Instances of 25 Percentage Point or Greater Declines in Government Sector Aid Via Local PFM Systems, 2005 – 2007 & 2007 – 2010

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>-67%</td>
<td>0</td>
<td>-71%</td>
<td>-33%</td>
<td>-33%</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>-68%</td>
<td>N/A</td>
<td>-58%</td>
<td>-26%</td>
<td>-62% N/A</td>
</tr>
<tr>
<td>Afghanistan</td>
<td>-60% -26% -94%</td>
<td>N/A</td>
<td>-40% -72%</td>
<td></td>
<td>0.5</td>
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Source: OECD 2010

4. International Trends Summary

In summary, the United States lags significantly behind the other four donors considered in this analysis with regard to provision of aid via local public financial management (PFM) and procurement systems in percentage terms. Of the partners considered, the Asian Development Bank (ADB) provides the greatest amount of government sector aid delivered via local PFM systems in percentage terms (90 percent), while the World Bank provides the largest amount of aid via local systems in absolute terms ($11 billion). Donors assess partner country risk in a variety of ways. Most use a mix of their own tools, assessments carried out in coordination with other donors, and assessments borrowed wholesale from other donors. Donors also mitigate risks throughout projects in a
variety of ways. Some take a more involved approach, while others rely more heavily on partners to self-monitor. Now that we have provided an overview of the major trends in aid via local systems, we will go on to define the specific policy problem this analysis will address and the six goals we will use to assess donor performance against.

IV. Policy Problem and Goals

A. Policy Problem

The policy problem for this analysis is to determine how the United States can responsibly increase its use of recipient country public financial management (PFM) and procurement systems. To identify donor practices that may be applicable to U.S. aid objectives, we evaluate the four donors described above on their ability to meet the following six goals. These goals were formulated from the aid objectives described in the Paris Declaration and the interests of the United States. For each goal, we developed multiple impact categories that provide specific measurable indicators to evaluate donor performance.

B. Goal One - Increase Percentage of Effectively Managed Aid Delivered via Local Systems

Our first goal is to increase the percentage of effectively managed development aid delivered via local systems. We use two major impact categories to assess performance against this goal. The first is the amount of funds managed by recipient country public financial management (PFM) systems and the quality of those systems. We recognize the use of relatively low quality partner country systems may not necessarily hinder development aid program outcomes, as some donors may effectively manage the additional associated risks. We still believe capturing information about the average quality of recipient country systems is important, however, because this measure gives some indication of complementary risk mitigation efforts donors should employ. The second impact category is the amount of aid directed through local procurement systems, as well as the quality of those systems. Using local procurement systems requires policies that are distinct from those relating to use of local PFM systems; this measure will allow procurement implications to be considered separately from local PFM system requirements.

C. Goal Two - Increase Local Institutional Capacity

Our second goal is to increase local institutional capacity. Increased use of local systems is thought to increase local institutional capacity. This second goal is meant to capture the extent to which donors’ use of local systems is in fact increasing local institutional capacity, so that the local system can implement more projects and programs. Specifically, this goal considers the ability of a donor to build and strengthen institutions in recipient countries. The criteria used to measure these impacts include increasing the quality of public financial
management (PFM) systems, increasing the quality of procurement systems, and ensuring institutional reform in partner countries is locally driven and sustainable. Considering the extent to which institutional reform is locally driven is important because although partner countries may make many changes while a donor is involved with the country, if the reforms are not truly locally driven and owned, they are unlikely to endure once the donor leaves.

D. Goal Three - Efficiency of Aid

Our third goal is to deliver aid efficiently. Efficiently delivering aid by minimizing the transaction costs, including monetary and time expenditures, is a major concern of foreign aid agencies as well as citizens in donor countries. This goal ensures that foreign aid is used efficiently through the application of funds and the implementation of projects. We also consider communication between donors and recipients, as well as among different types of donors and partner countries. The criteria we will use to measure the efficiency of aid include the harmonization of stakeholder activities, and the monitoring of time and monetary cost of aid delivery.

E. Goal Four - Effectively Identify and Assess Potential Risks

Our fourth goal is to effectively identify and assess potential risks when using the local systems of partner countries. To increase the efficiency of foreign aid that is locally managed and to ensure funds are appropriately spent, donors conduct different types of risk assessments to identify potential weaknesses in a recipient country’s local institutional capacity. Being able to effectively identify and assess potential risks is important, especially in the case of corruption in local partner governments. We will use a donor’s ability to effectively identify and assess threats of corruption, weaknesses in recipient country accounting practices, and risks of instability, including political and environmental threats, as the criteria by which we evaluate this goal. We will measure the assessment effectiveness in a comparative manner, by determining which indicators donors use to evaluate each risk and how effective these measures are.

F. Goal Five - Effectively Manage Risks Throughout the Project

Our fifth goal is to effectively manage risks throughout the lifetime of a project. This process involves applying the risk assessments in actual situations that may arise and effectively detecting and responding to any new threats that arise over the course of the engagement to minimize impediments to realizing aid objectives. We will measure the management and mitigation of risks during projects for each donor country by examining how donors detect and respond to instances of corruption, weaknesses in accounting practices, and threats of instability throughout engagement with recipient countries.
G. Goal Six - Compatibility with the U.S. Context

Our final goal is to identify development practices that are compatible with the U.S. context. This goal acknowledges that a policy may be more feasible if it is compatible with the budgetary scale and geographic scope of the United States. In considering the compatibility of each donor’s approach, we will evaluate how closely its aid profile aligns with the U.S. foreign development assistance profile and how economically feasible the approach is when scaled to the U.S. level of foreign assistance.

V. Donor Models

A. Status Quo

Each of the 27 U.S. agencies that play a role in foreign aid allocation has a different policy regarding the implementation of the Paris Declaration and use of local public financial management (PFM) and procurement systems. Although developing a government-wide strategy regarding foreign aid efficacy is an important goal for the current administration, the OECD Development Assistance Committee (OECD-DAC) reports that a significant number of these agencies do not have an active policy regarding Paris Declaration implementation (OECD-DAC 2011). Although the Millennium Challenge Corporation (MCC) has been successful in meeting several Paris Declaration goals (local partner ownership, aid predictability, aid sustainability), its use of local systems is limited (OECD-DAC 2011). The most prominent example of new policy targeted at meeting the standards of the Paris Declaration regarding local systems use and increasing the efficiency of U.S. foreign aid is USAID Forward. As previously mentioned, this effort has specified that 30 percent of USAID funds will flow through local systems by 2015. Overall, however, the United States currently gives 11 percent of aid through local PFM systems and 12 percent of aid through local procurement systems (OECD 2010).

USAID has also pledged to increase the use of local systems responsibly by using capacity assessments to choose reliable partners while strengthening local institutions (USAID 2013). One such assessment tool is the Public Expenditure and Financial Accountability (PEFA) Framework (PEFA 2014a) (See Appendix F for PEFA details). USAID may use PEFA assessment results even if USAID is not directly involved in the execution of the PEFA assessment. If a PEFA assessment does not exist, USAID uses similar assessments from the Organization for Economic Cooperation and Development (OECD) or other sources, or encourages partner countries to complete similar assessments (with USAID assistance if appropriate and available) (USAID 2012b). USAID coordinates with other donors, such as the European Union and DFID, to conduct PEFA assessments in a sub-set of its partner countries. To date, USAID has carried out PEFA assessments in eight partner countries - Afghanistan, Dominican Republic, Ethiopia, Iraq, Indonesia, Rwanda, South Sudan and Kosovo. USAID has acted as the lead agency for PEFA assessments in Indonesia and Kosovo (PEFA, 2014b).
B. Donor Country Approach – DFID

Local Systems Use Overview

The United Kingdom demonstrates a strong overall commitment to development assistance. It provided 0.7 percent of gross domestic product (GDP) as foreign aid in 2013 (Steadman 2013). Turning to its use of local systems, the United Kingdom’s Department for International Development (DFID) also performs well. DFID reported that 66 percent of its government sector aid flowed through recipient country public financial management (PFM) systems and 68 percent flowed through local procurement systems in 2010 (OECD 2010). Of the aid delivered via local PFM systems, DFID reported delivering 64 percent in the form of direct budget support in 2010 (OECD 2010). According to an evaluation by the University of Birmingham’s International Development Department, direct budget support, also known as “general budget support,” increases the efficacy of aid (International Development Department 2006) (see Appendix L for more detail). DFID has achieved success using local systems while also allocating a high proportion of aid to poor countries. As Figure 4 suggests, DFID gives the most aid via local systems to poor countries of all donors considered in this analysis. Figure 4 also shows that DFID has the second highest average PFM system quality rating among donors considered in this analysis (3.52) (OECD 2010, OECD 2012). DFID’s pro-poor focus along with its Risk Management Program may promote the rare result of high institutional quality amid poor country aid initiatives.

Country and Risk Assessment Overview

DFID uses a number of in-depth diagnostic tools to identify strengths and weaknesses of local systems when selecting partners. These assessments analyze PFM systems, procurement systems, and quality of governance. All of these assessments safeguard against risk by carefully analyzing local capacity for responsible administration of foreign aid.

DFID assesses a recipient’s PFM capacity using two assessment tools when selecting partners. First, DFID uses the Public Expenditure and Financial Accountability (PEFA) evaluation tool, which assesses whether a country has the capacity to deliver three primary budgetary aims: fiscal discipline in the aggregate, strategic allocation of resources, and efficient resource use when delivering services (PEFA 2014a). Regarding PFM systems, the PEFA evaluates six dimensions: (1) budget credibility, (2) comprehensiveness and transparency in the budget and risk oversight, (3) budget adherence to policy goals, (4) reliability and accountability in budget implementation, (5) recording and reporting of accounting, and (6) external auditing and scrutiny (PEFA 2011). A list of all the specific indicators by which the PEFA evaluates systems can be found in Appendix F. By evaluating recipient transparency and accounting practices, the PEFA Framework supports recipients by tracking progress in capacity-building and anti-corruption achievements. DFID’s use of the PEFA Framework in partner
selection discerns countries with institutional capacities strong enough for aid, as well as countries at the threshold of acceptable institutional capacity.

DFID further identifies weaknesses in local PFM systems via its second diagnostic tool, the Fiduciary Risk Assessment (FRA) (DFID 2011a). This assessment evaluates the PFM system in many ways, including its accountability mechanisms as well as improvements in fiscal transparency, financial accountability, and corruption reduction (European Parliaments Research Initiative 2009, Oxford Policy Management 2007, DFID 2011a). Further detail on this tool can be found in Appendix H.

DFID also screens partners’ procurement systems using the PEFA Framework among other tools to assess local procurement systems. A number of PEFA indicators relate to procurement system quality. Indicator PI-19, for example, analyzes the capacity and design of recipient procurement systems for transparency and competitiveness. In addition, Indicator PI-26 evaluates the quality, scope, and implementation of external audit recommendations. Indicator PI-29 evaluates internal controls on non-salary expenditures (PEFA 2011). Appendix F provides information on the eight PEFA Framework indicators relevant to procurement. The quality of a country’s PFM system also affects procurement systems (DFID 2011a). The controls of the PFM systems, such as external audits, access to information by the public, and implementing organizations’ private controls, affect the degree to which local procurement systems are effective and accountable. For example, Indicator PI-4 evaluates PFM monitoring and stock of past-due expenditure payments. This indicator reveals the reliability of government agencies in paying contractors and thus affects contractors’ willingness to negotiate contract bids. DFID’s use of the PEFA Framework as an assessment tool facilitates discernment of the fitness of local procurement systems (Evenett 2003).

Finally, DFID evaluates the governance risks of its potential partners through a Country Governance Analysis (CGA). This analysis provides DFID ministers with key information regarding the quality of governance and extent of instability in a nation (DFID 2008a). Moreover, DFID partners with country governments to conduct CGAs. We provide further detail on CGAs in Appendix H. DFID’s use of the PEFA, FRA, and CGA reduce risk while strengthening local PFM capacity.

The extensive scope of DFID’s development objectives and nontrivial amount of its aid—$15.2 billion—render responsibility in aid administration an organizational priority (UK Aid Network 2013). Thus, DFID not only assesses risks in its development initiatives ahead of partnering with countries, it also mitigates risks throughout its work via its comprehensive and frequently reviewed Risk Management Program detailed in the next section.
**Risk Management Overview**

DFID’s Risk Management Program systematically assesses and mitigates risks at all phases of aid implementation. Steps one and two discern the extent to which any potential problems may hinder efficacy of realizing aid objectives, including corruption, weak accounting practices, and instability. Step three, risk management, is the system by which DFID mitigates risk; it includes three response options, risk transfer, treatment, and termination (See Appendix I for further detail). Another important aspect of the Risk Management Program is step four, risk communication. This process involves the transfer of knowledge and evaluations to other donors and organizations. By promoting coordination though lesson sharing, risk communication increases harmonization among aid stakeholders (see Appendix I for further detail). DFID has developed additional risk frameworks and risk-management agencies. For further detail on these risk frameworks and agencies see Appendix J. DFID’s Risk Management Program, risk frameworks, and risk-reduction agencies suggest that DFID increases recipient ownership of aid and honors donor concerns for responsibility in aid administration (DFID 2011d).

**C. Donor Country Approach – Sweden**

**Local Systems Use Overview**

The Nordic countries, consisting of Denmark, Finland, Iceland, Sweden, and Norway, have often been cited as having exceptional development assistance policies. Of these countries, Sweden gave the most money in foreign assistance, totaling $5.24 billion in 2012, partially due to the fact that Sweden has the second largest Nordic gross domestic product (GDP) following Denmark (OECD 2013b). In addition to giving a relatively high amount in absolute terms, Sweden is one of the countries to give the highest share of its GDP as foreign aid, or about 0.98 percent annually (Law Library of Congress 2011). Sweden is one of the only countries in the world to exceed the United Nations (UN) target of 0.7 percent of GDP as foreign aid.

Sweden implements its foreign aid through two main agencies, the Ministry of Foreign Affairs (MFA), and the Swedish International Development Cooperation Agency (SIDA). SIDA is primarily charged with coordinating bilateral aid. The MFA coordinates multilateral aid, the majority of which passes through the UN. In 2012, 69 percent of Swedish aid was bilateral while the remaining 31 percent was multilateral (Beijmo 2013). Sweden is in the process of reducing its number of partner countries (MFA 2007b). By reducing the number of partner countries, Sweden hopes to provide aid that is more focused and individualized to meet recipient country goals and preferences.

In addition to implementing development policies set by the MFA, SIDA reports statistics and disseminates information in cooperation with other countries and international organizations to assist the Swedish government (SIDA 2012). The MFA oversees development aid and conducts investigations on the efficiency of
SIDA activities (Law Library of Congress 2011). To maximize efficiency of aid, Sweden has developed a special Policy on Global Development that ensures coherence in aid (Selbervik and Nygaard 2006). In addition to coherence, Sweden’s aid policies focus on reducing transaction costs, aid alignment, and donor harmonization.

In response to the Paris Declaration, Sweden has increased its use of partner country PFM and local procurement systems. Of Sweden’s bilateral aid, 64 percent is given directly through partner country PFM systems, primarily as direct budget support. Sweden also uses local procurement systems to deliver 70 percent of its government sector aid (OECD 2010).

**Country and Risk Assessment Approach**

The Swedish government selects recipient countries using the following three priorities: democracy and human rights, environment and climate change, and gender equality and women’s role (SIDA 2013). Then to assess risks of using public financial management (PFM) and local procurement systems, the Swedish National Financial Management Authority coordinates spending for development assistance and analyzes policies and budgetary risks (Law Library of Congress 2011). In addition, SIDA uses a number of assessment tools, including Transparency International’s Corruption Perception Index (CPI), the World Bank’s Country Policy and Institutional Assessment (CPIA), the Economist Intelligence Unit’s Democracy Index. Sweden also uses a series of assessments on its previous involvement with a partner country; the majority of these assessments use a rating scale of good, average, or low (MFA 2007a).

Sweden also uses a country-focused approach by cooperating with each country to create a development strategy (Law Library of Congress 2011). As a result, recipient countries initiate and implement their own institutional reforms, rather than as a condition of receiving aid. Recipients are then responsible for adopting the policies and implementing the projects outlined in their strategies. In this manner, Sweden allows each recipient country to be responsible for its development and reforms. To ensure that the institutional reforms in recipient countries are sustainable, Sweden researches areas of weakness for capacity building and performs evaluations of the use of aid. Once Sweden identifies a problem area in a recipient country, the MFA undertakes its own research and uses international research to plan and implement policy solutions (MFA 2010).

