The Use of Country Systems and the New Deal: The State of Play in 2017

Draft report
This report was commissioned by the Secretariat of the International Dialogue on Peacebuilding and Statebuilding (IDPS), and drafted by the Institute for State Effectiveness, under the guidance of the IDPS Head of Secretariat. Its contents reflect the views of principal authors (Nelly Mecklenburg, Alexander Parks, Jessica MacKenzie and Clare Lockhart). The report does not reflect the views of the membership of the International Dialogue who are yet to review a final draft. This process of review by IDPS member is scheduled to take place in 2018.

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A. Summary and Key Messages

This report, published by the International Dialogue on Peacebuilding and Statebuilding (IDPS), provides an overview of the ‘state of play’—as of 2017— with respect to the use of country systems by donors in IDPS member countries, in line with the commitments made by over 40 countries and organizations in 2011, outlined in the New Deal for Engagement in Fragile States, and re-affirmed by over fifty countries and organizations, in the Stockholm Declaration (2016).

The IDPS Secretariat essentially provides coordination, advocacy, and advisory services to its members, often in the form of ‘guidance’ on New Deal implementation. Over the past few years, a key insight from IDPS member countries has been that generic guidance on the Use of Country Systems is no longer helpful. Broad guidance cannot be implemented and is not useful in increasing the Use of Country Systems. What is required is guidance that is tailored to local political economies and challenges and documents and disseminates their experiences. Heading the calls of IDPS constituencies, this report seeks not to look at what should happen in general terms, but rather share with stakeholders what is happening in several country contexts. By sharing these stories, the IDPS aims to support New Deal ‘flagbearers’ across the Dialogue membership, by providing them with relevant lessons that might be useful in thinking about how to approach similar situations and identify priorities that reflect the real needs of member states.

The report starts with a review of IDPS member constituency reporting on Use of Country Systems and uses select country case studies to take a deeper dive on some key areas. It suggests possible areas for a focus on in 2018. The report is intended to re-energize intra-Discussion around the Use of Country Systems and the New Deal. This is key to mobilising the necessary political will to advance this issue as a global agenda item.

Emerging lessons from the report

1. Although progress on increasing donor Use of Country Systems has been slower than originally anticipated, there is substantial implementation progress in country contexts which is not always sufficiently acknowledged;
2. There is a continued need to produce and circulate more insight from countries’ experiences— including through peer-to-peer sharing—to help establish more realistic expectations and timeframes, and develop ideas that can inform other countries;
3. Stronger consensus and communication on what the Use of Country Systems means in different contexts and globally is key to understanding constraints and building tools to support implementation;
4. Taken together, these themes can help re-orient incentive structures on both the donor and country government side, and improve strategic communications, to political and technical audiences.

This report is divided into five sections:

1. Introduction: the New Deal landscape and the International Dialogue;
2. A brief literature review of the International Dialogue’s position on the use of country systems;
3. Updates on New Deal implementation and the Use of Country Systems from Somalia, Timor-Leste; and Liberia
4. Emerging themes from across the IDPS and three country case studies; and
5. Conclusion: potential areas of focus for IDPS and partners for 2018 and beyond.

B. Introduction: The New Deal Landscape and the International Dialogue

The New Deal for Engagement in Fragile States (New Deal) was signed in 2011, signifying a firm commitment by development partners to support nationally-owned and led development plans and greater aid effectiveness in conflict-affected and fragile situations. Growing volatility, conflict and instability in the world have accelerated the urgent need for greater effectiveness in fragile countries. Consequences of fragility do not just threaten stability in low-income countries. The refugee crisis and the regionalization of conflict in parts of the Middle East and in Africa demonstrate the potential adverse impacts fragility can have globally. As Amara Konneh, Manager of the World Bank’s Global Fragility, Violence and Conflict Hub, notes, ‘fragility is no longer just a concern in the world’s poorest countries, but is now penetrating middle income countries’.¹ The need for strong institutions to help maintain peace and stability, and curb fragility, has only increased.

Global commitments in recent years reflect this growing urgency to address fragility. The United Nations 2030 Agenda for Sustainable Development was adopted in 2015, with Goal 16 highlighting the link between effective, accountable state institutions and inclusive peace. The UN’s complementary Sustaining Peace Agenda highlighted the role of sustainable development in managing the “entire peace continuum”, particularly in fragile environments with peacekeeping operations.² In the World Bank’s IDA18 Replenishment, unveiled in 2016, over 60 international donors doubled their commitment to fragile states, allocating $14 billion to help fragile states transition to stability. In this context, the goals and principles behind the New Deal remain critical in helping to guide countries, their international development partners, and the international institutions assisting state transitions from fragility.

Endorsed by over 40 countries and organizations at the High Level Forum on Aid Effectiveness in Busan in 2011, the New Deal builds on research that highlights the link between the sustained use of country systems with improved public financial management and overall outcomes for states.³ The New Deal is part of a legacy of global commitments, most notably including the Paris Declaration on Aid Effectiveness in 2005 and the Accra Agenda for Action in 2008, to strengthen institutions in fragile countries by tackling what at times has been ineffective and counterproductive behavior by donors.⁴ This commitment was reaffirmed in 2016 by the Stockholm Declaration on Addressing Fragility and Building Peace in a Changing World.

Investing in and working through country systems lies at the heart of the New Deal’s shared objectives of strengthening state institutions, building capacity, and increasing the transparency, predictability, and

¹ Use of country systems Consultation: Lessons from Somalia and Ways Forward, World Bank offices, Nairobi, Kenya, 8 December 2017.
³ Research found that bypassing country systems decreased sustainability and that budget support (one use of country systems modality) was linked to improvements in public financial management. Cameron Reid, 2015 Independent Review of the New Deal for Engagement in Fragile States – Timor-Leste Case Study: December 2015.
⁴ The Paris Declaration was signed by 100+ countries and organizations to increase the use of country’s public financial management and procurement systems and decrease the number of parallel project implementation units. The Accra Agenda reaffirmed the need to strengthen country systems through use and to provide program, rather than project-based aid.
accountability of donor and developing country practices. Operationally, using country systems can take many forms. One widely used categorization is the framework by the Collaborative Africa Budget Reform Initiative (CABRI) (Figure 1).