**Risk Management Approach**

To manage risk during development projects, Sweden performs regular audits to monitor and evaluate the use of funds in partner countries. SIDA specifically has a Unit for Monitoring and Evaluation that carries out project evaluations. The Swedish National Audit Office and the Swedish Agency for Development Evaluation (SADEV) also monitor the operations of SIDA and the MFA (SIDA 2012). In addition, SIDA has an anticorruption code of conduct to protect against the threat of corruption and fraud. If SIDA finds evidence of corruption while
conducting its project audits, SIDA launches an investigation, demands repayment of the funds, and suspends additional funds until the issue is resolved (SIDA 2013). An example of an incident during which SIDA used this anticorruption response occurred in October 2012 in Uganda. SIDA suspended funds to Uganda for a brief period of time until successfully receiving repayment of misused funds. After repayment, SIDA opted to resume payments to Uganda, but only a small proportion of aid is channeled through government institutions. The remainder is now granted to civil society and international institutions (SIDA 2014).

D. Multilateral Institution Approach – Asian Development Bank

Local Systems Use Overview

The Asian Development Bank (ADB) has consistently been one of the largest users of local public financial management (PFM) systems in terms of the percentage of aid given. In 2010, ADB gave 90 percent of its funds using local systems, an increase from the 69 percent it gave in 2005. However, ADB decreased its use of local procurement systems from approximately 45 percent in 2005 to 29 percent in 2010 (OECD 2012). Overall, the bank provided $3.29 billion of government sector loans through local PFM systems out of $3.65 billion given as government aid in 2010 (OECD 2012). This trend may be a result of the type of aid given by ADB, which provides loans for specific projects to its members that are classified as developing countries.

ADB has several different funds from which it gives loans to member countries. Most funding comes from the Ordinary Capital Resources (OCR) fund, which provides loans with interest rates and terms similar to what is found in the global market to members with greater levels of economic development, such as China and Indonesia. The largest special fund at ADB is the Asian Development Fund (ADF), which provides grants and low-interest loans to countries with lower economic development, such as Afghanistan and Nepal. Aid from this fund is targeted at lowering poverty rates and improving quality of life. Some member countries can receive aid from both of these funds, depending on what projects the loans finance. For a complete list of countries eligible to receive these funds, consult Appendix E. For this analysis, we focus primarily on the ADF, as these loans most closely resemble traditional foreign aid and are given to the least developed countries in Asia (ADB 2013d).

Country and Risk Assessment Approach

The process of receiving funds from the ADF consists of several reports and assessments to measure a member country’s needs and risks. Possible projects and the needs of each country are documented in ADB’s Country Partnership Strategy, which ADB prepares with the member country’s government and other local stakeholders. This strategy reflects the development goals of each member country and works in tandem with other development efforts to further the partner government’s poverty reduction goals. After this report is finished, ADB may
help partner countries identify potential projects through a grant called Project Preparatory Technical Assistance. This process identifies possible projects that are feasible for the member country and will help meet its development and poverty reduction goals (ADB 2013h).

To allocate funds of the ADF, the Bank uses a mechanism called performance-based allocation. Each partner country’s allocation of funding is based on its Country Performance Assessment (CPA). This assessment measures the quality of each country’s “macroeconomic management, coherence of structural policies, degree to which its policies and institutions promote equity and inclusion, and quality of governance and public sector management” (ADB 2008b, 1). ADB also references the International Development Association’s (IDA) country questionnaires that measure the quality of institutions and public policy in each member country. ADB has refined this mechanism several times to ensure that the poorest nations qualify for aid (ADB 2008b).

ADB has also developed a framework to help weak and fragile countries without sacrificing the efficiency of their funding. This framework includes a commitment to help build capacity and alleviate poverty to enable partner countries to lead their own development. For example, Country Partnership Strategy requirements are relaxed for fragile states, so that they can focus their limited resources on helping their people while remaining eligible for aid (ADB 2007a). ADB acknowledges that context is important for understanding the challenges of weak states and reports that it is committed to approach aid in a careful and nuanced way that is designed to do the most good (ADB 2007a).

**Risk Management Approach**

Several offices within ADB ensure that partner countries use all loans and grants efficiently and responsibly. The Office of Anticorruption and Integrity (OAI) is charged with monitoring projects and receiving complaints of possible corruption or misuse of funds. When a complaint is made, the office may open an investigation if the complaint is credible. After an investigation, the office may recommend that ADB sanction a company or individual (ADB 2013a). When sanctioned, ADB will no longer work with that company or individual to avoid further misuse of funds or corruption (ADB 2013c). This office can also monitor and investigate certain projects without receiving a complaint, to ensure that all funds are used properly. This mechanism is known as a Project Procurement-Related Review, which “help[s]… identify preventative measures to mitigate fiduciary risks, improve project management, and enhance project implementation” (ADB 2013b).

In addition to the OAI, which encourages efficiency during project implementation, the Independent Evaluation Department (IED) judges whether ADB policies are successful. This office has behavioral autonomy and works to avoid conflicts of interest so that these evaluations, which are separate from self-evaluations by the implementing team, take into account all possible outcomes.
These evaluations are performed at a thematic level (e.g. water projects) and an individual project level, to judge whether current ADB policies are effective, and whether additional recommendations can be made to make future projects more successful.

To illustrate the implementation and effects of ADB projects, we became familiar with a specific project that was recently finished and evaluated. The Southern Punjab Basic Urban Services Project in Pakistan was carried out from 2004 to 2009. The project aimed to mitigate urban poverty by improving the infrastructure in several important sectors, including water supply, waste management, sewer systems, and road links (ADB 2012b). This program also encouraged the sustainability of these improvements by working with local government units to build capacity and knowledge. This project was funded by a $45 million Ordinary Capital Resource (OCR) loan and a matching $45 million loan from the ADF (ADB 2012b). The specifics of this project will help illustrate the mechanisms used by ADB when giving loans through local systems with the goal of achieving positive development outcomes and build local capacity. These will be detailed further in the evaluation sections of this analysis.

E. Multilateral Institution Approach – World Bank

Local Systems Use Overview
The World Bank has been steadily increasing its use of local public financial management (PFM) and procurement systems over the past decade. In 2005, the World Bank delivered 40 percent of its government sector aid via local PFM systems and directed 42 percent of that aid using local procurement systems. By 2010, the World Bank was delivering 71 percent ($11.4 billion) of its government sector aid via local PFM systems in 62 countries and 55 percent ($8.6 billion) via local procurement systems (OECD 2012). This made the Bank the biggest player in the world in the use of local systems in absolute terms in 2010.

Country and Risk Assessment Approach
The World Bank uses a series of assessments to determine the extent to which the agency may use a country’s local PFM\(^8\) and/or procurement systems. Its primary financial management diagnostic tool is the Country Financial Accountability Assessment (CFAA), which is used to identify the strengths and weaknesses of public sector financial accountability arrangements (IEG 2008). A full CFAA covers “public sector budgeting, accounting and financial reporting, internal control systems and records management, external audits, legislative oversight, and public access to information” (IEG 2008, 4). The World Bank encourages

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\(^8\) The World Bank is one of the few donors with an official internal definition of what constitutes local PFM systems. The World Bank defines local PFM systems to include, “budgeting; accounting; internal control; funds flow; financial reporting; and auditing arrangements of the entity or entities responsible for implementing Bank-supported operations.” (OECD 2009, The Use of Country Systems in Public Financial Management).
partner country governments to take a leadership role in the CFAA process (World Bank 2014f). The World Bank will often also carry out the Public Expenditure Review (PER), which tends to focus on “developmental risk,” or the risk that bank funds will not be adequately directed toward poverty reduction (IEG 2008). The World Bank also recommends that its staff consider the Public Expenditure and Financial Accountability (PEFA) Framework assessment indicators in its evaluation of country PFM systems (Word Bank 2014d).

To assess partner country procurement systems, the World Bank uses the Country Procurement Assessment Report (CPAR) (World Bank 2014a). This tool is an in-depth diagnostic that assesses the “legal framework, trade practices, financial framework, procurement organization and procedures, decision-making authority, competitiveness of the private sector, and anticorruption initiatives and programs” (IEG 2008, 4). The World Bank, however, is carrying out a major review and potential overhaul of its procurement policy in response to criticism of its local procurement policies. The World Bank’s executive directors approved the Proposed New Framework on Procurement in World Bank Investment Project Finance in November 2013; the World Bank plans to release a revised implementation plan in 2014 (World Bank 2014c).

The World Bank’s proposed revised approach would include a number of changes to policy to increase its use of local procurement systems. The proposed policy suggests shifting to using partner procurement systems for small, low-complexity contracts whenever possible, while retaining the Bank’s direct involvement in large and highly complex contracts. The Bank also proposes providing much more capacity building support for partner country procurement systems. In addition, the Bank is considering loosening its restrictions on only using its procurement framework and instead “working with the wide range of arrangements found across the spectrum of its clients” (World Bank 2014c, 7). The Bank will still use many of its current partner assessment tools; however, the Bank will review and update these assessments. Notably, the Bank reports, “Countries would not be rated as ‘pass/fail’ on their overall procurement systems…Where the analysis reveals weaknesses - as its sometimes will - the Bank will agree with the borrower on project-specific short-term measures to mitigate assessed risks and/or to make improvements” (World Bank 2014c, 11).

Turning back to the World Bank’s current risk assessment approach, the Bank frequently carries out the Institutional and Governance Review, which measures corruption, among other institutional and governance characteristics. In the poorest countries it also carries out the Highly Indebted Poor Country (HIPC) Assessment and Action Plan, which specifically analyzes poverty-related spending risks (IEG 2008).

In addition to its own assessments, the World Bank uses the PFM diagnostic products of other donors. These include the International Monetary Fund’s (IMF) Fiscal Transparency Reports on the Observance of Standards and Codes (ROSC)
and Central Bank Safeguards Assessment, HIPC Assessments, financial management and governance reviews by the African Development Bank and Asian Development Bank, audits by the European Commission, and partner country products (e.g., published government accounts, reports by supreme audit institutions, proceedings of parliamentary oversight bodies, and work done by research bodies) (World Bank 2014a).

The World Bank then takes all of these assessments into consideration in drafting its country Financial Management (FM) strategy, an internal document that articulates and facilitates the bank’s financial management in a country. The World Bank’s financial management strategy is tailored to the specific country conditions. For example, the Bank may determine only partial use of a country’s systems is warranted, or that capacity-building initiatives are needed to strengthen the country’s PFM systems (World Bank 2014b). For country case studies of how the World Bank has used local systems, see Appendix D.

**Risk Management Approach**

The World Bank manages risks throughout its projects in a number of ways. Throughout the loan period for investment project-financing projects, the Bank’s financial management staff closely monitors borrowers’ financial management capacity. This work includes monitoring borrowers’ capacity to track the use of loan funds, provide “reasonable assurance” loan proceeds are being used for their intended purpose, correctly record all transactions and balances, and prepare accurate and timely financial statements (World Bank 2013b).

The World Bank also takes a number of measures to specifically manage corruption risks throughout its projects. The Bank’s corruption risk management policies for International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA) loans can be found in two key World Bank policy documents: (1) the Bank’s Anti-Corruption Guidelines (World Bank 2011a) and the (2) Bank’s Procurement Guidelines (World Bank 2011b). These guidelines require borrowers to report instances of fraud and corruption with loan proceeds and to take action against anyone found to engage in corruption or fraud with loan proceeds. The policies also require borrowers to include provisions in all agreements and contracts with any recipients of loan funds to allow the World Bank to audit them at any time. In addition, the Bank allows for the early termination of an agreement if fraud or corruption occurs and restitution of any loan amount used in a fraudulent or corrupt manner.

**VI. Evaluation and Assessment**

In the following section, we evaluate each donor’s ability to attain each goal using specified impact categories.
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<td>Increase Percentage of Effectively Managed Aid</td>
<td>Amount of funds managed and quality of recipient PFM systems</td>
<td>Status Quo: United States, Country Approach 1: DFID, Country Approach 2:</td>
</tr>
<tr>
<td>Delivered via Local Systems</td>
<td>Low</td>
<td>Sweden, Multilateral Approach 1: ADB, Multilateral Approach 1: World Bank</td>
</tr>
<tr>
<td></td>
<td>Amount of funds managed and quality of recipient procurement systems</td>
<td>Low</td>
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<td></td>
<td>Low</td>
<td>Moderate</td>
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<td>High</td>
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<td>*</td>
<td>Moderate</td>
</tr>
<tr>
<td>Increase local institutional capacity</td>
<td>Increase PFM system quality</td>
<td>Moderate-Low</td>
</tr>
<tr>
<td></td>
<td>Increase procurement system quality</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>Institutional reform is sustainable and locally driven</td>
<td>Moderate</td>
</tr>
<tr>
<td>Efficieny of aid</td>
<td>Harmonization of aid stakeholder activities</td>
<td>Moderate-High</td>
</tr>
<tr>
<td></td>
<td>Aid is delivered efficiently (time and money)</td>
<td>Moderate-High</td>
</tr>
<tr>
<td>Effectively identify and assess potential risks</td>
<td>Effectively identify and assess threat of corruption</td>
<td>Moderate</td>
</tr>
<tr>
<td></td>
<td>Effectively identify and assess weaknesses in accounting practices</td>
<td>Moderate</td>
</tr>
<tr>
<td></td>
<td>Effectively identify and assess risks of instability</td>
<td>Moderate-High</td>
</tr>
<tr>
<td>Effectively manage risks throughout the project</td>
<td>Effectively detect and respond to instances of corruption throughout the project</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Effectively detect and respond to weaknesses in accounting practices throughout the project</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>Effectively detect and respond to instability throughout the project</td>
<td>Moderate</td>
</tr>
<tr>
<td>Compatibility with U.S. Context</td>
<td>Similarities of aid profiles and approach</td>
<td>Not Applicable</td>
</tr>
<tr>
<td></td>
<td>Economic feasibility</td>
<td>Not Applicable</td>
</tr>
</tbody>
</table>

*No data available
A. Goal: Increase Percentage of Effectively Managed Aid Delivered Via Local Systems

1. Impact Category: Amount of Funds Managed and Quality of Recipient PFM Systems

United States
The United States delivered 11 percent of its government sector aid via local public financial management (PFM) systems in 2010 (OECD 2012). In addition, the average local funding partner score for the United States was the lowest among those considered in this analysis. Given the United States’ low levels of aid via local systems and low average partner PFM system rating, we rate the United States as performing poorly in this impact category.

DFID
As of 2010, the United Kingdom’s Department for International Development (DFID) gave 66 percent of its government sector aid through recipient PFM systems, the second highest amount in percentage terms of all donors considered in this analysis (OECD 2010) (Figure 1). DFID also has the second highest partner PFM system quality rating of all donors in this analysis with an average partner rating of 3.52 (Figure 4, OECD 2010, OECD 2012). While DFID’s local system partners have a relatively high average PFM system score, DFID does not just provide funds via local systems to partners with systems that are already strong. The Organization for Economic Cooperation and Development (OECD) maintains that DFID’s approach of also supporting recipients who commit to improving institutions has a positive impact for development (OECD-DAC 2010). This may be due to DFID’s nuanced approach in evaluating PFM systems. Given DFID’s high use of local PFM systems and high average partner PFM system quality we give DFID a rating of high for this impact category.

Sweden
Of the four donors we examine, Sweden has the lowest percentage of government sector aid flowing through local PFM systems at 65 percent (OECD 2010). This percentage is still significantly higher than the U.S. and world average amounts, due in part to Sweden’s country-focused approach.