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\text{Figure 1. CABRI Framework on Use of Country Systems} \]

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
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<tbody>
<tr>
<td>On Plan</td>
<td>Aid is integrated into spending agencies’ strategic planning and supporting documentation for policy intentions behind the budget submissions.</td>
</tr>
<tr>
<td>On Budget</td>
<td>Aid is integrated in the budgeting processes and reflected in the documentation submitted with the budget to the legislature.</td>
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<tr>
<td>On Parliament</td>
<td>Aid is included in the revenue and appropriations approved by parliament.</td>
</tr>
<tr>
<td>On Treasury</td>
<td>Aid is disbursed into the government’s main revenue funds and managed through the government’s systems.</td>
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<tr>
<td>On Procurement</td>
<td>Procurement using aid funds follows the governments’ standard procurement procedures.</td>
</tr>
<tr>
<td>On Account</td>
<td>Aid is recorded and accounted for in the government’s accounting system, in line with the government’s classification system.</td>
</tr>
<tr>
<td>On Audit</td>
<td>Aid is audited by the government’s auditing system.</td>
</tr>
<tr>
<td>On Report</td>
<td>Aid is included in the government’s ex-post reports.</td>
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The use of country systems through the New Deal framework is championed by multi-stakeholder collaboration led by the International Dialogue on Peacebuilding and Statebuilding (IDPS). The International Dialogue, founded in 2008, is comprised of:

- The g7+ Group, an International Organisation of self-identified fragile and conflict-affected states who use their collective agency to advocate and invest in new forms of intervention and donor support,
- The International Network on Conflict and Fragility (INCAF), a group of development partners from the Organization for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) who want to be better partners in fragile environments, and
- The Civil Society Platform for Peacebuilding and Statebuilding (CSPPS), a South-North collective of civil society organizations engaged in peacebuilding and statebuilding in fragile states.

The IDPS provides a forum for coordination among these partners, as well as joint international advocacy and the formulation and dissemination of technical guidance on how donors can implement the New Deal and increase their use of country systems. This is at least in theory. In practice, some divergence has emerged over the last decade between members, about how much emphasis should be placed on advancing the use of country systems agenda. In 2017, the International Dialogue’s constituency members, building on their commitments in the Stockholm Declaration, set about redesigning the IDPS 2017-2021 Strategy, which lays out priorities for the next five years. While they noted the achievements

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5 The New Deal outlines five Peacebuilding and Statebuilding Goals (PSGs), as well as tools and instructions laid out in the FOCUS and TRUST principles to guide effective, cooperative funding and intervention in fragile states.


of the *New Deal* thus far, they acknowledged that implementation on the ground has been slower than stakeholders had hoped for. In order to turn this around, the overriding priorities were identified:

- Gaining wider political support, particularly within the UN, to be achieved by strategically positioning itself within the context of implementation of the 2030 Agenda through Goal 16.
- Greater inclusion, both in country and global processes of women and youth through stronger partnerships.
- Galvanizing stronger country-level support through more peer-to-peer learning and country dialogue, thereby building evidence and sharing tools to advance the implementation of the *New Deal* and the *use of country systems*.

Since 2011, the *New Deal* has had some notable impact in changing the way the entire framework of development assistance in fragile contexts is understood and in ‘normalizing’ the idea of the *use of country systems*, both in fragile and non-fragile states. However, it is widely acknowledged that much more needs to be done to accelerate the translation from dialogue and policy into practice. With IDPS’s 5-Year Strategy adopted, an agreed work plan in place, and member commitment to repositioning the International Dialogue, to be fit for purpose in leveraging lessons from implementing the New Deal, to inform implementation of Agenda 2030, the time is ripe to take stock of progress on the issue of the *use of country systems*, amongst Dialogue members in terms of how they are supporting it, and what more needs to be done in 2018 and beyond.

**C. A Survey of the International Dialogue and the Use of Country Systems**

Over the past few years, IDPS has embarked on a number of reviews and reflections to assess the overall status of progress on the *New Deal* and the *use of country systems* in particular. This reporting has aggregated messages from international and country experience and much of it echoes the same implementation challenges. While useful in identifying recurring themes, it does not necessarily provide a contextually-relevant or operational basis for decision makers to advance *use of country systems*. More examination of specific cases – both positive and negative – is needed to move from generic to practical recommendations.

The first significant effort to translate the *New Deal* in practice was the 3-year pilot begun in 2012 in Afghanistan, Central African Republic, Democratic Republic of Congo, Liberia, Sierra Leone, South Sudan and Timor-Leste. In 2014, the *New Deal Monitoring Report* was published by the IDPS, as the first high-level assessment of the *New Deal*, presenting lessons from the pilot countries. On *use of country systems*, the Monitoring Report highlighted progress on building necessary foundations, including:

- Increased dialogue between and emphasis by development partners on *use of country systems*, including through conducting fragility assessments and devising compacts;
- Establishment of local aid information management systems, such as Donor Assistance Databases (DAD), which enable greater aid transparency and oversight by government institutions; and
- Establishment of pooled aid resources such as multi donor trust funds as an effective way of channeling funds through and strengthening country systems and sharing risk.

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However, it also noted challenges such as:

- Despite increased support for New Deal principles at the international policy level, there was a need for greater country-level action, including better planning for “gradual, step-by step” progress that recognizes the real political operating contexts;\(^8\)
- Where there was New Deal programming at the country level, it was centered primarily in Ministries of Finance, with insufficient commitment and knowledge across government; and
- Limited follow through on activities – including minimal participation by civil society in fragility assessments and minimal integration of aid data from management systems towards national planning.

The Monitoring Report concluded that while development partner countries had initiated a number of reforms to increase the use of country systems, there was limited progress in achieving that goal. It said that “greater clarity and nuance was needed about what use of country systems actually involves and how to monitor early steps towards their greater use.”\(^9\) According to the Monitoring Report, at the time no country or development partner reported having a strategy to strengthen and increase the use of country systems and budget support. In fact, budget support to fragile states declined from 2011 to 2012, from 3.8% to 1.5% of development aid.\(^10\) Despite these indicators, however, there were some important pioneering steps, including partial uses of some government systems. Some advances were:

- Australia’s budget support program in Timor-Leste;
- Norway’s on-budget financing mechanism to support payment of public sector salaries in Somalia; and
- The World Bank’s increasing use of ex-post audits rather than ex-ante controls.

A number of g7+ countries – Afghanistan, Liberia, Sierra Leone, and South Sudan – had witnessed increases of “on budget” support. Although not necessarily channeled through treasury systems (“on treasury”), this meant international partners were partially using fragile state systems. The New Deal Monitoring Report noted that this “on budget” support is rarely registered or tracked (unlike “on treasury” aid which goes through the government’s financial reporting systems), making it difficult to monitor. However, it recommended development partners incrementally increase the support to and use of such modalities to help build country systems over time.

Two years later, in 2016, and following the introduction of the 2030 Agenda, the Center for International Cooperation at New York University produced an Independent Review of the New Deal for Engagement in Fragile States. It affirmed that the New Deal was a necessary and significant policy innovation and that there had been a growing constituency base among the development community using the principles of the New Deal to shape the normative environment. However, the Review found that little had changed in country-level implementation since the 2014 Monitoring Report. Overall in New Deal pilot countries, neither governments or donor partners had aligned their strategies to Peacebuilding and Statebuilding Goals (PSGs) – which would provide a clear basis for use of country systems. As the 2014 Monitoring

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Identified, the lack of cross-government and centre-of-government engagement constrained progress on reform and *use of country systems*.

On the other hand, where there was substantial political will, specifically within Ministries of Finance and Planning, there was progress in policy and action. The Independent Review highlighted a number of advances. Considerable development energies across pilot countries had gone into creating fragility assessments with accompanying indicators. In some cases, the use of compacts had been expanded. Specifically, within Ministries of Finance, donors were investing in and working with governments to improve public financial management (PFM) and staff capacity, particularly in aid and budget effectiveness areas. Moreover, in Somalia, where the center of government was publicly committed to the *New Deal* principles of country ownership of national plans, donors were compelled to use those country-led frameworks as their main organizing principles for assistance.

That same year, in 2016, the g7+ published a series of case studies chronicling *New Deal* implementation in six cases in its *Aid Instruments for Peace-and State-Building: Putting the New Deal into Practice*. The cases outlined were the European Commission’s (EC) Statebuilding Contracts; Timor-Leste’s budget support and capacity building from Australia and the EU; support to South Sudan; the Somalia Special Financing Facility and support from Norway; donor support to Liberia’s health sector during the Ebola crisis; and the Central African Republic’s multi-partner trust fund. The report acknowledged that despite broad agreement and public support for the *New Deal* among many development partners, as well as achievements such as the completion of 11 fragility assessments in 8 countries, its implementation had generally fallen short of expectation. However, the picture was not all negative. The case studies offered a number of promising examples of how development partners were innovating practice to implement the *New Deal* and use country systems. Through the case studies, the g7+ described practical examples of innovative approaches and did not just reiterate broad policy guidance.

Taken together, the case studies sought to demonstrate the benefits of using country systems and counter some of the arguments against it. Towards this end, the publication drew 10 lessons for both development partners and g7+ members. Of these, those relating to *use of country systems* included:

- Develop longer-term partnerships that avoid disruptive program cycles and lay the groundwork for lasting improvement to country systems;
- Use risk-sharing approaches (such as the EC’s Statebuilding Contracts) and measure the risk of different approaches against the risk of inaction;
- Respond to crises faster and more flexibly, as the Ezingo Fund in Central African Republic did in just five months after the outbreak of violence;
- Make *New Deal* principles more visible in dialogue between governments and partners, which the Federal Government of Somalia did; and
- Seek more mutually beneficial cooperation approaches in light of tightening donor budgets and political constraints.

(Further details about the cases of Timor-Leste, Liberia and the EC Statebuilding Contracts are found in the following section.)

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The most recent policy statement is the 2017 g7+ Policy Note on The Use of Country Systems in Development Assistance. It outlines why working through country systems is particularly important in fragile states:

- Use of country systems is ultimately more accountable to citizens (given that NGOs and particularly international NGOs and UN bodies answer to funders at headquarters thousands of miles away);
- It is in fact cost-saving because of the high cost of overhead for NGOs and third party operators in these environments;
- It promotes coherence – and saves money by avoiding duplicative programming; and
- Ultimately, because donors leave, using developing country systems to manage delivery is the only sustainable option.

Despite these compelling reasons, the Policy Note points out, budget support in the 18 g7+ countries has only increased from 4% to around 6% of total overseas development assistance (ODA) since 2005, while overall use of country systems has increased from only 24% to 31%. On their part, the Policy Note also finds that aid receiving governments haven’t made enough progress against agreed metrics – in instituting cultures of reform, providing clear and consistent national frameworks and prioritization, and strengthening national accountability systems and public financial management. The report noted that only Afghanistan – a champion of the g7+ – and Sierra Leone – the chair of the g7+ in 2017 – have reached the PFM targets required for a 1/3 reduction in the amount of aid not directed through country systems.

In the Policy Note, the g7+ identifies a few specific steps that can be taken by development partners to improve these statistics including:

- Sectoral budget support
- Performance-based financing
- Limiting to one project implementation unit (PIU) per ministry – which was one of the explicit goals of the New Deal in 2011\(^\text{12}\), and
- Clearer directives from headquarters to field on the political commitment.

Collectively, the documents speak to a sustained consensus by stakeholders over the past few years that the New Deal principles outline a critical development endeavor. Moreover, these documents indicate that the group of proponents of the Use of Country systems has in fact expanded. Slowly, more and more key political players are articulating their support for the increased donor use of country systems. There has been continued investment in PFM, reform strategies and nationally-owned development agendas. More multi-donor trust funds and other forms of pooled aid resources are emerging and becoming a regular funding mechanism. Donors are indeed giving others, including governments of developing countries, a larger window into their planning and decision making. Within a year of its endorsement, the New Deal was piloted in seven countries. The agenda has embedded itself into the 2030 Agenda.

However, the devil is in the detail! Although these reports show some important progress in the aggregate, close examination of what happens in individual cases focuses attention on how success and challenges are perceived and understood differently in different environments. Much of this is lost when experience across a wide variety of contexts is synthesized into higher-level recommendations and

\(^{12}\) The New Deal commitment included lowering the number of PIUs.
observations by multilateral stakeholders. A number of recurrent issues emerge throughout the documents. One is the overall lack of political will and knowledge about the New Deal beyond the key ministries and institutions, such as Ministries of Finance, Ministries of Planning and Central Banks. For the New Deal to have greater take-up and resonance, there will need to be champions at the heart of government who can mobilize the New Deal as an organizing principle for true whole-of-government approaches. Second, the limited set of participants has hampered the inclusivity of priority setting and national frameworks, both across civil society and across government. Third, there is need for stronger partnerships between stakeholders, and between political and operational actors to make national strategies and set priorities. Fourth, New Deal actors have not sufficiently considered the political contexts in which they are operating which has in turn stalled greater implementation. Finally, an improved shared understanding of and commitment to use of country systems is required, if national visions, development plans and priorities are to be followed through.

Despite the importance of recognizing these real and cross-cutting issues, looking at the specific instances of what has and has not worked in use of country systems is actually more useful for policymaking. This is especially so given that domestic trends in donor countries indicate a pulling back from use of country systems. Stricter bureaucratic regulations are making use of country systems more difficult for some. In the United States, the US Agency for International Development (USAID) now needs to notify Congress about contributions to International Finance Institution (IFI) trust funds. In the United Kingdom, the Department for International Development (DFID) is no longer able to provide general budget support.\(^{13}\) Giving fair attention to the specific successes and challenges in different contexts and communicating why those are significant – like the g7+ sought to do in their Aid Instruments case studies – may help to combat domestic disincentives. Recognizing the real achievements and obstacles will also help turn recommendations about what should happen into recommendations derived from how it has begun to happen in some cases and how it can happen further.


This State of Play report examines the experience of use of country systems in three countries – Somalia, Timor-Leste and Liberia – to produce greater peer-to-peer sharing. Not only do the successes and challenges of implementation look different in different contexts, so too do the range of activities that effectively use country systems and the role of the International Dialogue to support them. These are ongoing transitions and the cases below provide just a snapshot of progress. Reporting is drawn from IDPS reviews and perspectives, as well as some government and donor documentation and off-the-record consultation.