In terms of the quality of partner country PFM systems, Sweden has the highest average partner country PFM systems score of the four donors we examined, with an average of 3.65 on a scale from one low to six high (OECD 2010). Sweden’s high scores may be in part due to the relatively small absolute size of Sweden as a donor and the selectivity in determining partner countries its small size allows. Overall, we give Sweden a moderate score in this category due to its use of high quality PFM systems and selective partner country approach.
**ADB**

With 90 percent of government sector aid going through local PFM systems, the Asian Development Bank (ADB) is the top user of local PFM systems in percentage terms (OECD 2010). ADB gave $3.29 billion of its $3.66 billion in government sector aid through local PFM systems in 2010 (OECD 2010). Use of local PFM systems by ADB has been increasing since 2005, when 69 percent of this funding was channeled through local systems (OECD 2012). The type of aid given by ADB (loans for specific projects or programs) is very conducive to use of local systems for distribution of funds. ADB used local systems for a significant amount of its loan disbursements prior to the signing of the Paris Declaration in 2005.

The average PFM systems score for recipients of ADB aid is 3.36 (Figure 4), which is just more than one point higher than the worldwide average of aid recipients (2.27), but lower than recipient scores of the United Kingdom and Sweden. Even though ADB uses local PFM systems most often compared to the other organizations in this analysis, its use of local systems is largely because of the nature of its aid, rather than specific policies. As a result of the high volume of aid channeled through local systems, but only moderate PFM system scores for recipient countries, we give ADB a score of moderate in this category.

**World Bank**

By 2010, the World Bank was delivering 71 percent ($11.4 billion) of its government sector aid via local PFM systems in 62 countries, which was an increase from the 2005 level of 40 percent (OECD 2012). This amount made the Bank the biggest player in the world in the use of local systems in absolute terms in 2010.

The average quality of World Bank partner PFM systems is relatively low, however, though Bank partners ranks above the world average of 2.27 at 2.83 (OECD 2010, OECD 2012) (Figure 4). The Bank’s low average partner score may be in part due to the Bank’s large number of partner countries compared to other relatively smaller donors considered in this analysis, such as Sweden. Because of the Bank’s relatively low average partner PFM system rating, we rate the World Bank as performing moderately well in this impact category.

**Significant Trends and Key Points**

The countries analyzed in this study illustrate the variety of ways to use PFM systems in foreign aid strategies. The inverse relationship between the absolute amount of aid channeled through local systems and the scores of PFM systems in recipient countries (Figure 4) suggest that smaller organizations may have the ability to be more selective about which partner countries they elect for aid involving local PFM systems. Organizations with larger mandates may not be able to be as selective of their partners to best serve all of the countries that receive their aid.
2. Impact Category: Amount of Aid Directed and Quality of Local Procurement Systems

**United States**
The United States delivered 12 percent of its government sector aid via local procurement systems in 2010 (OECD 2012). There is limited data publicly available on the quality of partner country procurement systems, but in 2007, of the six U.S. local procurement partners whose systems were rated, one received a B grade, and five a C grade (OECD 2012). While we lack enough data to make definitive conclusions, the presence of so many C grades is not reassuring. Because of the United States’ low levels of aid via local systems and low average partner procurement system rating, we rate the United States as performing poorly in this impact category.

**DFID**
As of 2010, the United Kingdom’s Department for International Development (DFID) delivered 68 percent of government sector aid through local procurement systems, making it the second highest of all donors we examine, after Sweden at 70 percent (OECD 2010) (Figure 1). As for the quality of procurement systems among DFID partners, 10 DFID partner countries received procurement grades in 2007. Of these, five nations earned B grades and five earned C grades, resulting in an average DFID partner country grade of B-/C+ (OECD 2010, OECD 2012). The United Kingdom, however, gave to 42 countries in 2010 (DFID 2010), illustrating the lack of comprehensive data available on procurement system quality. Given DFID’s relatively high use of local procurement systems but lack of information on the quality of these systems, we rate DFID as performing moderately well in this impact category.

**Sweden**
In addition to providing bilateral support through local public financial management systems, Sweden conducts 70 percent of its aid through local procurement systems, the highest in percentage terms of the donors we examine (OECD 2010). This amount is an increase from the 45 percent it gave via local procurement systems in 2005 (OECD 2012).

Although only a few of the top recipient countries of Swedish aid have procurement system grades available, they tend to have higher grades than the partners of other donors considered in this analysis. Afghanistan has a grade of C, while Tanzania, Mozambique, and Uganda all received a grade of B (OECD 2010). Once again, we are careful with using this outcome to evaluate the quality of local procurement policies due to the lack of comprehensive data along with Sweden’s relatively low total amount of aid, number of partner countries, and country selection process. As a result of the high use of local procurement systems, moderate quality of systems, and selectivity, we rate Sweden as moderate in this category.
**ADB**

In 2005, the Asian Development Bank (ADB) used local procurement systems in 45 percent of its government sector aid. By 2010, however, ADB delivered 29 percent, or $1.07 billion, of its government sector aid through local procurement systems, representing a declining trend (OECD 2010). In general, ADB does not seem to have a specific policy regarding the use of local procurement. Some projects, such as the Southern Punjab Basic Urban Services Project in Pakistan, designate local procurement systems use for any contracts under $1 million dollars (ADB 2012b). Local procurement systems use varies from project to project and country to country, based on the types of contracts rewarded.

Only three recipients of ADB aid had procurement system quality grades available (OECD 2012). The Philippines, Vietnam, and Afghanistan all have a grade of C for local procurement system quality. Even though ADB has recognized that local procurement is an important part of capacity building (ADB 2007b), it has not made local procurement a priority in its overall development strategy. In general, ADB looks to find the most efficient bid for a contract and does not seem to give preference to local bidders in any case (ADB 2013g). As a result of these trends, we give the ABD a low score in this category.

**World Bank**

The World Bank delivered the largest amount of aid via local procurement systems – $8.6 billion – among the donors in this analysis in absolute terms in 2010 (OECD 2010). It ranked third, however, in percentage terms (the World Bank provides 55 percent of government sector aid via local procurement systems) among the donors considered in this analysis (OECD 2010).

Limited public data is available on the quality of partner country procurement systems, but in 2007, of the 14 World Bank local procurement partners whose procurement systems were rated, six received a B grade, seven a C grade, and one a D grade (OECD 2012). Not enough data exists to make definitive conclusions; however, the presence of so many C grades and even a D grade is surprising.

The World Bank’s proposed revisions to its procurement policies (World Bank 2014c), which focus on increasing its use of country systems, could impact the amount of aid directed through high quality procurement systems. The proposed changes suggest the Bank may move to direct small amounts of aid through a higher number of partners, potentially even those with lower quality systems. Although this change may reduce the average quality of the Bank’s local procurement partners, if it is coupled with adequate safeguards, it may not negatively impact work quality.

Turning back to the World Bank’s current policies, although more data are needed, due to the Bank’s relatively low partner procurement system rating for the countries where data are available, we rate the bank as performing only moderately well in this impact category.
**Significant Trends and Key Points**

This section is similar to the above impact category (amount of aid directed and quality of local PFM systems) in terms of trends among donors, with the notable exception of ADB. It appears that countries with more partners and more aid in absolute terms flowing through local procurement systems tend to work with partners with lower quality local procurement system scores on average. This tendency is consistent with our findings regarding the quality of local PFM systems.

**B. Goal: Increase Local Institutional Capacity**

**1. Impact Category: Increase PFM System Quality**

**United States**

We were not able to find evidence for the United States’ performance on this impact category. Increasing local public financial management (PFM) system quality will be an important area, however, for future evaluation as the United States begins to increase its use of local PFM systems. Given the United States is just starting to significantly increase its use of local procurement systems, this information could represent an important opportunity for U.S. agencies to collect pre-intervention data on PFM system quality prior to increasing use of these systems for aid delivery. These baseline data could help the United States to determine whether its use of local PFM systems improves system quality.

**DFID**

The Organization for Economic Cooperation and Development (OECD) maintains that the United Kingdom’s Department for International Development’s (DFID) approach of supporting recipients whose PFM systems are already strong and those recipients who commit to improving institutions has a positive impact for development (OECD-DAC 2010). This outcome may be due to DFID’s holistic approach in evaluating PFM systems that accounts for the specific challenges each country faces in reform. The Overseas Development Institute’s (ODI) evaluation of PFM reforms, inclusive of those of Britain, also suggests that DFID’s approach is beneficial. ODI maintains that a country-tailored approach yields better results in PFM reform (ODI 2011, ODI 2010). Moreover, the ODI holds that one of DFID’s evaluation tools – the PEFA - is the most comprehensive of assessment tools (ODI 2010). Due to DFID’s performance and holistic approach to improving PFM quality, we give DFID a high rating for this impact category.

**Sweden**

To increase institutional capacity in donor countries, Sweden focuses on the importance of research at regional levels by supporting various organizations, such as government ministries and universities (SIDA 2013). To specifically increase the quality of PFM systems, Sweden provides funds to recipients to concentrate on PFM reform in financial management and reporting, budget preparation, revenue administration and auditing. A joint evaluation
commissioned by SIDA, Danish International Development Assistance (DANIDA), and the African Development Bank found that the quality of PFM systems in Burkina Faso, Ghana, and Malawi improved from 2001 to 2010 according to the Highly Indebted Poor Country (HIPC) Assessment and Action Plan as well as a PEFA study (Lawson 2012). This outcome, however, is difficult to attribute directly to Sweden's efforts. Furthermore, since this evaluation only examines a few case studies, we conclude that Sweden's ability to increase the quality of PFM systems is moderate.

**ADB**
The Asian Development Bank’s (ADB) Country Partnership Strategies identify areas, which may include PFM systems, that partner countries need to strengthen to make the aid they receive as efficient as possible. This process may strengthen local systems. In addition, many programs have capacity development goals aimed at the local offices or central government, such as the Southern Punjab Basic Urban Services Project mentioned above (see ADB donor model section above). However, ADB reports that its projects and programs had an overall success rate of 62 percent from 2001-2010, which has not significantly changed from the 61 percent success rate in the 1990s (ADB-IED 2013). This indicates that ADB’s projects and programs may have not had a significant positive impact on the improvement of local systems. In addition, a separate evaluation on the success of the Asian Development Fund (ADF) found that only 54 percent of projects aimed at governance and public sector management were successful (ADB-IED 2011). Due to the rather low level of success of these projects, we rate ADB’s performance in this impact category as moderate to low.

**World Bank**
Evidence exists that simply the act of assessing a country’s PFM system, the World Bank’s first step in potentially using a country’s local systems, may lead to improvements in PFM system quality. A review by the World Bank’s independent evaluation monitoring agency, the Independent Evaluation Group (IEG), found the World Bank’s Country Financial Accountability Assessment (CFAA) fostered financial system reforms in the partner countries considered in its review. In addition, the study found that the CFAA helped to guide the design and implementation of the Bank’s capacity-building programs to help further improve financial system quality (IEG 2008). While the PFM system assessments likely provided the necessary guidance and momentum for reform, the World Bank’s capacity-building support (e.g., financial and technical support) for PFM system reform was also likely a critical component of these reform successes. We therefore rate the World Bank’s performance in this impact category as moderate, since it is likely contingent on this additional capacity building component that falls outside of the scope of the policies directly considered in this analysis.

**Significant Trends and Key Points**
Several organizations utilize similar tools with varying degrees of success in improving the quality of local PFM systems. Donor assessment of PFM systems...
seems to be a popular tool for identifying specific issues to be addressed by the recipient country or the donor. However, complementary capacity building initiatives, which fall beyond the scope of this analysis, may also have a significant effect on PFM system improvements, as is evident by the World Bank’s efforts. ADB provides further evidence for the important additional role of capacity building. ADB’s capacity-building efforts were largely not successful, and, despite using partner system quality assessments, it did not perform well in this impact category.

2. Impact Category: Increase Procurement System Quality

**United States**

We were not able to find evidence for the United States’ performance in this impact category. Increasing procurement system quality will be an important area, however, for future evaluation as the United States begins to increase its use of local procurement systems. Given the United States is just starting to increase its use of local procurement systems, this information could represent an important opportunity for U.S. agencies to collect pre-intervention data on procurement system quality prior to increasing use of these systems for aid delivery. These baseline data could help the United States to determine if its use of local procurement systems improves procurement system quality.

**DFID**

To support procurement quality, the United Kingdom’s Department for International Development (DFID) takes a holistic approach tailored to the specific needs of each country. It develops services in the local procurement market (DFID 2013a, DFID 2013b). It also uses multiple assessments of procurement systems to design procurement improvements when planning projects. One assessment DFID uses is the Public Expenditure and Financial Accountability (PEFA) Framework, which contains eight indicators that foster nuanced evaluations of procurement systems. We were unable, however, to find an independent evaluation to objectively determine how well use of the PEFA translates into improved procurement system quality. While DFID appears to have a comprehensive method of improving procurement systems, we lack an independent evaluation of DFID’s performance on this measure. We therefore rate DFID’s performance in this impact category as moderate.

**Sweden**

As a result of the Paris Declaration, Sweden has focused more on increasing its use of local procurement systems by improving the quality of such systems in recipient countries by increasing partner country research capacity. This emphasis allows recipient countries to take ownership of strengthening their own systems (SIDA 2013). Little evidence exists, however, on the quality of procurement systems among Sweden's recipient countries and the changes that have resulted since Sweden began its efforts to improve capacity. As a result, we rate Sweden's ability to increase the quality of procurement systems as moderate to low.
**ADB**
The Asian Development Bank (ADB) did not emphasize local procurement before the Paris Declaration, and ADB’s policy has not changed since its adoption. ADB’s procurement guidelines treat efficiency as the top priority and require international competitive bidding for most contracts. However, the guidelines also acknowledge that awarding contracts to local firms encourages development (ADB 2013g). ADB uses several different procurement schemes that can benefit local firms over international corporations, such as national competitive bidding, shopping, or direct contracting (ADB 2013g). The type of procurement is decided individually for each project. Our research suggests ADB’s emphasis on efficiency has not led to significant growth in local procurement systems since the implementation of the Paris Declaration. As a result, we give ADB a low ranking in this impact category.

**World Bank**
A review by the Independent Evaluation Group (IEG) found the World Bank’s procurement assessment instruments, such as the Country Procurement Assessment Report (CPAR), have fostered some procurement system reforms in partner countries. The review found these reports catalyzed significant procurement reforms in 38 percent of countries reviewed and moderate reforms in another 56 percent (IEG 2014). While the procurement system assessments likely provided the necessary guidance and momentum for reform, the World Bank’s capacity-building support for procurement system reform was likely a critical component of these reform successes. Therefore, we rate the Bank’s performance in this impact category as moderate, since this rating is likely contingent on this additional component that falls outside of the scope of the policies considered in this analysis.

**Significant Trends and Key Points**
As was the case for the above impact category (increase PFM system quality), a review of local procurement systems in the partner country performed by an outside source seems to foster some positive reform. The World Bank and DFID have had success in this regard. However, it is again difficult to distinguish between what actions were taken as a result of these reviews, and what actions were taken as a result of additional capacity-building projects.

3. **Impact Category: Institutional Reform is Sustainable and Locally Driven**

**United States**
While the United States has committed to implement a strategy that encourages all agencies to cooperate while working to achieve development success in developing countries, there has not been as much emphasis on including local partners in the planning and implementation process. The 2010 Presidential Policy Directive on Global Development does make local participation in identifying local priorities and implementing aid in conjunction with local partners a goal for the United States (OECD-DAC 2011). Given the United
States’ current approach, however, we rate its performance in this impact category as low.

**DFID**  
According to Oxford Policy Management, the United Kingdom’s Department for International Development (DFID) promotes locally driven sustainable reform by strengthening recipient ownership of technical assistance projects (Oxford Policy Management 2006). In technical assistant projects, agents called Technical Cooperation Providers analyze local systems’ economic management to increase institutional capacity (Learning Network for Capacity Development 2008). Thus, Technical Cooperation Providers complement DFID’s Poverty Reduction Budget Support (PRBS), a form of direct budget support (Oxford Policy Management 2006). While a large portion of DFID funding goes toward its largest 20 suppliers, DFID uses local service providers for technical cooperation (Parliament of the United Kingdom 2012b). This shift to southern-led technical assistance is common across the aid community. According to the Organization for Economic Cooperation and Development (OECD), having local agents supervise technical assistance projects improves the quality of technical assistance (OECD 2011d). Having local technical cooperation agents conduct the analysis enhances quality as well (OECD 2011d). Local and regional technical cooperation providers make up a growing portion of the agents who conduct the analyses (OECD 2011d, IMF 2008). Oxford Policy Management also found that PRBS promotes strong ownership within country governments itself. Within a country, the extent of ownership may vary across ministries (Oxford Policy Management 2006).