Somalia\(^{14}\)

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In 2012, after two decades of increasing state disintegration and with the stabilizing support of AMISOM, the African Union peacekeeping mission, the Federal Government of Somalia (FGS) came to office. With this came a great deal of momentum and international enthusiasm for the country’s reconciliation and reconstruction potential. After 20 years of parallel humanitarian support through United Nations and NGO agencies and a history of corrupt governance, the international community’s readiness to support the nascent government was marked in September 2013 by the Conference on a New Deal for Somalia in Brussels. From this emerged the Somali Compact, which embodied the New Deal and was adopted between the new government and development partners in 2014. Led by the European Union, development partners pledged 1.8 billion euros in support. Since then, with support of multi donor trust funds and persistent development cooperation, innovative efforts in using country systems have occurred in Somalia, leading to slow but continued strengthening of its institutions.

The Somali Compact lay the foundation for donor use of country systems. It established the Somalia Development and Reconstruction Facility (SDRF), to coordinate aid under the Vision 2016 laid out in September 2013. Under SDRF’s purview are three multi donor trust funds – the UN Multi Partner Trust Fund (MPTF) and the World Bank Multi Partner Fund (MPF), both established in 2013 as well, and the African Development Bank Somali Infrastructure Fund, formed later in 2016. Each of these presents a different model of how pooled donor resources can work with country systems while mitigating risk. Adapting to Somalia’s particular political structure, the Compact also included special accommodations for Somaliland in northwest Somalia, which declared independence in 1991 and presents a challenge to the “one vision, one plan” principle that the use of country systems is intended to support.

Then FGS President Hassan Sheikh Mohamud’s emphasis on the New Deal principles was important in creating and implementing the Compact. However, donors’ fiduciary concerns – and the President’s resistance to much oversight by foreign governments of Somalia’s PFM – continued to make use of country systems in Somalia a risky prospect for donors. The Government of Norway’s decision to set up the Special Financing Facility (SFF) in 2013, however, set a path and a precedent for other governments to engage with and support country systems. The SFF supported recurrent costs in the form of public sector salaries and small-scale government-funded community projects, intending to help the new government establish initial credibility. The relatively simple fund mechanism was imagined as a temporary measure until the World Bank’s MPF was in operation. With independent monitoring, technical assistance, and a reimbursement structure, the SFF both satisfied Norway’s fiduciary concerns and continued to improve Somali institutional capacity.15

SFF was not without significant issues. There were delays in starting, payment installments and program expansion due to security challenges, bank regulation, and government turnover in both Norway and Somalia – including the resignation of the Governor of Somalia’s Central Bank over corruption issues. Community projects were planned in all 12 regions, but only implemented in three before that program component was cut in full. Overall, however, the model worked within the constraints of the context such that when the World Bank MPF took over the payroll program in 2015, it decided to adopt the same model for their Recurrent Cost and Reform Financing Fund.

With these early steps underway, bilateral and multilateral partners met at the end of 2014 at the High Level Partnership Forum hosted by the Danish government in Copenhagen where they pledged to invest

15 An example of these conditions includes using biometric identification of public servants to ensure that pay checks dispersed through SFF were traceable.
in Somalia’s institutional capacity, laying the foundation for the first Use of Country Systems Roadmap. In 2015, the Use of Country Systems Working Group was formed to provide technical guidance on its implementation. The Working Group has proven to be an important forum for technical improvement, multi partner coordination and momentum. It provides a cooperative space for donors and the FGS to identify operating modalities that are and are not working, and make adjustments. For example, it was determined that the 2016 Use of Country Systems Roadmap was too broad, meaning that donors could ‘align’ any of their activities with the government’s priorities. This was taken to heart, and in the 2017 Roadmap, the Working Group set more focused targets.

In addition to such coordination, improving PFM standards is one of the most critical means of building the trust necessary to directing aid funding through government systems. In Somalia, donors and International Financial Institutions (IFIs) have focused on PFM support, through the multi partner trust funds and technical support. For their part, the FGS has shown continued commitment to improving their own PFM capacity. It has passed of a number of major policies, including the PFM Reform Action Plan and Arrears Clearance Plan, the Currency Reform Road Map by the Central Bank, the Procurement Act and Anti Money Laundering Act, as well as an Interim National Procurement Board to review contracts above USD2 million. These are no small achievements. In a country with no functional government a few years ago and a tradition of siloed work streams, these demonstrate the government’s increasing capacity to foster political agreement on a critical issue and its growing commitment to reforming key functions that underlie any ministry’s delivery. And while Somalia’s PFM competencies still lag significantly behind other g7+ members, these structural initiatives are impacting real performance. Somalia met five of the six PFM structural benchmarks of the first IMF Staff Monitored Program, which concluded in April 2017. The IMF determined that Somalia had proven its capability to absorb a greater share of aid. The trajectory on PFM is steadily upwards – even more notable in light of its 2012 baseline.

Donors are also delivering on their agreement and rewarding reform. They are recognizing progress where it happens and investing in the teams, systems, and processes that are working. The MPF built on successful practices by the SFF and on smaller projects initially funded by the State and Peacebuilding Fund (SPF, which started in 2008 and has funded projects in some 37 countries). Performance-based funding by donors is rewarding and reinforcing “islands of excellence”, even within otherwise weak ministries or agencies. The salary support program has continued, and this flexible funding now enables the government to pay half of all staff salaries – and half of all federal operating costs – directly with electronic transfers. Working through government in this way strengthens systemic capacity, partner trust, and, because electronic payment systems are more efficient and less prone to corruption than older systems, improves the speed and effectiveness of international support. A salary balance implemented between development partners and the FGS recognizes the need for high quality staff in the public sector and makes it less likely that they are poached by international NGOs.

While the New Deal agenda has been largely confined to a few lead donors working with the Ministry of Finance in Somalia, as it has been in other g7+ member countries, these successes are slowly garnering interest from other stakeholders, both in government and in the donor community. Prime Minister Hassan Ali Khayre has emerged as a champion of New Deal and use of country systems principles. According to

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17 Representative from Somali Government 1 at Use of Country Systems Consultation, Nairobi, December 2017.
stakeholders at a consultation in Nairobi in December 2017, hosted by IDPS on use of country systems, these principles are spreading across the FGS’s approach to agenda-setting and bilateral and multilateral agreements – and breaking down a culture of siloed information within the Somali government. This is critical given that cross-government engagement is necessary if donor use of country systems is to support whole-of-government national development plans – and particularly so in Somalia, where the isolation of the New Deal agenda in the Ministry of Finance was considered a major obstacle to broader penetration. Donors are also increasingly taking the initiative and asking how they too can work through country systems.\(^{18}\) The Somali case demonstrates how incremental, steady engagement can indeed change institutional behavior.

Two factors may explain levels of progress in donor-government cooperation on the use of country systems in Somalia: clarity around the statebuilding objective and dialogue. Explicit recognition of the statebuilding imperative in Somalia has been an important basis for donor willingness to accept the risks – both real and perceived – of using country systems. In more stable countries, donors – often driven by the expectations of their domestic constituents and political representatives – need returns in service delivery. International aid is supposed to bear quantitative decreases in maternal mortality, increases in number of children enrolled in primary school, food security, improved nutrition, increased electrification, etc. In Somalia’s case, however, development partners are hoping to stabilize and strengthen a natal state, for which the necessary investment are quite different, and less quantifiably measurable over the short-term. This understanding translates, for example, in matching their performance-based funding to policy benchmarks rather than short-term service outputs, thereby measuring and incentivizing the kinds of incremental progress necessary for the real goal of institution building. Moreover, given the fragility of the country’s recent gains, even small steps towards government ownership and capacity are recognized as milestones, supported, and seen as opportunities for expansion. As Sarah Cramer and Dan Honig write in their Country Systems Risk Benefit Analysis, this has resulted in more examples of ‘pseudo use of country system,’ where different variations of donor alignment with national processes are understood as forms of working through and strengthening institutional capacity – whether that means meaningful consultation with government on donor plans in order to align development strategies, or funneling funds through the treasury.

Regular and consistent dialogue described by one informant as “the X-factor” has created the basis of growing trust and compromise at the heart of this Somali experiment.\(^{19}\) The Use of Country Systems Working Group has been a key interlocutor at the country level. The development partner–government Use of Country Systems Working Group, with members reporting to donor headquarters or ministers has helped translate ground level experience, which then makes cooperation necessary for technical iteration and coordination. Moreover, its research demonstrates that close examination of country specific experience can unlock insights useful in other contexts. Cramer and Honig make the point in the Country Systems Risk Benefit Analysis that working in Somalia is risky no matter the modality.\(^{20}\) Donors need to look at the risks of using country systems not in isolation but in relation to other “delivery modalities”. Indeed, some 30-60% of project funds for initiatives through NGOs and third parties are estimated to be used for overheads on things like security and other management costs. This inefficiency is compounded by the lack of oversight when donor security regulations mean they cannot self-monitor their projects, as

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\(^{18}\) Representative from Somali Government 2 at Use of Country Systems Consultation, Nairobi, December 2017.  
\(^{19}\) Representative from Somali Government 2.  
\(^{20}\) Cramer and Honig describe different donor approaches to salary support Somali National Army and Somali Police Force.
well as the eventual costs associated with the ultimate and inevitable handover of services to governments. These fiduciary considerations may be important for international development partners in other conflict affected countries as well.

There has been real and progressive use of country systems in Somalia and there is noted momentum and energy among development partners for its expansion. The obstacles to progress, however, remain huge. There are also paradoxes. In other g7+ members, including Liberia and even Central African Republic, where the security situation has deteriorated, some 28-44% of development aid was on budget in 2015. In comparison, in Somalia only 4% was on budget.21 The limits to progress are felt all the more given the immense expectations set out in 2012 and 2013. And while dialogue may be the X-factor, it remains hindered by the security situation. Much of the trust and relationships built through informal exchanges (casual conversations during conference breaks or over coffees at local cafes) is greatly curtailed in Somalia, where donors are either based in Nairobi or have extremely limited mobility in Mogadishu due to security protocols.

The role of the International Dialogue in increasing donor use of country systems in Somalia: In Somalia, the New Deal and the language it provides has been an important vehicle for enhancing the dialogue that enables partner trust and donor use of country systems. IDPS has already engaged significantly with the Working Group, virtually, and through in-country visits, disseminating learning from other g7+ countries and facilitating linkages between the g7+ secretariat and countries and the Working Group. The IDPS has also used its Steering Group Meetings and Implementation Working Group meetings (April 2017 in Washington DC) and its own communication architecture (website) as vehicles to disseminate experience, research and learning, from the Use of Country Systems Working Group to the wider group of IDPS constituency members. The IDPS could continue to create greater receptivity to the work of the Use of Country Systems Working Group, by raising the international profile of the New Deal with different audiences within the donor and development community. IDPS could also serve as an important resource for the Use of Country Systems Working Group in Somalia, who are critical interlocutors for implementation on the ground. By collecting different country case studies, IDPS could help the Working Group identify countries with similar challenges and experiences. IDPS could also help the Working Group and development stakeholders generally translate their successes and learnings to different political and technical audiences, including helping foster specific technical conversations.

Timor-Leste22

After decades of violence, Timor-Leste gained independence from Indonesia in 2002. Subsequently, Timor-Leste has made significant – and speedy – progress towards stability. This is in great deal thanks to the discovery of substantial oil and gas reserves, which has brought huge revenues. Timor-Leste has also been the recipient of significant donor funding and coordination – 2016 OECD reporting noted that Timor-

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21 Cramer and Honig, Strengthening Somalia’s Systems Smartly.
22 Reid, 2015 Timor-Leste Case Study.
g7+, New Deal Innovations, Case Study 2.
Vincent Ashcroft, Andrew Laing and Clare Lockhart, State Building in Conflict Affected & Fragile States: A Comparative Study – Public Finance and National Accountability in Timor-Leste and Afghanistan, Institute for State Effectiveness, the g7+ Group, and the g7+ Foundation: 2017.
Leste received the 7th highest amount of aid per capita.\textsuperscript{23} In this context, Timor-Leste was a founding champion of the g7+ and New Deal process, and served as one of the New Deal pilot countries.

Timor-Leste has adopted many of the critical policy and coordinating mechanisms that underpin implementation of the New Deal and use of country systems. In 2011 the government of Timor-Leste released the Strategic Development Plan 2011-2030 (SDP), which is a blueprint to transform Timor-Leste into a stable, middle-income country by 2030. This “one vision, one plan” lays the long-term foundation for use of country systems by providing an avenue through which external development assistance can be channeled to a focused number of national priorities. To help allocate development partner resources behind its own priorities, the government has established a number of bureaucratic structures. Although it never made a Compact, the Timorese government created the Development Partnership Management Unit (DPMU) within the Ministry of Finance in 2012 to help align aid to government priorities and spearhead New Deal implementation. The government launched two fragility assessments, one in 2012 and another in 2015, which have provided a framework to discuss and address fragility in development discussions. Also in 2012, the Ministry of Finance established its own Strategic Plan for 2012-2030. In 2013, the Ministry of Finance launched the Development Policy Coordination Mechanism (DPCM), to translate the SDP into sequenced priorities and activities; improve cross-government coordination of the SDP; and be a policy dialogue forum between the government, international development partners and civil society groups. The SDP Matrix, also launched in 2013, intends to outline and track development plans and priorities.