In the spirit of the Paris Declaration, DFID also promotes sustainable institutional reform by empowering local citizens to hold their governments accountable. According to external evaluation group Independent Commission for Aid Impact (ICAI), DFID performs moderate-to-high in terms of promoting sustainable institutional reform by local citizens (ICAI 2013). DFID also does this through empowerment and accountability programs. These programs support citizens to lead sustainable institutional changes through a wide variety of activities known as social accountability programs, and improve development impact and delivery of public services (See Appendix K for further detail).

DFID also promotes recipient countries to own and drive lasting change by having local governments design and implement the changes (DFID 2014b). Institutional reform takes time and best succeeds from multi-level reform at sectoral, sub-national, and national levels of government. Since DFID conducts many PFM reform initiatives in this multi-level manner (DFID 2013b), DFID promotes improvements to recipient government (DFID 2013b). DFID increases recipient institutional capacity in all levels of government.

Finally, DFID evaluates how well recipient nations respond to citizens’ suggestions and complaints regarding procurement systems (PEFA 2011). Since the feedback of recipient citizens in the private sector and civil society helps hold
procurement agents accountable, DFID’s encouragement of civilian complaint mechanisms promotes sustainable reform (See Appendix K for further detail). Given DFID’s success in supporting locally driven institutional reform, and DFID’s holistic approach, we give DFID a high rating for this impact category.

**Sweden**

According to an evaluation conducted by the Swedish Agency for Development Evaluation (SADEV), an autonomous agency that reports to the Swedish government, Sweden is strengthening partner country institutions so that they may exercise ownership of their development policies. Sweden conducts institutional support in a number of ways, including institutional set-up, information and knowledge training, procedures, guidance, and resource support. For this reason, we give Sweden a high rating in its ability to ensure sustainable, locally driven reforms.

**ADB**

The importance of sustainable, locally driven change is evident in the Asian Development Bank’s (ADB) Poverty Reduction Strategy, which is based on “pro-poor, sustainable economic growth; inclusive social development; and good governance” (ADB 2008a). Each program or project has a community development or local capacity building component. For example, the Southern Punjab Basic Urban Services Project case study described above had significant community development goals in line with ADB’s Poverty Reduction Strategy. However, external evaluations show these efforts have had moderate to low success, and that institutional reform and inclusive growth has not been a primary goal of ADB, when compared to the emphasis on economic growth. Because of these factors, we give ADB a score of moderate in this category.

**World Bank**

A recent review by the Independent Evaluation Group (IEG) found strong government involvement in development of Country Procurement Assessment Reports (CPARs). The review found the Bank carried out 78 percent of these reports in collaboration with partner governments, and the Bank conducted 40 percent of these jointly with a team made up of Bank and government representatives (IEG 2014). A previous review by IEG found much lower levels of government involvement in Country Financial Accountability Assessments (CFAA) and CPARs; it appears the World Bank has made changes to increase government participation in assessments (IEG 2008). Therefore, we rate the World Bank’s performance as moderate to high in this impact category.

**Significant Trends and Key Points**

All of the organizations in this study scored moderate or high under this impact category. This outcome suggests that local involvement is a high priority for all the donors considered in this analysis. The donors we considered achieve local ownership of reforms in a variety of ways, as illustrated above, including through technical assistance, creating governance assessment reports in close coordination
with local governments, or including capacity development strategies into each
program or project. We feel local participation and inclusion will be an important
factor to consider when increasing U.S. use of local PFM and procurement
systems.

C. Goal: Efficiency of Aid

1. Impact Category: Harmonization of Aid Stakeholder Activities

United States

In 2010, the United States reported carrying out just 37 percent of its analytic
assessments of local funding partner countries in conjunction with at least one
other donor, which was below the global average of 55 percent (OECD 2010).
The OECD Development Assistance Committee (OECD-DAC) also found that
U.S. cooperation with other donors is lacking, considering its renewed desire to
be a leader in global development efforts (OECD-DAC 2011). Due to the United
States’ relatively low reported cooperation with other donors, we rate the United
States as performing poorly in this impact category.

DFID

The United Kingdom’s Department for International Development (DFID)
promotes harmonization among donors, between donors and recipients, and
among recipient states. Regarding harmonization among donors, DFID uses the
donor assessment tools of other organizations (Table 3). DFID also has the second
highest ranking among the four donors in terms of completing joint assessments,
including Public Expenditure Reviews (Figure 3, Devex 2008). Moreover, the
2010 evaluation by DFID’s Evaluation Department found DFID promotes
harmonization through increasing its reporting efforts (DFID EvD 2010, ODI
2005). This publication of information promotes harmonization of aid stakeholder
activities by promoting awareness of initiatives that worked well and by
informing stakeholders of those that did not (DFID 2012b).

DFID also promotes harmonization between donors and recipients. The 2010
evaluation by DFID’s Evaluation Department supports that DFID promotes
harmonization through Poverty Reduction Budget Support (PRBS) (DFID EvD
2010). As a form of direct budget support, PRBS channels aid through recipient
systems. This approach gives recipients ownership of how foreign aid is
implemented. (See the DFID Country and Risk Assessment section and Appendix
L for further detail.) Moreover, DFID country offices and recipient government
departments develop Country Governance Analysis (CGA) reports together
(DFID 2008a) (See the DFID Country and Risk Assessment section and
Appendix H for detail.) CGAs also improve aid efficiency by improving
communication among donors and recipients on governance matters within a
country. In addition, DFID harmonizes aid activities among recipient
stakesholders. DFID has established common government financing pools, which
coordinates activity among branches of recipient governments.
Moreover, an independent evaluation found that DFID has promoted harmonization through sector working groups (ITAD 2007). Sector working groups, such as those for anti-corruption and gender, analyze all government institutions relevant to their sectors of interest (DFID 2011c). Thus, sector working groups provide holistic insights for aid policy. The joint study found that DFID has achieved technical success. This evaluation also concluded that DFID has improved harmonization among recipient stakeholders through the Harmonization, Alignment, and Coordination Initiative (ITAD 2007). DFID has also supported harmonization through joint-donor funding mechanisms (ITAD 2007). As a result, we give DFID a rating of high for harmonization of aid stakeholder activity.

**Sweden**

Sweden has harmonized its aid activities by forming alliances with other Nordic countries, the European Union, and other multilateral organizations. In addition, Sweden also promotes development policy coherence among the European Union (EU) member countries. The Ministry of Foreign Affairs (MFA) then reports on these efforts (OECD 2013b).

Of the four donors we examine, Sweden reports carrying out the most joint assessments of local funding partners, with 76 percent of its analytic efforts conducted with at least one other donor (OECD 2010) (Figure 3). Furthermore, the Swedish Agency for Development Evaluation (SADEV) found that Sweden has achieved two out of three targets for indicators of harmonization. As of 2009, Sweden had successfully conducted joint missions and joint analytical work but had not yet achieved its target of using common arrangements and procedures with other donors (SADEV 2010). Because SADEV found Sweden’s progress to be satisfactory, we give Sweden a rating of moderate to high.

**ADB**

The Asian Development Bank (ADB) harmonizes some of its efforts through official co-financing, which is an arrangement to jointly fund aid projects with other donors. ADB often serves as the primary coordinator of these co-financing arrangements. ADB also uses International Development Association (IDA) assessments and surveys when preparing Country Partnership Strategies (CPS).

In addition to harmonization with other donors, ADB works closely with recipient countries to make sure their development needs are best met. Local stakeholders, including government officials, country experts, and members of civil society, are involved in creating CPS reports. Partner countries also present plans for prospective projects to ADB, which is another important way for recipient countries to identify its citizens’ most pressing problems. ADB’s willingness to work with recipient countries through all phases of the project aligns with the goals of the Paris Declaration. As a result, we rate harmonization of aid by the Asian Development Bank as moderate to high.
World Bank
A review by the Independent Evaluation Group (IEG) found that the World Bank prepared 43 percent of Country Financial Accountability Assessments (CFAA), and approximately 25 percent of Country Procurement Assessment Reports (CPAR) in collaboration with other donor partners from 1999 to 2004 (IEG 2008). In 2010 the World Bank reported carrying out 56 percent of its analytic assessments of local funding partner countries in conjunction with at least one other donor, which was around the global average of 55 percent (OECD 2010) (Figure 3). In addition, the World Bank reports using diagnostic assessments carried out by other institutions in its review of local partners. These include assessments by the International Monetary Fund (IMF) and the Asian and African Development Banks. Given the World Bank’s efforts to carry out at least a portion of its aid activities with other donors, we rate the World Bank’s performance as moderate in this impact category.

Significant Trends and Key Points
These organizations harmonize their efforts with other donors in a variety of ways. All of these donors use at least one assessment tool prepared by another agency. The Public Expenditure and Financial Accountability (PEFA) is a tool used by many organizations, including DFID and the World Bank, and provides a variety of indicators on which to judge the effectiveness of local systems. Sweden’s high level of harmonization with other Nordic countries may also suggest that harmonization with key, like-minded donor partners could be a useful strategy for promoting efficiency in donor harmonization; similar donors may have an easier time coordinating their activities. Finally, ADB’s co-financing efforts are noteworthy, in that they provide direction and organization to large projects, but funding comes from several partners.

2. Impact Category: Aid is Delivered Efficiently (in terms of time and money)
United States
The U.S. budget process includes a variety of foreign aid appropriations and earmarks, which presents challenges for the government as it attempts to create a coordinated aid strategy. In addition, reporting and evaluation requirements also vary throughout agencies and types of programs, making efficient use of staff resources difficult. The United States has committed to creating a government-wide strategy for aid allocation and implementation, as mentioned in the 2010 Presidential Policy Directive on Global Development. Due to the current efficiency challenges, however, we rate U.S. performance in this impact category as moderate.

DFID
The United Kingdom’s Department for International Development’s (DFID) Poverty Reduction Budget Support (PRBS), a form of direct budget support, increases efficiency by reducing government transaction costs (Oxford Policy Management 2006). DFID also has lowered government transaction costs by establishing common government financing pools (DFID EvD 2010, ODI 2005).
Considering just DFID’s costs, by fiscal year 2014 DFID plans to reduce its administrative costs by approximately one quarter from fiscal year 2010 levels. DFID had already reduced administrative costs by 7 percent from fiscal year 2010 to 2011 (Parliament of the United Kingdom 2012a). DFID plans to reallocate resources saved from administrative costs into implementing aid on the ground (Parliament of the United Kingdom 2012a). Some of these cost savings may be due its increased use of local systems to deliver aid (Parliament of the United Kingdom 2012a). While DFID may be in the process of reducing its own costs, many of these costs may have been shifted to partner governments, resulting in limited net gains in efficiency. More research is needed to understand the net efficiency implications of use of local systems. Overall, however, we give DFID a high rating for delivering aid efficiently in terms of time and money.

**Sweden**

In theory, Sweden’s decision to reduce its number of partner countries will help to make the delivery of aid more efficient. It is unclear, however, if Sweden will gain efficiency immediately because Sweden is phasing out aid to the majority of its recipients rather than abruptly terminating aid (OECD 2013b). Sweden is one of few countries to provide three- to five-year spending plans to all partner countries, although many of these plans need updating (OECD 2013b). Nonetheless, the delivery of Swedish aid has proven to be efficient through the concentration of aid allocation between the Swedish International Development Cooperation Agency (SIDA) and the Ministry of Foreign Affairs (MFA), both of which have strong budget execution and reporting systems (OECD 2013b). As a result, we give Sweden a moderate rating in efficient aid delivery.

**ADB**

The Asian Development Bank (ADB) gives highly predictable aid, in that aid promised is given on time and during the entire project timeframe. The Organization for Economic Cooperation and Development (OECD) found ADB’s aid predictability to be 91 percent, which is significantly higher than other large development banks, including the World Bank (ADB 2008a). ADB also performs extensive evaluations on all projects after completion to identify lessons learned and ways to make projects more efficient. These evaluations help inform future loan agreements the bank makes with partner countries, so that project planning and implementation will be more efficient. As the result of ADB’s policies, we give this impact category a score of moderate.

**World Bank**

A review by the Independent Evaluation Group (IEG) of the World Bank’s diagnostic assessments of partner country public financial management (PFM) and procurement systems found a lack of coordination among the three bank units responsible for the various PFM assessment components. This lack of coordination has resulted in fragmented action plans for partner countries. The IEG recommended improved internal coordination among these units to enhance evaluation efficiency (IEG 2008). They noted, “better internal coordination
among Bank units preparing CFAAs, CPARs, and other PFM-related diagnostics such as Public Expenditure Reviews, would have resulted in greater efficiency for the Bank and avoided instances of clients receiving multiple action plans for PFM reform (one by each diagnostic)” (IEG 2008, 14). Because of the World Bank’s internal coordination challenges, we rate the Bank’s performance as low for this impact category.

**Significant Trends and Key Points**

Efficiency is an important factor in all of these donors’ strategies. In particular, aid seems to be most efficient when donors can deliver aid on time and over the lifetime of the project, as is the case with Sweden and ADB. The World Bank’s challenges regarding aid efficiency may be very illuminating for the U.S. context, as the United States also has several large bureaucracies that handle different types of aid. To avoid the World Bank’s challenges, the United States may try to establish a coordination mechanism of some kind to ensure that every dollar of aid money is used as efficiently as possible.

**D. Goal: Effectively Identify and Assess Potential Risks**

**1. Impact Category: Effectively Identify and Assess Threat of Corruption**

**United States**

A 2011 analysis by the OECD Development Assistance Committee (OECD-DAC) found the United States to be a global leader on the issue of corruption in a variety of sectors beyond foreign aid (OECD-DAC 2011). However, we found U.S. local funding partner countries were near the global average for their control of corruption (-0.67 Corruption Control score) (World Bank 2013a). More research is needed to understand how the United States assesses the threat of corruption in local systems use, but this corruption measure serves as a high-level indicator. Based on the limited information available, we rate the United States as performing moderately well in this impact category.

**DFID**

According to the Independent Commission for Aid Impact (ICAI), the United Kingdom’s Department for International Development (DFID) performs moderate to high in terms of assessing the risk of corruption, even in fragile states (ICAI 2011). After the ICAI evaluation, DFID introduced in-country anti-corruption policy teams and Pilot Strategic Intelligence Threat Assessments. These teams and assessments implement ICAI’s recommendation of promoting integration of corruption-reduction initiatives (See Appendix J for further detail). These responses are one reason why we rate DFID as high in this impact category. Second, we considered how DFID identified and assessed the threat of corruption in steps one and two of its Risk Management Program (See Appendix I for further detail). Third, we accounted for the holistic manner in which DFID evaluates recipients for corruption using the PEFA Framework. We detail the PEFA’s assessment of corruption in Appendix F. Overall, we give DFID a rating of high
for identifying and assessing the threat of corruption due to its response to its ICAI evaluation and holistic risk assessment tools.

**Sweden**
Sweden uses Transparency International’s Corruption Perception Index (CPI) as the main indicator of a partner country’s ability to effectively avoid corruption in its use of Swedish aid (MFA 2007a). Although the index is a widely used measure, the index’s data primarily come from business risk analysts; therefore business interests may overly influence this measure. Because the CPI is the only indicator Sweden uses to assess the corruption in partner countries, we conclude that Sweden does not identify and assess the threat of corruption more effectively than the other donors we examine. Sweden, however, does have the highest partner country Control of Corruption rating of the four donors we examine with a score of -0.52 (World Bank 2013a). We rate Sweden’s performance in this impact category as moderate due to its more targeted selection process and stricter policies to respond to corrupt acts.

**ADB**
The Asian Development Bank’s (ADB) partner countries have the worst control of corruption scores (-0.95) of the organizations in this study (World Bank 2013a). Assessment of corruption at ADB is performed as a part of the Country Partnership Assessments (CPA), which serves as the foundation of Performance Based Allocation framework. These assessments are not public and the information used to determine the risk of corruption is unavailable. However, ADB has a zero tolerance policy for corruption in its projects and sanctions can be brought against companies or individuals found to be complicit in corrupt acts, which would undoubtedly be taken into account in the CPA (ADB 2013a). We give ADB a score of moderate in regard to this impact category.

**World Bank**
The World Bank had the second most corrupt portfolio of local funding partner countries among the donors considered in this analysis (-0.70 Corruption Control score) (World Bank 2013a). The World Bank has struggled to take corruption into account in its work. A 2014 evaluation of the World Bank’s Country Procurement Assessments Reports (CPAR) found uneven levels of assessment of corruption and risk across country reports. The evaluators also found most reports lacked a clear risk assessment (IEG 2014). A 2008 International Evaluation Group (IEG) review found the World Bank’s Country Financial Accountability Assessments (CFAA) do not assess vulnerability of weak PFM systems to corruption (IEG 2008). Corruption is evaluated in separate World Bank diagnostics. IEG found that using separate risk assessments carried out by different World Bank units, without a harmonized framework to coordinate them, has led to a fragmented view of risk that makes it difficult to determine the overall fiduciary risk for the country. This fragmented approach makes it difficult for assessment findings to be taken into account in program design. A review of more than 100 World Bank projects, for example, found fiduciary risks were not taken into account in
program design. This review considered all Bank projects, not just those funded via local PFM and procurement systems (IEG 2008).

It is not always clear, however, whether the World Bank lacks adequate information on corruption, or is choosing to focus on other competing priorities in its lending decisions. In 2001, for example, the World Bank gave nearly $100 million in direct budget support via local PFM systems to the Bangladeshi government after a CFAA report concluded, “[T]he move from individual project support to programmatic support requires sound and transparent financial management and procurement systems. These preconditions cannot be said to exist in Bangladesh at present” (IEG 2008, p. 39). In making this loan, the World Bank acknowledged the risks but argued Bangladesh had made enough commitments to improve its systems to warrant the loan (IEG 2008).

Corruption levels may not be important if the World Bank has sufficient safeguards to mitigate risks associated with corruption. Research by IEG, however, found a strong correlation between the percentage of World Bank projects with a satisfactory rating for good governance and less corruption. The correlation was even stronger for investment loans (IEG 2006). While this evidence is not specific to work financed via local systems, this evaluation provides at least preliminary evidence that corruption levels in countries likely matter for World Bank program outcomes, and the low scores for World Bank local funding partners are a cause for concern. Because of the Bank’s challenges effectively taking corruption into account in its work, we rate the World Bank’s performance in this impact category as low.

**Significant Trends and Key Points**

DFID has had the most success in assessing for corruption using its Risk Management Program. The organizations that assess risk as part of a larger country assessment seem to be least effective in regard to this impact category, as they have the lowest control of corruption scores. This finding suggests that another mechanism, outside of a large country assessment, may be needed to properly address the threat of corruption when scaling up the use of local systems.

2. **Impact Category: Effectively Identify and Assess Weaknesses in Accounting Practices**

**United States**

USAID reports using the Public Expenditure and Financial Accountability (PEFA) Framework results when available to assess partner country financial systems. If PEFA assessments are not available, USAID reports using similar assessments from the Organization for Economic Cooperation and Development (OECD) or other sources, or encourages partner countries to complete similar assessments (USAID 2012b). We lack information, however, on how successful these assessments have been in guiding use of local systems. Based on the limited information available, we rate the United States as performing moderately well in this impact category.
**DFID**
According to Independent Commission for Aid Impact (ICAI), the United Kingdom’s Department for International Development (DFID) performs moderate to high in terms of assessing the risk of weak accounting and fraud, even in fragile states (ICAI 2011). DFID also uses multiple tools to identify and assess threats of weak accounting practices. These include steps one and two of its Risk Management Program, PEFA Framework Indicators 22 through 28, and the Fiduciary Risk Assessment (DFID 2011a). By evaluating recipient transparency, and scrutiny of auditing, accounting, and reporting, the PEFA Framework supports recipients by rewarding progress in transparent and accurate accounting practices.

Through the Fiduciary Risk Assessment (FRA), DFID identifies and assesses risks in terms of accounting and reporting, management practices, and the government environment (Oxford Policy Management 2007). This assessment often occurs with an independent analysis of the local procurement system, even though DFID may incorporate this analysis within its general assessment (DFID 2011b). The FRA reports provide a further measure of security for DFID’s Accounting Officer and Minister, and foster collaborative learning of accounting practices. Due to its external evaluation and corruption assessment practices, we give DFID a rating of high for identifying and assessing the threat of weak accounting practices.

**Sweden**
To assess weaknesses in partner country accounting practices, Sweden utilizes the World Bank Country Policy and Institutional Assessment (CPIA) index (MFA 2007a). This index gives information on the quality and effectiveness of governance in recipient countries. Sweden also assesses its prior development cooperation with partner countries, giving a rating of good, average, or low (MFA 2007a). We do not determine Sweden’s assessment of a country’s institutional strength to be very rigorous; however, because Sweden uses a number of assessment sources, we rate its performance as moderate.

**ADB**
The Asian Development Bank (ADB) assesses accounting systems as part of its Country Partnership Assessments (CPA), which is an integral part of the Performance Based Allocation framework. This process enables ADB to find specific weaknesses that may directly affect its programs and projects. These assessments are not available to the public. Many projects have specific aspects that address capacity development, including accounting practices. For example, the Punjab Urban Water Project included training in financial management for employees of the local governments, so that the program would be sustainable after ADB’s project formally ended (ADB 2012b). As a result of the limited information available, we give ADB a score of moderate in this impact category.
**World Bank**

The World Bank identifies and assesses weaknesses in accounting practices via its Country Financial Accountability Assessment (CFAA). The Independent Evaluation Group (IEG) reviewed more than 100 World Bank projects, however, and found limited incorporation of the PFM risks identified in the CFAAs in program design. 20 percent of the projects reviewed linked project public financial management (PFM) arrangements to the findings from the CFAAs, although the World Bank issued a revised policy to address this issue that may reduce this problem (IEG 2008). Because of the World Bank’s challenges incorporating assessments of accounting practices into its work, we rate the World Bank’s performance in this impact category as low.

**Significant Trends and Key Points**

The most successful mechanism for financial risk identification seems to be the tools DFID uses. By separating the risk evaluation from larger, broader assessments, donors are more likely to address risks in the project design. Several donors also use harmonized tools to assess financial risks such as the PEFA Framework. These harmonized tools may be more efficient for donors and partner countries in identifying risks.

**3. Impact Category: Effectively Identify and Assess Risks of Instability**

**United States**

Engaging with fragile countries is an important development and security concern for the United States. Specifically, the United States has changed its focus in unstable environments towards long-term growth to avoid future conflict. However, the United States does not appear to currently have a specific strategy to assess risks of instability (OECD-DAC 2011). Based on this strategy, we rate the United States’ performance on this impact category as moderate.

**DFID**

The United Kingdom’s Department for International Development (DFID) uses multiple tools to detect threats of instability. DFID identifies and assesses risks in instability in steps one and two of its Risk Management Program. Country Governance Analyses provide DFID ministers with key information as to the quality of governance and extent of instability in a nation (DFID 2008a). We give DFID a rating of moderate for assessing risks of instability.

**Sweden**

In terms of recipient country stability, Sweden assesses the level of democracy, respect for human rights, and open consultations with civil society. The specific indicator the Swedish International Development Cooperation Agency (SIDA) uses to measure the support for a democratic transition in recipient countries is the Economist Intelligence Unit’s Democracy Index. To assess a partner country’s support of human rights, Sweden gathers information on whether the country has ratified and complied with human rights conventions. Sweden also applies a rating of good, average, or weak to recipient countries in terms of their
responsiveness to civil society concerns (MFA 2007a). We take caution in using the level of democracy and human rights convention ratification as direct measures for stability within a country. However, because Sweden’s assessment of a partner country’s political regime and civil stability is more thorough than most donors, we give Sweden a moderate to high rating in its ability to assess threats to stability.

**ADB**
The Asian Development Bank (ADB) has developed a policy framework for identifying instability in member states as a part of the Country Partnership Assessments. When ADB initially recommends projects for approval, it considers risks such as instability. However, a formal procedure for identifying risks in weak states, as well as a framework for measuring how these risks may affect the success of the project, is not publicly available. Due to the lack of information, we score ADB’s ability to assess the threat of instability as low.

**World Bank**
The World Bank does not include a specific assessment for risk of instability in its assessment of potential local funding partners. Its Country Procurement Assessment Report (CPAR) guidelines do emphasize the importance of identifying areas of risk and proposing risk management strategies, which could conceivably include risks of instability. A 2014 review by the Independent Evaluation Group (IEG) however, found the reports reviewed rarely included substantive risk assessments (IEG 2014). Due to the Bank’s lack of a specific assessment for risk of instability, we rate the World Bank’s performance as low in this impact category.

**Significant Trends and Key Points**
The information available for this impact category is much thinner than for other impact categories. This lack of information may suggest that addressing instability is not a primary concern of these agencies, or that safeguards are already in place to protect the project. The general trend across these organizations is evaluating instability as part of a general assessment of the country’s political and economic environment.

**E. Goal: Effectively Manage Risks Throughout the Project**

**1. Impact Category: Effectively Detect and Respond to Instances of Corruption Throughout the Project**

**United States**
The OECD Development Assistance Committee (OECD-DAC) cites the United States as a global leader on the issue of corruption in a variety of sectors beyond foreign aid (OECD-DAC 2011). Regarding implementation of foreign aid, the USAID Office of the Inspector General receives complaints of fraud and corruption and investigates any of these claims (USAID Office of Inspector General 2014). However, the OECD-DAC (OECD-DAC 2011) reports that the United States would benefit if it increased its engagement with local governments
on anticorruption issues. Due to the United States’ leadership role in anticorruption efforts, we rate the United States’ performance in this impact category as high.

DFID
The 2011 Independent Commission for Aid Impact (ICAI) report stated that although the United Kingdom’s Department for International Development (DFID) was effective in assessing corruption, it needed to improve its response to corruption. This suggestion, however, only applied for operations in fragile countries. DFID has made great efforts to improve its corruption mitigation in fragile countries since then. Since a new evaluation of DFID’s revised corruption mitigation efforts has yet to be published, a moderate rating is most appropriate.

In addition to DFID’s five-part Risk Management Program and other tools, DFID strengthened its corruption-specific risk management practices in five ways. The first of these are the country-specific strategies prepared by the anti-corruption policy team. These strategies build on best practices of responding to corruption and tailor them to the local context. The second is the Fraud Risk-Management Group, which coordinates all efforts to control fraud and corruption (Government of the United Kingdom 2011). The third is the Managing the Risk of Financial Loss program, which mitigates corruption and fraud in eight areas, including bilateral aid and procurement payments. The fourth is the Empowerment and Accountability Resource Network, which mitigates corruption and fraud through citizen monitoring of government activity and consolidates best practices for community-level monitoring. The final tool is the Pilot Strategic Intelligence Threat Assessment, which provides DFID with detailed intelligence of corruption risks that it incorporates into country-specific corruption management strategies (Government of the United Kingdom 2011). See Appendix J for detail. Overall, we give DFID a rating of moderate for detecting and responding to instances of corruption.

Sweden
Sweden conducts periodic audits of its development projects in recipient countries. If anything is questionable, Sweden launches an investigation. The main risk management mechanism Sweden uses is the agreement with recipients that if any funds are misused, Swedish International Development Cooperation Agency (SIDA) will demand repayment and suspend further aid disbursements (SIDA 2013). This policy is stronger than that of other donors, and it appears to be effective at combating instances of corruption, as evidenced most recently in Uganda in 2012 (SIDA 2014). Because Sweden effectively responded to Uganda, received repayment, and resumed aid disbursement through international and civil society organizations, we give Sweden a moderate to high rating in this impact category.
**ADB**
The Asian Development Bank (ADB) lacks a specific framework for program officers to identify corruption throughout a project. However, covenants attached to the loan agreement often address efficient use of funds. For example, the Punjab Urban Water Project had a large number of covenants, many of which required responsible auditing and documentation by local officials and program officers from ADB. These covenants make corruption less likely, because misused funds would be harder to hide (ADB 2012b). However, as discussed in ADB’s project evaluation, Pakistan failed to adhere to several covenants. It is not clear if the inability to meet these covenants has had any adverse effects on Pakistan’s relationship with ADB. If there is no effect, then this lack of enforcement could inhibit the covenants from acting as a deterrent for and identifier of corruption.

In addition, ADB has the Office of Anticorruption and Integrity, charged with ensuring efficient use of funds. Any person can make a complaint to this office, which may then choose to open an investigation if the office finds the complaint credible. In 2013, the office received 250 complaints and opened 92 investigations (ADB 2013a). If an investigation finds any fraud or corruption, ADB may sanction businesses or individuals, barring them from participating in any ADB projects. ADB has sanctioned 900 firms and more than 500 individuals (ADB 2013c). This office can also initiate investigations to ensure proper use of funds through Project Procurement Related Reviews (ADB 2013b). This office is successful at stopping corruption when reported but may not be as effective at actively finding cases of corruption. Overall, ADB has had moderate success in detecting and responding to corruption.

**World Bank**
The World Bank’s Anti-Corruption Guidelines and Procurement Guidelines contain provisions for detecting and responding to corruption throughout the project. These are largely made up of borrower-led measures, however, such as mandatory corruption disclosure requirements for borrowers (for additional detail, see the World Bank policy description section above). The Bank’s Financial Management (FM) Unit confirmed the Bank’s limited direct role in corruption detection in a 2007 note stating:

> [T]he primary responsibility for the prevention and detection of fraud and corruption rests with the borrower, which is required to establish and maintain a control environment adequate to provide reasonable assurance that bank loan proceeds will be used only for the intended purposes. Consistent with international assurance industry standards, FM [Bank] staff review that the control environment established by the borrower continues to provide such assurance (World Bank 2007, 7).
The World Bank reserves the right to conduct borrower audits at any time, but it is not clear how often it does so. The extent to which this largely partner-led monitoring approach controls corruption in World Bank funded projects is also uncertain. Due to the lack of proactive corruption monitoring, we rate the World Bank’s performance in this impact category as low.

**Significant Trends and Key Points**
Donor-led corruption control mechanisms seem to be the most successful corruption management approach considered in this analysis. However, the donor must be willing to follow through with punishment if corruption is detected. The experiences of Sweden and ADB illustrate the effectiveness of the donor-led approach. DFID’s five part Risk Management System, which is a systematic and comprehensive approach, has also been successful at mitigating risks. This could be a model for the United States to explore in greater detail. Another approach to the problem of corruption is ADB’s mechanism to respond quickly and effectively to complaints of corruption.

**2. Impact Category: Effectively Detect and Respond to Weaknesses in Accounting Practices Throughout the Project**

**United States**
The United States has not yet developed a systematic approach to managing program and financial risks. The United States is, however, planning to develop a new global risk management standard. This standard will integrate risk management into program planning activities (OECD-DAC 2011). Due to the lack of a current systematic risk management approach, we rate U.S. performance in this impact category as low.

**DFID**
Many of the United Kingdom’s Department for International Development’s (DFID) responses to weak accounting practices overlap with those for corruption. DFID’s five-part Risk Management Program handles weak accounting practices. DFID also uses the following four main tools described above: (1) country-specific strategies by the Anti-Corruption Policy Team, (2) the Fraud Risk-Management Group, (3) the Managing the Risk of Financial Loss program, and (4) the Empowerment and Accountability Resource Network (Government of the United Kingdom 2011). DFID also uses a fifth tool that differs from the tool for corruption, a name verification system, which tracks partners’ involvement with organized crime (Government of the United Kingdom 2011). In addition, DFID’s Internal Audit Department hired an accounting specialist to tailor audit work in fragile states (Government of the United Kingdom 2011). Since a new evaluation of DFID’s response to the Independent Commission for Aid Impact’s (ICAI) 2011 report has yet to be published, we give DFID a moderate rating while showing the steps it has taken to improve. We also note that the ICAI report referenced a subset of DFID countries.
**Sweden**
Sweden manages weaknesses in accounting practices throughout a project via its oversight of the management of development aid (OECD 2013b). Sweden conducts periodic audits of projects and has mechanisms in place to investigate any inconsistencies. Because Sweden assesses partner countries before granting aid and is highly selective in its recipient decisions, its oversight of accounting weaknesses may not be as robust as other donors. For these reasons, we rate Sweden as moderate in detecting and responding to weaknesses in accounting practices.