These represent key bureaucratic building blocks, established with momentum from the pilot, and are important achievements. But there have been some criticisms of these tools, primarily based on the limited cross-government policy influence of the Ministry of Finance, which has led many of the New Deal initiatives, and lack of inclusive participation and scope. The SDP, was challenged for limited citizen consultation before the first fragility assessment, whereas under the New Deal a fragility assessment should ensure that the national plan will address root causes of fragility. There has not been significant evidence that the government used the fragility assessment to inform further strategic plans and processes.\textsuperscript{24} Weak coordination between the Ministry of Finance, where DPMU is housed, and the Office of the Prime Minister, also responsible for planning has also been a challenge.\textsuperscript{25}

However, as the 2015 case study on the implementation of the New Deal in Timor-Leste notes, the Timorese government has been overall “highly successful in normalizing the principle that development partners should use country systems in Timor-Leste.”\textsuperscript{26} According to both the government and the development community, the New Deal has helped advance the conversation of use of country systems, largely because the Timorese government has pushed it as a norm of development at both the policy and bureaucratic levels. In fact, the g7+ Secretariat is based in the capital, Dili. “This is a fundamentally different dynamic than what had existed prior to the New Deal, when it was largely accepted (and expected) that development partners would implement projects using parallel systems.”\textsuperscript{27}

\textsuperscript{23} g7+, New Deal Innovations, Case Study 2.
\textsuperscript{24} Reid, 2015 Timor-Leste Case Study.
\textsuperscript{26} Reid, “2015 Timor-Leste Case Study.”
\textsuperscript{27} Reid, 2015 Timor-Leste Case Study.
And indeed, donors have broadly gotten behind the SDP, channeling their funding into the government’s plans and priorities. Australia, which provides the majority of Timor-Leste’s development assistance, has put its assistance toward specific goals, outputs and targets contained in the Timorese SDP. All donors claimed they used the government fragility assessment in their strategies, indicating donors recognize that as a prerequisite of work in Timor-Leste.\footnote{The 2016 New Deal Implementation case study characterized donor references to the fragility assessment assessments as “superficial”.} The German Society for International Cooperation (GIZ) explicitly used the PSGs in designing and monitoring its peacebuilding and statebuilding programs.

Donors have also supported the Timorese government’s transition to managing its own budget, which it started to do in 2012, following years of conflict and UN administration. Between 2002 and 2016, the government embarked on three rounds of structural reforms to strengthen the country’s public financial management (PFM) and the budget.\footnote{For a history of Timor-Leste’s PFM reforms since 2002, see Ashcroft, Laing and Lockhart, State Building in Conflict Affected & Fragile States.} Australia and its Department of Foreign Affairs and Trade (DFAT) had aided these efforts from the start, but as their assistance program came to a close, the Timorese Ministry of Finance sought a new modality, based on New Deal principles, for budget support to PFM reform. The SDP and the Ministry’s Strategic Plan in 2012 provided the policy innovation to enable this, while support of senior officials in the Ministry of Finance and by the Prime Minister (and indeed from Australia’s Prime Minister as well)\footnote{g7+, New Deal Innovations, Case Study 2.} provided the leverage. That same year, the Ministry embarked on a joint fiduciary risk assessment with Australia, the European Union and the World Bank, which found strong reform commitment and strengthening systems, and concluded that traditional support methods were no less risky from a fiduciary perspective. The Ministry showed initiative by implementing rolling five-year action plans and a system of team-based performance management to evaluate the teams that would deliver on action plans to improve the country’s overall PFM performance.

Building on this, the government and DFAT successfully negotiated a 4-year, USD 25.5 million program of sectoral budget support, the Direct Budget Support (DBS) program in 2014. Supported by DFAT and the EU, it used the Ministry of Finance’s own five-year plans and performance management system and benchmarks to trigger predictable funding tranches and consolidated the funding and consultation avenues between the Timorese government and its development partners. Although much of the funding was for technical assistance (TA), DBS differed from previous programs in that the TA was embedded in and reported to the ministry, rather than to donor agencies, and that salaries were paid through the Ministry. DBS was also distinctive for its risk-sharing structure between the government and its development partners.\footnote{DBS split payments into fixed and variable components. The fixed component could be used by the Ministry of Finance for anything identified under the five-year plans. The variable component could be negotiated between the Ministry of Finance and donors on mutual priorities and was subject to performance outcomes. In this way, the government’s risk was represented in the flexible component, and the donors’ risk was represented in the fixed component. Ashcroft, Laing and Lockhart, State Building in Conflict Affected & Fragile States.} In 2015, political transitions in Timor-Leste, including in the Ministry of Finance’s reform strategy, and disagreements between the Timorese and Australian governments led the DBS to stall.\footnote{Ashcroft, Laing and Lockhart, State Building in Conflict Affected & Fragile States.} However, these investments in Timor-Leste’s PFM infrastructure set the stage for donor confidence and government accountability.
Australia and the EU’s DBS program opened the doors for more development partners to work within government systems to strengthen them. And indeed, international partners are scaling up their on-budget assistance. Although the DBS program ended in 2015, the EU has pledged to increase its budget support from EU4 million (2008-2014) to EU40 million. As of the 2015 Independent Review of the New Deal in Timor-Leste, the Korea International Cooperation Agency (KOICA) is planning to implement multimillion dollar budget support program with Ministry of Health, expanding the use of country systems beyond the Ministry of Finance.

While the project-based international development delivery system presents a continued obstacle to reform and increased use of country systems, the Timorese government is working to move development assistance to more program-based budgeting. In 2015, they established the Planning, Budgeting, Monitoring and Assessment Unit (UPMA) to connect annual ministry plans with the national budget, develop reporting and monitoring tools, and lead the country’s program budgeting approach. Critically, and learning from the mistakes of DPMU, UPMA sits within the Office of the Prime Minister, where it has a cross-government mandate to lead country-wide efforts to strengthen fiscal sustainability and service delivery. UPMA has worked with the OECD to create a roadmap for medium-term program budgeting to link planning, budgeting, and monitoring and accountability processes more strongly. In 2017, program budgeting was piloted to 25 government agencies, spanning 83 programs and representing 58% of the non-infrastructure budget. It is a significant achievement for the New Deal principles and use of country systems that program-based budget process is planned for all government agencies in 2018.

Timor-Leste’s abundant oil and gas reserves mean that its dependency on foreign assistance is comparatively much less than other fragile states, but development support remains necessary for human capital and agriculture sectors. Foreign assistance dropped as a percentage of the national budget from 80% in 2002 to 16% by 2015, about $270 million. The government’s sovereign wealth fund, the Petroleum Wealth Fund of Timor-Leste, established in 2005, is modelled on the Norwegian Government Pension Fund Global and is intended to limit transfers to a sustainable level and ensure the fund’s success for future generations. The country has averaged 10% annual economic growth since 2007. Despite this, donor assistance and the use of country systems remains critical to develop other areas of government function and the economy. A focus on oil and gas and infrastructure investments more generally has come at the expense of investment in human capital (e.g., health and education) as well as the agriculture sector, which employs 84% of the labor force. The country’s oil stocks are scheduled to run out in 2021, meaning there is an urgent need to strengthen these capacities to develop non-oil industries. Moreover, poverty remains stubbornly high at 41.8% in 2014 (albeit down from 50.4% in 2007), based on the government’s poverty line measurements. Sustainable revenue is especially important as there is concern that the government has ‘bought peace’ through pensions for veterans, cash incentives for internally displaced people (IDPs) to return, and state contracts to potential spoilers. If oil and gas revenues decline, or if the economy does not continue to diversify, there could be a major peacebuilding threat. The imperative for stronger country systems remains.