**ADB**
During Asian Development Bank (ADB) projects, all possible issues that may arise during implementation are referenced in the project’s administration manual, which is prepared at the time of loan approval. The specifics of these manuals vary from project to project. In addition, covenants can be added to loans that can help detect accounting problems and allow ADB’s staff to address the issue. For example, ADB may require audits at certain points throughout the project or require detailed financial reports be submitted. However, these covenants may not be as binding as one would expect. During the Southern Punjab Basic Urban Services Project, Pakistan failed to comply with covenants stipulating annual audit reports and other accounting requirements (ADB 2012b). ADB allowed Pakistan to complete the project in spite of not meeting these covenants. We rate ADB’s ability to respond to weaknesses in accounting practices as moderate to low.

**World Bank**
Throughout the loan period for investment financing projects, the World Bank reports that its financial management staff closely monitors borrowers’ financial management capacity. This oversight includes monitoring borrowers’ capacity to track the use of loan funds and provide “reasonable assurance” loan proceeds are being used for their intended purpose, correctly record all transactions and balances, and prepare accurate and timely financial statements (World Bank 2013b). However, independent evaluation of these official policies would strengthen the evidence for the World Bank’s performance on this impact category. Overall, we rate the bank as performing moderately well in this impact category.

**Significant Trends and Key Points**
These trends mirror the findings in the previous control of corruption impact category (effectively identify and assess the threat of corruption). All the organizations studied report having audits and oversight to ensure that there are no accounting irregularities. It is not clear for some of these organizations if these mechanisms are effective, or what punishment a country receives if it is found to have these irregularities.
3. Impact Category: Effectively Detect and Respond to Instability Throughout the Project

United States
The United States works in a variety of fragile state situations when implementing foreign aid. USAID, the Department of State, and the Department of Defense have increased cooperation in these situations in order to best encourage sustainable development. Although the United States has consolidated its strategy in fragile situations, it has yet to develop a standardized response to risk in these situations (OEDC-DAC 2011). We, therefore, rate the United States’ performance in this impact category as moderate.

DFID
The United Kingdom’s Department for International Development (DFID) responds to instability in three main ways. First, DFID prefers to create a method for continued engagement with fragile states that is tailored to that country’s specific context rather than pull out of fragile states prone to instability (DFID 2005). It has even pursued 10-year commitments to fragile states such as Sierra Leone, and takes a similar long-term aid approach with Rwanda, Ethiopia, and Afghanistan (DFID 2005, DFID 2006). Second, DFID uses its five-part Risk Management process to determine how to administer aid in a fragile-country context (Costard 2008, Omore 2008). Third, DFID applies an additional level of risk management for operations in countries prone to domestic instability (Government of the United Kingdom 2011). In these countries, this additional level of risk management is tailored to the local context. DFID engages in a multi-pronged risk management strategy to identify and respond to instability. We give DFID a rating of moderate because an independent evaluation has yet to be carried out that grades the efficacy of DFID’s response to instability. However, DFID’s choice to focus on fragile states while maintaining a commitment to value for money suggests that DFID would have to be operating somewhat successfully in nations prone to instability.

Sweden
Sweden does not have any specific policies or mechanisms in place to manage threats of instability throughout its projects. However, of the donors we examine, Sweden does have one of the strongest assessments for potential threats to civil stability and political regime. Nonetheless, we rate Sweden’s ability to detect and respond to instability as low.

ADB
At the Asian Development Bank (ADB), all possible issues that may arise during implementation are referenced in the project’s administration manual, which is prepared at the time of loan approval. There does not appear to be a framework for dealing with instability problems once a project is set in motion, outside of the framework mentioned above. As a result, ADB’s ability to address state instability is low.
World Bank  
We were not able to find evidence for the World Bank’s performance on this impact category.

Significant Trends and Key Points  
The only organization that has a specific framework for managing instability throughout a project is DFID. DFID’s individualized program development and ability to administer long-term plans may be an effective model for giving aid to unstable countries.

F. Goal: Compatibility with U.S. Context  
1. Impact Category: Similarities of Aid Profiles and Approach  
United States  
This impact category is not applicable to the United States.

DFID  
The United Kingdom’s Department for International Development (DFID) mirrors the United States in its increasing use of direct budget support (Oxfam America 2014). DFID and the United States conduct similar operations, and do so in the same countries. DFID operates in 28 of the United States’ 172 partner countries (DFID 2014a, The US Department of State 2014, USAID 2014). DFID administered aid to 35 countries in 2012, a change from the 140 countries to whom it administered assistance in 2009 (DFID 2011b). In addition, DFID’s value-for-money approach aligns with U.S. concerns for responsible administration of foreign aid. We give DFID a moderate rating for its similarity to the U.S. aid profile and approach.

Sweden  
A number of similarities exist between Sweden and the United States in terms of their aid profiles and approach. For example, both donors have five of the same top 10 recipient countries, including Afghanistan and the Democratic Republic of the Congo in the top 4 (OECD 2010). However, there are also some policies that do not fit well within the context of the United States. For example, Sweden’s partner country selection process is more targeted than that of the United States because Sweden is a smaller donor. As a result, we rate Sweden as performing moderately well for this impact category.

ADB  
The Asian Development Bank’s (ADB) foreign aid profile is somewhat similar to that of the United States. Two of ADB’s top 10 recipients are shared with the United States. Afghanistan and Pakistan are not only some of largest recipients of U.S. aid, but are also very important to U.S. political and security interests. ADB’s method of supporting the development of these two countries may be a helpful model for the United States. However, the regional focus of ADB may inhibit its value as a model for the United States. The Bank is able to focus on regionally specific issues that are not found elsewhere. Fewer partners allow ADB
to tailor projects to context-specific problems, which may be outside of the capabilities of U.S. aid agencies. Overall, we rank ADB’s performance in this impact category as moderate.

**World Bank**
The World Bank has a very similar aid profile to the United States. In 2010, the Bank shared 60 of the United States’ 61 aid recipient partner countries reported to the Organization for Economic Cooperation and Development (OECD) in its Paris Declaration monitoring survey (OECD 2010). In addition, the Bank’s high profile and the large size of its portfolio make its policies regarding the use of local systems potentially more relevant and transferable to the U.S. context than the policies of some of the other smaller donors evaluated in this analysis. For these reasons, we rate the Bank’s performance as high in this impact category.

**Significant Trends and Key Points**
The World Bank has a very similar aid profile to the United States. In addition, DFID is also similar to the United States, in terms of foreign policy objectives and some common aid partners. Both Sweden and the Asian Development Bank have either limited partners or a regional focus. As a result, their operations may not be significantly applicable to the U.S. aid profile. A possible area of interest may be ADB’s programs and projects in Pakistan and Afghanistan, which are common aid partners with the United States. There may be opportunities for harmonization in these areas, as well as joint studies of what types of aid are efficient in these unstable areas.

2. Impact Category: Economic Feasibility

**United States**
This impact category is not applicable to the United States.

**DFID**
The U.S. spent $31.2 billion on economic assistance in FY 2012 (Office of Management and Budget 2012). Of that, $7.5 billion, or just over a fourth, went to the top 10 largest recipients (USAID 2012a). This means that the remaining $23.7 billion was distributed across the remaining 172 countries that receive U.S. aid (USAID 2012a).

The United Kingdom’s Department for International Development (DFID) spent $14.76 billion on foreign aid in FY 2012 (Institute for Fiscal Studies 2012). DFID distributed $3.049 billion, or nearly a fifth, to the top 10 recipients in fiscal year 2012 (DFID 2012a). One should note that some recipients of aid get larger appropriations than others when thinking of scaling compatibility. Due to the smaller size of DFID’s development aid profile compared with that of the United States, we gave DFID a moderate rating in terms of economic feasibility.

**Sweden**
Sweden is a relatively small donor compared to the United States, not only in terms of the absolute amount of foreign aid granted to recipients, but also when
comparing the amount of staff members working on aid delivery, oversight and research (SIDA 2014). Sweden, therefore, focuses on a smaller number of recipient countries in order to deliver more effective development assistance (MFA 2007b). For this reason, it may be quite difficult to scale up Sweden’s approach to the United States, so we give Sweden a low rating in this impact category.

**ABD**

In 2012, the Asian Development Bank (ADB) gave approximately $13 billion in sovereign loans, which includes both ordinary capital resources and the Asian Development Fund (ADB 2012a). This is less than half of the approximately $30 billion United States gave in the same year (OECD 2013a). The approach used by ADB may be difficult to scale up to the entire aid profile of the United States, without dramatically increasing the amount of staff and resources to prepare the detailed documentation and planning ADB framework requires. An additional challenge for scaling up this approach would be expanding it from a regional to a worldwide framework. The United States would have to do considerable work in facing new challenges that may not be as pressing in the Asian context, but nevertheless are incredibly important for U.S. aid partners. Due to the expected additional costs of ADB’s approach, we believe that the economic feasibility of ADB’s approach to the United States is moderate-low.

**World Bank**

The World Bank’s development-focused work is carried out on a smaller scale than that of the United States. The Bank made $16.3 billion in International Development Association (IDA) commitments in fiscal year 2012 (World Bank 2014e). The United States, in contrast, gave an estimated $30 million in net official development assistance in 2012 (OECD 2013a). Because the Bank’s approach may have some scaling concerns if applied to the United States’ entire ODA aid profile, we rate the World Bank’s performance in this impact category as moderate.

**Significant Trends and Key Points**

No donor considered in this analysis delivered aid at the scale of the United States in absolute terms. The World Bank, DFID and the Asian Development Bank each give approximately half of the amount of aid appropriated by the United States each year. Sweden is a much smaller donor than the others, and may have serious scaling issues for the U.S. context. However, DFID and the Asian Development Bank’s strategies may be implemented on a limited basis. For example, the United States may adopt a country assessment strategy similar to these organizations for its top 10 recipients of aid only, to ensure greater efficiency while avoiding scalability issues.
VII. Recommendations

Our analysis of these four donors provides lessons learned that could be important for the United States. Our specific recommendations include use of a standardized risk assessment framework across partner countries, increased cooperation with other donors, and expansion of local systems use via an incremental approach.

Given the similar scope of the United States’ and World Bank’s aid efforts, the United States could face some of the same challenges as the World Bank. The World Bank, for example, has struggled to assess and mitigate risks across its projects. These challenges have stemmed in part from the multiple World Bank units involved in various aspects of the country assessment efforts. This fragmented approach has resulted in uneven assessment quality across countries and a discrepancy between the assessment work and the program development work. The United States could face similar challenges within its large aid agencies. Independent evaluators provided recommendations to the World Bank that could apply to the United States, such as developing a comprehensive, crosscutting risk assessment framework with a standardized methodology for aggregating public financial management (PFM) and procurement system risks for all agencies to use. This framework may also include specific guidance for staff on how risk assessments should guide program design (IEG 2008). One specific option the United States could pursue to help ensure consistent and coordinated risk assessments across countries could be expanded use of the Public Expenditure and Financial Accountability (PEFA) Framework evaluation tool. The PEFA Framework addresses the shortcomings of the World Bank’s Country Policy and Institutional Assessments (CPIA) and Highly Indebted Poor Country Assessment and Action Plan (HIPC-AAP) diagnostic tools by providing a comprehensive measure of PFM system quality (ODI 2010). USAID already uses the PEFA Framework in eight of its partner countries (PEFA 2014b); expanding use of the PEFA assessment to additional USAID countries or additional U.S. aid agencies could be an efficient approach to adopting a standardized risk assessment framework. The PEFA Framework combined with clear policies on how PEFA assessment results guide use of local systems could help the United States utilize local systems in a responsible and efficient way.

The OECD Development Assistance Committee (OECD-DAC) recommends the United States increase its cooperation with other donors in order to become a leader in global development (OECD-DAC 2011). Increased use of the PEFA Framework could also help enhance U.S. coordination with other donors. PEFA is a non-proprietary assessment tool carried out with other donors. The United States has already carried out PEFA assessment exercises in coordination with other donors (PEFA 2014b) and could expand its coordinated use in the future. In addition to realizing donor harmonization goals of the Paris Declaration, increased use of the PEFA Framework in coordination with other donors could have the benefit of reduced costs for the United States such as reduced country assessment costs, as it shares costs with other donors. Increased donor coordination could also result in reduced partner capacity building support.
requirements, as the United States shares these capacity building costs with other donors as it becomes more aware of other donors’ activities. This additional donor coordination could be especially important, particularly as major donors, such as the World Bank, plan to significantly increase their support of partner capacity building (World Bank 2014d).

Finally, given the United States’ limited experience with use of local PFM and procurement systems, we recommend that the United States consider taking an incremental approach to use of local systems. There are many forms this incremental approach could take. For example, the United States could proceed by giving aid via local procurement systems starting with just smaller projects or projects of shorter duration, much like the World Bank’s proposed local procurement approach. This approach would allow the United States to gradually increase its own capacity in use of local systems and the partner’s capacity as well. Once a country has proven its ability to successfully manage aid funds on a small project, the United States could give aid through local systems for larger, longer, or more complex projects. In addition, the United States need not initially delegate local management to all three components of a partner country’s financial management system – budgetary, financial reporting, and audit systems. If some systems seem stronger than others, the United States could choose the components that a partner country manages, and the components that the United States manages. For instance, the United States could choose to use a partner country’s budgetary system, while maintaining its own set of external audits. Also, the United States does not have to work with all levels of government at once. For example, the United States could choose to work with subnational or sectoral level entities, rather than just the national government. This is an approach taken by the United Kingdom’s Department for International Development (DFID) in some of its partner countries (DFID 2013b). These and other incremental approaches could allow the United States to isolate the best ways of utilizing local systems to provide development assistance.

Our analysis revealed a number of important lessons learned for the United States to take into account as it begins to expand its use of local systems in its development work. While every donor faces its own opportunities and challenges, the practices of the donors in this analysis provide a strong foundation on which the United States may build as it furthers its use of local systems. This is an exciting opportunity for the United States to better enable partner countries to take charge of their own development and realize sustainable growth.
**Appendix A. Detailed Goals and Alternatives Matrix**

<table>
<thead>
<tr>
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<tr>
<td></td>
<td></td>
<td>Low</td>
<td>High</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td></td>
<td></td>
<td>11% via local PFM systems; 2.17 PFM system rating</td>
<td>66% via local PFM systems; 3.52 average PFM system rating (2010 Rating from Figure 1)</td>
<td>65% via local PFM systems; 3.65 average PFM system rating</td>
<td>90% s via local PFM systems; 3.36 average PFM system rating</td>
<td>71% via local PFM systems; 2.83 PFM system rating</td>
</tr>
<tr>
<td></td>
<td>Amount of funds managed and quality of recipient PFM systems</td>
<td>Low</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Low</td>
<td>Moderate</td>
</tr>
<tr>
<td></td>
<td></td>
<td>12% via local procurement systems; low procurement system ratings</td>
<td>68% via local procurement system (as of 2010, Figure 1); country evaluation reports support that procurement systems are improving</td>
<td>70% via local procurement systems; higher quality procurement systems</td>
<td>29% via local procurement systems; low procurement system ratings</td>
<td>55% via local procurement systems; low procurement system ratings</td>
</tr>
<tr>
<td></td>
<td>Amount of funds managed and quality of recipient procurement systems</td>
<td>Low</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Low</td>
<td>Moderate</td>
</tr>
<tr>
<td></td>
<td>Increase local institutional capacity</td>
<td>Increase PFM system quality</td>
<td>Moderate - Low</td>
<td>Challenges improving local institutions, improving institutions not of secondary importance to economic growth</td>
<td>Moderate - Low</td>
<td>PFM assessments help improve partner capacity but are contingent on technical assistance programs</td>
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*No data available*
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<thead>
<tr>
<th>Goal</th>
<th>Impact Category</th>
<th>Alternatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase local institutional capacity</td>
<td>Increase procurement system quality</td>
<td>* Moderate - Low Emphasis on research to improve capacity but little evidence of improved procurement systems in recipient countries</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Low Local procurement not emphasized by ADB</td>
</tr>
<tr>
<td>Increase local institutional capacity</td>
<td>Institutional reform is sustainable and locally driven</td>
<td>High Recipients help design and lead changes; changes occur at all levels of government; empowers citizens via support of complaint mechanisms of PFM and procurement systems</td>
</tr>
<tr>
<td></td>
<td></td>
<td>High Partner countries responsible for creating and implementing their own development strategies, focus on capacity building</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Moderate High partner government participation in assessment process</td>
</tr>
<tr>
<td>Efficiency of aid</td>
<td>Harmonization of aid stakeholder activities</td>
<td>Low 37% joint analytic efforts; general lack of cooperation with other donors</td>
</tr>
<tr>
<td></td>
<td></td>
<td>High Effective risk communication strategy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Moderate-High Co-financing, works with partner countries on assessments, use of other donors’ assessments</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Moderate 56% joint analytic efforts; some harmonized assessments with other donors</td>
</tr>
</tbody>
</table>

*No data available*
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<thead>
<tr>
<th>Goal</th>
<th>Impact Category</th>
<th>Alternatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficiency of aid</td>
<td>Aid is delivered efficiently (in terms of time and money)</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Aid inefficiencies from U.S. budget process and multiple agencies involved</td>
</tr>
<tr>
<td></td>
<td>Effectively identify and assess potential risks</td>
<td>Effectively identify and assess threat of corruption</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-0.67 average partner control of corruption score</td>
</tr>
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<td></td>
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</tr>
</thead>
<tbody>
<tr>
<td>Effectively identify and assess potential risks</td>
<td>Moderate</td>
<td>USAID uses PEFA or other OECD or partner assessments; limited information on assessment effectiveness in use of local systems</td>
<td>High</td>
<td>DFID’s Fraud Risk Management Group and Managing the Risk of Financial Loss Programme strengthen DFID’s Risk Assessments of Accounting from ICAI’s “Moderate High” Rating, See Appendix J for detail.</td>
<td>Moderate</td>
<td>Uses former cooperation with recipient and World Bank Country Policy and Institutional Assessment index</td>
</tr>
<tr>
<td>Effectively identify and assess risks of instability</td>
<td>Moderate</td>
<td>Commitment to development in fragile states, but no specific strategy to assess instability</td>
<td>Moderate</td>
<td>DFID’s Risk Management Program and Country Governance Analyses effectively detect risks of instability. See Appendices I and H.</td>
<td>Moderate-High</td>
<td>Uses Economist Intelligence Unit’s democracy index, and human rights convention ratification and compliance</td>
</tr>
<tr>
<td>Effectively manage risks throughout the project</td>
<td>High</td>
<td>Global leader in anti-corruption efforts</td>
<td>Moderate</td>
<td>In fragile countries, DFID’s anti-corruption policy team collaborates with the Internal Audit and Risk and Control Units as the ICAI 2011 report suggested.</td>
<td>Moderate-High</td>
<td>Partner country agreement for repayment of misused funds and suspension of further funds until repayment</td>
</tr>
</tbody>
</table>

*No data available*
<table>
<thead>
<tr>
<th>Goal</th>
<th>Impact Category</th>
<th>Alternatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effectively manage risks throughout the project</td>
<td>Low</td>
<td>Moderate</td>
</tr>
<tr>
<td>Effectively detect and respond to weaknesses in accounting practices throughout the project</td>
<td></td>
<td>DFID’s Fraud Risk Management Group and Managing the Risk of Financial Loss Programme mitigates fraud and poor accounting practices in bilateral aid and procurement payments; The group and program also integrate all of DFID’s accounting and fraud control activity as the ICAI report suggested. See Appendix J for detail.</td>
</tr>
<tr>
<td>Effectively manage risks throughout the project</td>
<td></td>
<td>Moderate</td>
</tr>
<tr>
<td>Effectively detect and respond to instability throughout the project</td>
<td>Moderate</td>
<td>Risk management program and country reports support that DFID effectively responds to instability; DFID’s Conflict, Humanitarian, and Stability Department also responds to instability.</td>
</tr>
</tbody>
</table>

*No data available
## Goal Impact Category

### Status Quo: U.S.

<table>
<thead>
<tr>
<th>Goal</th>
<th>Impact Category</th>
<th>Alternatives</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td><strong>International Approach 1: DFID</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>International Approach 2: Sweden</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Multilateral Approach 1: Asian Development Bank</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Multilateral Approach 2: World Bank</strong></td>
</tr>
<tr>
<td>Compatibility</td>
<td>N/A</td>
<td><strong>Similarities of aid profiles and approach</strong></td>
</tr>
<tr>
<td>with U.S. context</td>
<td></td>
<td><strong>Moderate</strong> - Similar operations and countries; gives a relatively high proportion of aid to low-income countries</td>
</tr>
<tr>
<td>Economic feasibility</td>
<td>N/A</td>
<td><strong>Moderate</strong> Some overlap with partners (Afghanistan and Pakistan) but regional focus</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Low</strong> Smaller-scale donor with fewer, more selective partner countries</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Moderate-Low</strong> Much fewer partners, gives less than half the amount of U.S. aid</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Moderate</strong> World Bank delivers half the aid of the United States</td>
</tr>
</tbody>
</table>

*No data available*
Appendix B. Aid Using Country PFM Systems


<table>
<thead>
<tr>
<th>Donor</th>
<th>Government sector aid via local PFM systems (USD million)</th>
<th>Total government sector aid (USD million)</th>
<th>Percentage of government sector aid using country PFM systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asian Dev. Bank</td>
<td>$3,293</td>
<td>$3,659</td>
<td>90%</td>
</tr>
<tr>
<td>IMF</td>
<td>$370</td>
<td>$416</td>
<td>89%</td>
</tr>
<tr>
<td>Ireland</td>
<td>$153</td>
<td>$191</td>
<td>80%</td>
</tr>
<tr>
<td>IFAD</td>
<td>$227</td>
<td>$295</td>
<td>77%</td>
</tr>
<tr>
<td>World Bank</td>
<td>$11,028</td>
<td>$15,533</td>
<td>71%</td>
</tr>
<tr>
<td>France</td>
<td>$1,104</td>
<td>$1,800</td>
<td>69%</td>
</tr>
<tr>
<td>Japan</td>
<td>$4,196</td>
<td>$6,081</td>
<td>69%</td>
</tr>
<tr>
<td>Canada</td>
<td>$366</td>
<td>$538</td>
<td>68%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>$1,262</td>
<td>$1,856</td>
<td>68%</td>
</tr>
<tr>
<td>Spain</td>
<td>$434</td>
<td>$657</td>
<td>66%</td>
</tr>
<tr>
<td>Sweden</td>
<td>$205</td>
<td>$316</td>
<td>65%</td>
</tr>
<tr>
<td>Denmark</td>
<td>$355</td>
<td>$573</td>
<td>62%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>$405</td>
<td>$654</td>
<td>62%</td>
</tr>
<tr>
<td>Norway</td>
<td>$214</td>
<td>$350</td>
<td>61%</td>
</tr>
<tr>
<td>Finland</td>
<td>$94</td>
<td>$168</td>
<td>56%</td>
</tr>
<tr>
<td>Austria</td>
<td>$15</td>
<td>$29</td>
<td>53%</td>
</tr>
<tr>
<td>EU Institutions</td>
<td>$2,471</td>
<td>$5,043</td>
<td>49%</td>
</tr>
<tr>
<td>Global Fund</td>
<td>$707</td>
<td>$1,443</td>
<td>49%</td>
</tr>
<tr>
<td>African Dev. Bank</td>
<td>$1,006</td>
<td>$2,140</td>
<td>47%</td>
</tr>
<tr>
<td>Germany</td>
<td>$917</td>
<td>$2,085</td>
<td>44%</td>
</tr>
<tr>
<td>Italy</td>
<td>$70</td>
<td>$190</td>
<td>37%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>$24</td>
<td>$76</td>
<td>31%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>$54</td>
<td>$200</td>
<td>27%</td>
</tr>
<tr>
<td>Australia</td>
<td>$198</td>
<td>$859</td>
<td>23%</td>
</tr>
<tr>
<td>United Nations</td>
<td>$1,138</td>
<td>$5,171</td>
<td>22%</td>
</tr>
<tr>
<td>Belgium</td>
<td>$52</td>
<td>$322</td>
<td>16%</td>
</tr>
<tr>
<td>Int. Am. Dev. Bank</td>
<td>$140</td>
<td>$1,168</td>
<td>12%</td>
</tr>
<tr>
<td>United States</td>
<td>$910</td>
<td>$8,273</td>
<td>11%</td>
</tr>
<tr>
<td>All Other Donors</td>
<td>$98</td>
<td>$895</td>
<td>11%</td>
</tr>
<tr>
<td>Korea</td>
<td>$29</td>
<td>$286</td>
<td>10%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>$3</td>
<td>$80</td>
<td>4%</td>
</tr>
<tr>
<td>Portugal</td>
<td>$6</td>
<td>$316</td>
<td>2%</td>
</tr>
<tr>
<td>GAVI Alliance</td>
<td>$0</td>
<td>$333</td>
<td>0%</td>
</tr>
<tr>
<td>Turkey</td>
<td>$0</td>
<td>$135</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Average/Total</strong></td>
<td><strong>$31,545</strong></td>
<td><strong>$61,930</strong></td>
<td><strong>51%</strong></td>
</tr>
</tbody>
</table>

Source: OECD 2012; note, very minor differences between 2010 donor data from the OECD 2012 and OECD 2010 sources, both used in this analysis
## Appendix C. Top 10 Local Funding Recipient Countries by Donor Country

### Table C1. United States’ Top 10 Local Funding Recipient Countries, 2010

<table>
<thead>
<tr>
<th>Rank</th>
<th>Recipient country</th>
<th>Government sector aid disbursed via local PFM systems (USD m)</th>
<th>Total government sector aid (USD m)</th>
<th>Percentage delivered via local PFM systems</th>
<th>Recipient country PFM score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Pakistan</td>
<td>$333.95</td>
<td>$400.00</td>
<td>83%</td>
<td>3.5</td>
</tr>
<tr>
<td>2</td>
<td>Jordan</td>
<td>$163.00</td>
<td>$211.92</td>
<td>77%</td>
<td>N/A</td>
</tr>
<tr>
<td>3</td>
<td>West Bank &amp; Gaza Strip</td>
<td>$150.00</td>
<td>$225.00</td>
<td>67%</td>
<td>N/A</td>
</tr>
<tr>
<td>4</td>
<td>Tanzania</td>
<td>$103.61</td>
<td>$143.82</td>
<td>72%</td>
<td>3.5</td>
</tr>
<tr>
<td>5</td>
<td>Afghanistan</td>
<td>$49.53</td>
<td>$2,778.00</td>
<td>2%</td>
<td>3.5</td>
</tr>
<tr>
<td>6</td>
<td>Honduras</td>
<td>$48.48</td>
<td>$89.35</td>
<td>54%</td>
<td>3.5</td>
</tr>
<tr>
<td>7</td>
<td>El Salvador</td>
<td>$26.00</td>
<td>$203.17</td>
<td>13%</td>
<td>N/A</td>
</tr>
<tr>
<td>8</td>
<td>Ethiopia</td>
<td>$11.67</td>
<td>$406.24</td>
<td>3%</td>
<td>3.5</td>
</tr>
<tr>
<td>9</td>
<td>Sudan</td>
<td>$11.00</td>
<td>$272.44</td>
<td>4%</td>
<td>2.0</td>
</tr>
<tr>
<td>10</td>
<td>Zambia</td>
<td>$6.41</td>
<td>$129.71</td>
<td>5%</td>
<td>3.5</td>
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</table>

Source: OECD 2010, authors’ calculations

### Table C2. United Kingdom’s Top 10 Local Funding Recipient Countries, 2010

<table>
<thead>
<tr>
<th>Rank</th>
<th>Recipient country</th>
<th>Government sector aid disbursed via local PFM systems (USD m)</th>
<th>Total government sector aid (USD m)</th>
<th>Percentage delivered via local PFM system</th>
<th>Recipient country PFM score</th>
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<tr>
<td>1</td>
<td>Ethiopia</td>
<td>$334.57</td>
<td>$341.22</td>
<td>98%</td>
<td>3.5</td>
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<tr>
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<td>Tanzania</td>
<td>$172.47</td>
<td>$173.24</td>
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</tr>
<tr>
<td>3</td>
<td>Ghana</td>
<td>$102.87</td>
<td>$131.28</td>
<td>78%</td>
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</tr>
<tr>
<td>4</td>
<td>Malawi</td>
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<td>$124.00</td>
<td>80%</td>
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</tr>
<tr>
<td>5</td>
<td>Uganda</td>
<td>$97.45</td>
<td>$108.52</td>
<td>90%</td>
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<tr>
<td>6</td>
<td>Pakistan</td>
<td>$95.18</td>
<td>$144.97</td>
<td>66%</td>
<td>3.5</td>
</tr>
<tr>
<td>7</td>
<td>Rwanda</td>
<td>$94.58</td>
<td>$96.14</td>
<td>98%</td>
<td>4.0</td>
</tr>
<tr>
<td>8</td>
<td>Mozambique</td>
<td>$85.20</td>
<td>$95.30</td>
<td>89%</td>
<td>4.0</td>
</tr>
<tr>
<td>9</td>
<td>Zambia</td>
<td>$59.04</td>
<td>$62.72</td>
<td>94%</td>
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</tr>
<tr>
<td>10</td>
<td>Vietnam</td>
<td>$47.88</td>
<td>$58.10</td>
<td>82%</td>
<td>4.0</td>
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</table>

Source: OECD 2010, authors’ calculations
### Table C3. Sweden's Top 10 Local Funding Recipient Countries, 2010

<table>
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<tr>
<th>Rank</th>
<th>Recipient country</th>
<th>Government sector aid disbursed via local PFM systems (USD m)</th>
<th>Total government sector aid (USD m)</th>
<th>Percentage delivered via local PFM systems</th>
<th>Recipient country PFM score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Tanzania</td>
<td>$60.63</td>
<td>$66.88</td>
<td>91%</td>
<td>3.5</td>
</tr>
<tr>
<td>2</td>
<td>Mozambique</td>
<td>$49.66</td>
<td>$70.60</td>
<td>70%</td>
<td>4.0</td>
</tr>
<tr>
<td>3</td>
<td>Mali</td>
<td>$21.54</td>
<td>$22.59</td>
<td>95%</td>
<td>3.5</td>
</tr>
<tr>
<td>4</td>
<td>Burkina Faso</td>
<td>$16.94</td>
<td>$19.95</td>
<td>85%</td>
<td>4.5</td>
</tr>
<tr>
<td>5</td>
<td>Uganda</td>
<td>$15.41</td>
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<td>56%</td>
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<td>6</td>
<td>Kenya</td>
<td>$10.59</td>
<td>$21.16</td>
<td>50%</td>
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<td>7</td>
<td>Zambia</td>
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<td>Rwanda</td>
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<td>$10.00</td>
<td>70%</td>
<td>4.0</td>
</tr>
<tr>
<td>9</td>
<td>Bolivia</td>
<td>$6.53</td>
<td>$9.80</td>
<td>67%</td>
<td>3.5</td>
</tr>
<tr>
<td>10</td>
<td>West Bank &amp; Gaza Strip</td>
<td>$2.31</td>
<td>$7.80</td>
<td>30%</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Source: OECD 2010, authors' calculations

### Table C4. Asian Dev. Bank's Top 10 Local Funding Recipient Countries, 2010

<table>
<thead>
<tr>
<th>Rank</th>
<th>Recipient country</th>
<th>Government sector aid disbursed via local PFM systems (USD m)</th>
<th>Total government sector aid (USD m)</th>
<th>Percentage delivered via local PFM systems</th>
<th>Recipient country PFM score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Indonesia</td>
<td>$972</td>
<td>$989</td>
<td>98%</td>
<td>3.5*</td>
</tr>
<tr>
<td>2</td>
<td>Pakistan</td>
<td>$831</td>
<td>$831</td>
<td>100%</td>
<td>3.5</td>
</tr>
<tr>
<td>3</td>
<td>Bangladesh</td>
<td>$597</td>
<td>$597</td>
<td>100%</td>
<td>3.0</td>
</tr>
<tr>
<td>4</td>
<td>Afghanistan</td>
<td>$237</td>
<td>$240</td>
<td>99%</td>
<td>3.5</td>
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<tr>
<td>5</td>
<td>Vietnam</td>
<td>$171</td>
<td>$429</td>
<td>40%</td>
<td>4.0</td>
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<tr>
<td>6</td>
<td>Nepal</td>
<td>$157</td>
<td>$157</td>
<td>100%</td>
<td>2.5</td>
</tr>
<tr>
<td>7</td>
<td>Cambodia</td>
<td>$76</td>
<td>$78</td>
<td>97%</td>
<td>3.5</td>
</tr>
<tr>
<td>8</td>
<td>Laos</td>
<td>$51</td>
<td>$55</td>
<td>94%</td>
<td>3.5</td>
</tr>
<tr>
<td>9</td>
<td>Tajikistan</td>
<td>$51</td>
<td>$51</td>
<td>100%</td>
<td>3.5</td>
</tr>
<tr>
<td>10</td>
<td>Papua New Guinea</td>
<td>$32</td>
<td>$32</td>
<td>100%</td>
<td>3.0</td>
</tr>
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</table>