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33 Reid, 2015 Timor-Leste Case Study.
There is some criticism that the *New Deal* itself did not contribute to the increases in the *use of country systems* or peacebuilding/statebuilding frameworks in Timor-Leste, but *New Deal* advocacy has kept the principles front and center. Much of the government and the Ministry of Finance’s reforms and momentum started before the *New Deal* really took root, including the government’s transparency initiatives as a member of Extractive Industries Transparency Initiative (EITI), the SDF, the Ministry of Finance’s Strategic Plan, and the sovereign wealth fund. In fact, donor use of government financial management and procurement systems actually decreased in the first years of the *New Deal*, from 17% in 2010 to 7% in 2012. However, as the g7+ points out in regards to DBS, while “it is quite possible that this support would have come about without the *New Deal*... the *New Deal* provided a language and a focus on principles that donors cannot ignore, and that also had high level political support.”

While Timor-Leste has made great strides towards increasing *use of country systems*, it is working to build the whole-of-government approach necessary for *New Deal* implementation. The Ministry of Finance, which has championed the *New Deal* process, has not been able to mobilize other ministries sufficiently. The role of the Ministry of Finance has also meant that *New Deal* implementation has been seen as an overly technical endeavor. The UPMA, sitting in the Office of the Prime Minister, is in a good position to help drive this integrated, whole-of-government approach. There was also a lack of clear communication and shared understanding both within the government and development partners of what *New Deal* implementation and *use of country systems* can mean in Timor-Leste and its value add. As it stands, the government roughly sees it as an opportunity to leverage development partners’ support for government priorities while development partners think the *New Deal*’s added benefit is in increased dialogue, leading to misaligned expectations. According to Cameron Reid’s 2015 review of *New Deal* implementation in Timor-Leste, institutional inertia within donor agencies has also been slower to overcome than hoped, preventing them from fulfilling their part of the commitment, including on procurement, flexible funding, new support modalities, and project-based programming, which leads to fragmented development.

The role of the International Dialogue in increasing donor *use of country systems* in Timor-Leste: The *New Deal* and international advocacy role of IDPS has ‘normalized’ the principle of the *use of country systems* in Timor-Leste. The government regularly invokes the *New Deal* and its principles and goals in dialogue with development partners. However, this progress has been more at the international level rather than national. IDPS could help situate this language in the specific context of Timor-Leste. This may include helping to frame some of the successes on *use of country systems* that happened pre-*New Deal* as being part of the broader global agenda which the *New Deal* has helped articulate.

**Liberia**

Liberia has widely been considered a post-conflict success. Since the 2003 peace deal, following conflict throughout the 1990s, it has held three democratic elections and there is confident expectation of peaceful transition of power after the constitutionally-allowed two terms by President Ellen Johnson Sirleef to the newly elected Congress for Democratic Change. Between 2007 and 2013, it averaged 7.6%

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38 *The New Deal for Engagement in Fragile and Conflict Affected States – Liberia Field Study Report.*

g7+, *New Deal Innovations*, Case Study 5.


annual growth. Indeed, when the New Deal implementation pilot began in Liberia in 2012, donors were beginning to step back from Liberia. The United Nations Missions in Liberia (UNMIL), which had been in place since 2003, had begun planning its drawdown. Language of “inclusive growth,” harmonious with the New Deal peace- and state-building principles, was already prevalent. Despite immense progress in stability, issues with corruption, capacity and revenue remained critical issues in the Government of Liberia (GOL). There were (and remain) wide concerns about how prepared Liberian institutions and peace were for UNMIL’s exit. Inequality and poverty remain unsustainably high. In 2015, Liberia ranked 177th out of 188 countries on the Human Development Index. And in 2014, the Ebola crisis brought Liberia to its knees, creating a complex emergency that opened old tensions, revealed systemic weaknesses in the country’s health systems, and impacted Liberian society, politics, production and economy. In 2014, economic growth dropped to 2.2%.

The foundation for expanded donor use of country systems has been laid within this context of uncertain change. There has been a steady increase in policy measures to lay the groundwork for donor and government coordination. There was an initial fragility assessment in 2012, although it was largely a desk review, without citizen consultation. Following that same year, a National Vision process was undertaken, with both local and diaspora consultations, to generate “Liberia Rising 2030,” a long-term plan to reach middle income by 2030. Led by a technical committee of both government (Ministry of Finance and Development Planning, MOFDP) and lead donors (UN Mission in Liberia, UNMIL, and United Nations Development Program, UNDP) this provided the ‘one vision, one plan’ foundation for development coordination. The National Vision process has been criticized for lacking clear directive and tangible results. GOL’s medium term implementation plan for 2012-2017, the Agenda for Transformation (PRSH / AFT), which outlines the socio-economic development priorities to achieve inclusive growth, however, was considered credible and ‘results oriented’ by donors – although not without its own challenges.

To support its strategy, the government and development partners established a series of coordination mechanisms. Although there hasn’t yet been a Compact with donors, in 2013 the Liberia Development Alliance (LDA) was created to coordinate implementation of the country’s development plan, specifically by coordinating stakeholders, conducting monitoring and evaluation (M&E), and reporting on progress. The New Deal Dashboard, also in 2013, used PSGs to monitor aid (it has been reported to be difficult to access). The National Aid Policy mandates greater use of country systems and a Use of Country Systems Inventory was set up in 2014 to monitor and guide progress. This is perhaps one of the more useful tools that could be publicized more. There have also been continued measures to strengthen public financial management (PFM), including a 2011 PFM reform strategy, a 2012 public expenditure and financial accountability assessment (PEFA) with development partners, and a 2013 strategy review, which recommended adaptations but was overall favorable according to donors. The Citizen’s Guide on the National Budget expands transparency, strengthening accountability of PFM. Although some of these measures began before the New Deal pilot took hold, New Deal language has been post-hoc applied, demonstrating its rallying role.

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39 As of December 2017, UNMIL’s exit is planned for March 2018.
40 The first annual review noted that cash shortfalls and low implementation capacity posed obstacles. European Commission, Action Document for ‘State-building Contract Liberia’.
41 With encouragement from UNDP there were preparations for a Compact, including creating a roadmap and inventory, but progress stalled. The government has expressed commitment to renewing progress however.
Donors, for their part, are incrementally increasing *use of country systems* in line with these policy advances. Partners, including the IMF, GIZ, the Overseas Development Institute (ODI), and others, supported the establishment of the Liberia Revenue Authority (LRA) to guide Liberian tax and revenue collection, which would expand the government’s development potential. Donors such as the African Development Bank (AfDB), WB, EU, Sweden and the United States have also supported capacity building in MOFDP and the LRA to increase transparency and establish foundations of trust. A positive sign of the increasing *use of country systems* is that the LRA continues to inherit more work, based on aligned donor and government priorities.