Source: OECD 2010, authors' calculations, *2005

### Table C5. World Bank's Top 10 Local Funding Recipient Countries, 2010

<table>
<thead>
<tr>
<th>Rank</th>
<th>Recipient country</th>
<th>Government sector aid disbursed via local PFM systems (USD m)</th>
<th>Total government sector aid (USD m)</th>
<th>Percentage delivered via local PFM systems</th>
<th>Recipient country PFM score</th>
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<td>Indonesia</td>
<td>$2,365.63</td>
<td>$2,365.63</td>
<td>100%</td>
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</tr>
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<td>2</td>
<td>Viet Nam</td>
<td>$983.98</td>
<td>$1,679.55</td>
<td>59%</td>
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</tr>
<tr>
<td>3</td>
<td>Ethiopia</td>
<td>$963.34</td>
<td>$963.34</td>
<td>100%</td>
<td>3.5</td>
</tr>
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<td>4</td>
<td>Egypt</td>
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</tr>
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<td>Afghanistan</td>
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<td>$563.26</td>
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<tr>
<td>6</td>
<td>Tanzania</td>
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<td>Nigeria</td>
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<td>Philippines</td>
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<td>$472.20</td>
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Source: OECD 2010, authors' calculations, *2005
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<th>World donor avg. rank</th>
<th>United States rank</th>
<th>United Kingdom rank</th>
<th>Sweden rank</th>
<th>ADB rank</th>
<th>World Bank rank</th>
<th>Count of donors with this partner country in its top 10</th>
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<td>West Bank &amp; Gaza Strip</td>
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<tr>
<td>Nigeria</td>
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<td></td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: OECD 2010; authors’ calculations
Appendix D. World Bank Country Case Studies

World Bank Case Study – China
Following a review of China’s financial management system, the World Bank determined that it could use China’s systems if China could customize its accounting regulations and financial management reports to conform to World Bank standards. The World Bank and China reached an agreement that defined and standardized a number of accounting and reporting elements. Following this agreement, the World Bank now uses China’s systems for all World Bank projects (OECD 2011b).

World Bank Case Study – Mozambique
In 2008 the World Bank determined that using Mozambique’s systems would not increase the Bank’s risk if Mozambique’s government made some improvements to its systems (e.g., improve the management of the rollover of unused project funds at year-end, timeliness of audited project financial statements, and modes of collaboration between private sector auditors and the supreme audit institution). The World Bank and the government worked to identify solutions for these issues and now World Bank-funded projects for Mozambique use country PFM systems with temporary supplemental measures to address remaining areas of weakness (OECD 2011b).

World Bank Case Study – Afghanistan
The World Bank provides general budget support directly to the Afghan government because Afghanistan’s integrated financial management information system allowed funds to be managed according to international standards. The Bank provided supplementary support to develop a sound budget preparation framework, transparent budget documentation, accounting procedures, regular financial reporting and external audit, and parliamentary oversight of financial statements (OECD 2011b).

World Bank Case Study – Indonesia
The World Bank has provided direct budget support and extensive capacity building support to strengthen the Indonesian government’s PFM systems. The World Bank is gradually moving toward using more Indonesian systems. World Bank project payments are now channeled through the national treasury system, and the Bank began to use the country’s supreme audit institution to carry out the audits for a select number of World Bank-funded projects. The Bank plans to move toward a greater reliance on the supreme audit institution as its capacity improves (OECD 2011b).
## Appendix E. Classification of Asian Development Bank (ADB) Member Countries

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ADF and Ordinary Capital Resources (OCR) (Blended Funds)</td>
<td>Armenia, Azerbaijan, Bangladesh, Georgia, India, Federated States of Micronesia, Mongolia, Pakistan, Palau, Papua New Guinea, Sri Lanka, Timor-Leste, Uzbekistan, Vietnam</td>
</tr>
<tr>
<td>Ordinary Capital Resources (OCR) Funding Only</td>
<td>People’s Republic of China, Cook Islands, Fiji, Indonesia, Kazakhstan, Malaysia, Philippines, Thailand, Turkmenistan</td>
</tr>
</tbody>
</table>

Source: ADB 2013f
Appendix F. The Public Expenditure and Financial Accountability (PEFA) High-Level Performance Indicator Set

<table>
<thead>
<tr>
<th>Overview of the Indicator Set</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. PFM-Out-Turns: Credibility of the budget</strong></td>
</tr>
<tr>
<td>PI-1</td>
</tr>
<tr>
<td>PI-2</td>
</tr>
<tr>
<td>PI-3*</td>
</tr>
<tr>
<td>PI-4*</td>
</tr>
<tr>
<td><strong>B. Key Cross-Cutting Issues: Comprehensiveness and Transparency</strong></td>
</tr>
<tr>
<td>PI-5</td>
</tr>
<tr>
<td>PI-6</td>
</tr>
<tr>
<td>PI-7</td>
</tr>
<tr>
<td>PI-8</td>
</tr>
<tr>
<td>PI-9</td>
</tr>
<tr>
<td>PI-10*</td>
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<tr>
<td><strong>C. Budget Cycle</strong></td>
</tr>
<tr>
<td><strong>C(i) Policy-Based Budgeting</strong></td>
</tr>
<tr>
<td>PI-11</td>
</tr>
<tr>
<td>PI-12*</td>
</tr>
<tr>
<td><strong>C(ii) Predictability and Control in Budget Execution</strong></td>
</tr>
<tr>
<td>PI-13</td>
</tr>
<tr>
<td>PI-14</td>
</tr>
<tr>
<td>PI-15</td>
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<tr>
<td>PI-16</td>
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<td>PI-17</td>
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<tr>
<td>PI-19</td>
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<td>PI-20*</td>
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<td>PI-21*</td>
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<td>PI-23</td>
</tr>
<tr>
<td>PI-24*</td>
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<td>PI-25</td>
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<tr>
<td><strong>C(iv) External Scrutiny and Audit</strong></td>
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<td>PI-26*</td>
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<td>PI-27</td>
</tr>
<tr>
<td>PI-28*</td>
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<td><strong>C. Donor Practices</strong></td>
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<td>D-3</td>
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</table>

*The eight PEFA indicators relevant to procurement are PI-4, PI-10, PI-12, P-20, PI-21, PI-24, PI-26, and PI-28.

Source: PEFA 2011
Appendix G. World Bank Country Policy and Institutional Assessments (CPIA) Criterion 13 Detail

The World Bank publishes ratings on the quality of a variety of elements of partner country policy and institutional frameworks in its Country Policy and Institutional Assessments (CPIA) report (World Bank 2011c). The report’s Criterion 13 assesses countries’ budgetary and financial management systems. The World Bank provides the following details about how it determines country ratings on Criterion 13:

“13. Quality of Budgetary and Financial Management

This criterion assesses the extent to which there is: (a) a comprehensive and credible budget, linked to policy priorities; (b) effective financial management systems to ensure that the budget is implemented as intended in a controlled and predictable way; and (c) timely and accurate accounting and fiscal reporting, including timely audit of public accounts and effective arrangements for follow up. Each of these three dimensions should be rated separately. To determine the overall score for this criterion, the three dimensions should receive equal weight.

To assist country teams to prepare their write-ups, guidance notes are available at this link.

Note: As a criterion with multi-dimensions, a rating for each dimension should be provided in the write-up along with its justification.

Guideposts:

- PEFA Performance Measurement Framework.
- PRMPS Governance Indicators (see the below link): [http://go.worldbank.org/MFAH3FKZ20](http://go.worldbank.org/MFAH3FKZ20)
- Staff may also want to consult the Government Finance Statistics (GFS) manual and the Classification of the Functions of Government (COFOG).”
Appendix H. DFID’s Public Financial Management (PFM) Assessment Strategy

DFID assesses recipient public financial management (PFM) systems by using the PEFA Framework, Fiduciary Risk Assessments, and Country Governance Analyses. All of these assessments safeguard against risk by analyzing local capacity for responsible administration of foreign aid.

DFID first screens recipient nations through the PEFA Framework. The PEFA evaluates six dimensions of PFM systems: (1) budget credibility, (2) comprehensiveness and transparency in the budget and risk oversight, (3) budget adherence to policy goals, (4) reliability and accountability in budget implementation, (5) recording and reporting of accounting, and (6) external auditing and scrutiny (PEFA 2011). By evaluating recipient transparency and scrutiny of auditing, accounting, and reporting, the PEFA Framework supports recipients by rewarding progress in capacity-building and anti-corruption achievements (see Appendix F for further detail).

Second, DFID uses Fiduciary Risk Assessments to safeguard against risk and strengthen PFM capacity (DFID 2011a, DFID 2008b). The Fiduciary Risk Assessment (FRA) contains three parts: (1) an evaluation of recipient PFM and accountability systems, and an assessment of their risks; (2) an assessment to discern a true need to improve a program; and (3) proper recording of the assessment for use in evaluations (DFID 2011a, European Parliaments Initiative 2009, Oxford Policy Management 2007). Moreover, this assessment often occurs with an independent analysis of the local procurement system, even though this analysis may be incorporated with the general assessment (DFID 2011a). In addition, FRAs track recipient government enforcement of improvements in fiscal transparency, accountability in national financial practices, and corruption reduction (DFID 2011a). As a result, the FRA provides an additional safeguard to ensure responsible aid administration.

The third tool DFID uses to assess PFM capacity and reduce risk is the Country Governance Analysis (CGA). These analyses provide DFID ministers with key information as to the quality of governance and extent of instability in a nation. The CGA also fosters capacity building, accountability, and responsiveness of nations to citizen concerns about governance. CGAs also support the Paris Declaration on Aid Effectiveness by using shared analysis to inform the extent of partnership with recipients. DFID country offices and branches of recipient governments often partner in developing aspects of the analysis (DFID 2008a). The CGA also facilitates donor dialogue on governance matters within a country, which may promote aid efficiency by improving communication between and among donors and recipients. DFID’s multiple assessment tools increase the capacity of recipient PFM systems.
Appendix I. DFID Risk Reduction Strategy I: The Risk Management Program

DFID’s Risk Management Program
Step one of DFID’s Risk Management Program is hazard identification, which looks for potential problem that may hinder program efficacy. This step addresses risks of funds mismanagement and corruption, concerns that foster heightened demands for transparency in accounting, auditing, and payments. Step two is risk assessment, which identifies the extent to which the hazard may negatively impact program outcomes.

Step three is risk management, or the response to the risk after its identification and assessment. Risk management may incorporate any, or a combination of, the following five strategies: (1) transfer, (2) toleration, (3) treatment (reduction of the hazard to an approved level), (4) termination (removal of the risk), or (5) pursuing the initiative with awareness of the risk. The fifth strategy should only be done if the opportunity is likely to benefit DFID. DFID’s Management Board evaluates its Risk Management Program via ”risk ownership” by discerning what may prevent success in realizing an established plan, and evaluating, managing, and revising the strategy of risk management. DFID employees known as “risk owners” make this determination. Evaluations occur for specified periods of time and provide information on whether policy goals have been realized. In addition to efficacy, these evaluations yield results in terms of policies’ efficiency, sustainability, and impact.

Step four is risk communication, which involves the transfer of practice knowledge and evaluation to other people and organizations. Though DFID generally conducts risk management in a sequential process for steps one through three, risk communication may occur at any stage. Risk communication has the additional impact of increasing aid efficiency by harmonizing practices and lesson sharing among donors (DFID 2011d). It also fosters corruption reduction by promoting transparency and accountability in aid implementation (African Partnership Forum 2013).

Detailed analysis of DFID’s Risk Management Program suggests that DFID manages to increase recipient ownership of aid implementation and honor donor concerns for responsibility in aid administration. DFID’s Risk Management Program encompasses all stages of risk management and involves risk communication as well.
Appendix J. DFID’s Risk Reduction Strategy II

Risk Frameworks and Risk Agencies Developed in Response to ICAI Evaluation

In addition to its risk assessments and Risk Management Program, DFID developed additional risk management practices in response to the 2011 ICAI evaluation. Five of the most prominent developments include the following: (1) country-specific strategies by the Anti-Corruption Policy Team, (2) the Fraud Risk-Management Group, (3) the Managing the Risk of Financial Loss Program, (4) the Empowerment and Accountability Resource network, and (5) Pilot Strategic Intelligence Threat Assessments (Government of the United Kingdom 2011). DFID compiles the results of these initiatives into country-specific “Anti-Corruption Strategies.”

The Anti-Corruption Policy Team builds on best practices of responding to corruption and tailors them to the local context. The Anti-Corruption Policy Team collaborates with the Internal Audit and Risk and Control Units to formulate its policies. Moreover, the Anti-Corruption Policy Team integrates corruption and fraud activities, as ICAI recommended in its 2011 report (Government of the United Kingdom 2011).

The Fraud Risk-Management Group coordinates all efforts to control fraud and corruption (Government of the United Kingdom 2011).

The Managing the Risk of Financial Loss Program mitigates corruption and fraud in eight areas: Bilateral aid, multilateral payments, grant to civil society organizations, procurement payments, overseas programs, and humanitarian/emergency aid.

The Empowerment and Accountability Resource Network mitigates corruption and fraud through citizen monitoring of government activity. It also consolidates best practices for community-level monitoring.

The Pilot Strategic Intelligence Threat Assessments provide DFID detailed intelligence of corruption risks that it incorporates into country-specific corruption management strategies. ICAI had rated DFID as moderate to high for assessing and identifying the risk of corruption. Pilot Strategic Intelligence Threat Assessments strengthen DFID’s intelligence gathering of corruption risks. This assessment also helps integrate corruption-reduction initiatives by informing country corruption assessments (Government of the United Kingdom 2011).
Appendix K. DFID’s Strategies for Sustainable, Locally Driven Institutional Reform

DFID promotes sustainable, locally driven institutional reforms in several ways. In addition to increasing country ownership in technical assistance programs and empowering local citizens to hold governments accountable, DFID executes Empowerment and Accountability Programs. Based in 12 African countries and five Asian countries, Empowerment and Accountability Programs support citizens to lead sustainable institutional changes through social accountability programs, including management of the oil and gas sector, increased citizen management of community schools, and civil society campaigns (ICAI 2013). These social accountability programs resulted in improvements in development programs and delivery of public services. Social accountability programs with civil society groups had more moderate results than those of other organizations (ICAI 2013).

DFID evaluates how well recipient nations respond to citizens’ suggestions and complaints regarding procurement systems (PEFA 2011). Since the feedback of recipient citizens in the private sector and civil society helps hold procurement agents accountable, strong procurement system complaint mechanisms foster procurement systems’ success. This feedback mechanism empowers recipient citizens to promote sustainable reform in institutions. DFID’s rewarding of recipient implementation of citizen complaint promotes sustainable reform.
Appendix L. DFID’s Direct Budget Support Approach

Of the aid delivered via local PFM systems, DFID reported delivering 64 percent in the form of direct budget support in 2010 (OECD 2010). In this general budget support strategy, donors provide funds directly through PFM systems. As detailed in the DFID Country Assessment and Risk Overview section and Appendix I, this funding also affects procurement systems. One of the reasons why general budget support is potentially more effective than other aid strategies is because governments and donors monitor implementation of the overall strategy together, rather than a donor or government alone focusing narrowly on aid use (International Development Department 2006). Thus, direct budget support results in a holistic evaluation of aid systems and initiatives. Moreover, direct budget support increases harmonization by coordinating donor and recipient activity. General budget support has been found to have additional benefits, including increased efficiency in public spending allocations, heightened effectiveness of government administration, and reduced transaction costs (International Development Department 2006).
References


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