The Ebola crisis, which began in Liberia in March 2014, was a tragic test of government-donor commitment to *use of country systems*, but revealed both the resiliency of their commitment and the potential to strengthen institutional capacity even in crisis. As stresses reignited around corruption and ethnic tensions, and deep institutional gaps were exposed, donors invested in ministries, rather than simply bringing in parallel medical support. Indeed, after more than a decade of donor investments in fragmented health projects, the country’s infrastructure was immensely unprepared to respond to crisis, with only a few dozen Liberian doctors working there. According to the g7+ Aid Instruments case study, the risks of a potential complete breakdown of state health systems were a driving factor for donor support to them. Three different donor programs provided funding through the GOL to help pay health workers, addressing an immediate retention problem. Through the Emergency Ebola Response Support Program, established in September 2014, USAID made what many believe to be an unprecedented decision to put USD10 million to help finance base salaries through the government’s payment system for the following 12 months. This support was conditional on using transfers to bank accounts rather than cash, and conducting audits, which removed ghost workers from the payrolls. This helped formalize and improve the payment processing for the longer-term. By the end of program, some 4000 health workers were being paid through this program. The WB and AfDB provided funding for GOL to offer hazard pay for 7500 health workers, incentivizing them to stay on the job despite the risks. The WB Ebola Emergency Response Project, approved in September 2014, provided USD52 million to Liberia, including USD20 million for hazard pay directly to the Ministry of Finance. AfDB’s Strengthening West Africa’s Public Health Systems Response to the Ebola Crisis (SWAPHS), also started that September, providing USD4.5 million of a total of USD20 million for hazard pay, from the World Health Organization to the government. Multi donor trust funds were also critical funding mechanisms. The UN Trust Fund on Ebola, established in September 2014, successfully raised and programmed USD130 million by end of that year. Collectively, these are useful examples of how development partners do not need to abandon *New Deal* principles on *use of country systems* in crisis.
The GOL for its part, also stepped up its commitment to the New Deal principles during this trying time. The Ebola crisis exposed community engagement failures by the government in both development programming and government service delivery (highlighting a history of capital-periphery divide). This tension undermines sincere efforts to build an inclusive ‘one vision, one plan’ for Liberia’s development and accountable country systems. However, GOL took real steps to better engage communities during 2014, while the crisis still raged. Indeed, although the international community was overall slow to respond effectively, after donors activities mobilized in September 2014, Ebola cases began to decline in Liberia, with the country Ebola free by fall 2015. This may of course just be correlation, and it is important to note that neither GOL nor donor partners explicitly referred to the New Deal in these actions, but these do offer lessons on how use of country systems can be integrated into successful, coordinated crisis response in the future.

Differing expectations and misaligned conceptions as to what New Deal implementation would look like marked the early stages of the pilot. Some stakeholders were immediately enthusiastic. Donors jumped on board, GOL anticipated that the pilot would lead to increased donor funding, and focal points were quickly assigned. Others were skeptical that this commitment would translate into anything substantively new. However, the relatively short timeframe of the 3-year pilot – not a significant amount of time to unseat deeply rooted behaviors, regulations and beliefs about development assistance – means it is premature to evaluate the enthusiastic and skeptical expectations.

Moreover, as in Timor-Leste, the concentration of efforts in the MOFDP or specific single-ministry initiatives appears to have hindered broader, whole-of-government use of country systems. It meant that

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43 It was initially declared Ebola free in May 2015, but more cases followed that summer.
only MOFDP and lead donors were really aware of the New Deal and its potential. For others, including crucially civil society, it was seen as overly conceptual and foreign. Although civil society was initially invited to dialogues on the New Deal, that ceased soon after the pilot launch. Without early understanding of roles, impact and definitions, there was a sense within civil society the agenda was internationally owned, rather than nationally led. This lack of information and stakeholder engagement seems to have prevented stronger inclusion.

Without stronger central political support, there are limited incentives for the kind of whole of government engagement needed to support pragmatic dialogue to move use of country systems forward. The Liberia Development Alliance, which is the highest coordination body, does not have binding authority, which has meant that ministries and donors can produce bilateral agreements, with limited central government, or central vision oversight. That said, some commentary, including the New Deal Field Study Report on Liberia, suggest that UNMIL has not been able to effect sustainable or deep impact because its programming did not invest in building national institutional capacity. The New Deal approach, which precisely seeks to address those gaps, may then offer an opportunity for more durable change – if given the same investment and time.

The role of the International Dialogue in increasing donor use of country systems in Liberia: In Liberia, as in other g7+ countries, two significant challenges to increased donor use of country systems have been lack of political will and weak cross-stakeholder commitment. IDPS, as a cross-cutting advocate, could help communicate the New Deal’s identity and definition to different actors, with a vocabulary and scope that resonates. Moreover, by working with Liberian participants to situate it within a Liberian framework, IDPS could help ground broad New Deal principles in Liberian country systems and priorities. This will also enable the New Deal agenda to better navigate and address the county’s real political economy and “realpolitik”, and devise metrics that appropriately reflect progress in that context.

E. Emerging Themes

The case studies and IDPS document review elicit a number of key take-aways. Rather than drawing generic guidance from themes that consistently emerge, the International Dialogue can use these to situate critical issues in individual country contexts that governments and development partners need to address in order to move use of country systems forward. IDPS can provide a framework of critical issues from which different countries can draw, compare and share.

Across each report and case study the critical role of dialogue is noted. As the Somali government representative noted, “dialogue is the X-factor”. The progress made by the Use of Country Systems Working Group in Somalia provides just one example how sustained, targeted dialogue, even in adverse conditions, can produce a better basis for advocacy and enable the trust to iterate and incrementally increase use of country systems. However, it is not more dialogue, but rather better quality dialogue – that is appropriately framed, evidence-based, and tailored to country-specific needs – that moves the needle. In consultation participants highlighted that it is critical that political and senior stakeholders hear from actors navigating the real, everyday work of changing development practice. This provides a more accurate understanding of progress and sticky issues within specific contexts. As the Working Group suggested, bringing together different stakeholder groups to discuss specific sectors and technical issues may help ensure that discussion reflects the interests, expertise, and language resonant with different
actors, leading to engaged dialogue. This requires resources, realistic timeframes, and persistence, but can lead to change in goals, expectations, and practices.

Targeted, well-framed dialogue may also help stakeholders more effectively address donor incentives. These case studies demonstrate how donors are more willing to invest in country systems when it addresses their interests – whether that is regional stability in Somalia or global health in Liberia. Issues like migration and terrorism are policy priorities in donor countries, and emphasizing the manifold impacts of strengthening country systems in fragile states can affect donors’ risk comparisons. The Somalia Working Group also highlighted the undue weight that sometimes donors give to fiduciary risk. Reputational risk regarding corruption – which can lead to media scandal and program or position termination – outweighs concerns about value for money. In high security areas, working through governments, rather than third- or even fourth-party operators and monitors, has been shown to provide greater value for money. Moreover, post-economic crisis and with domestic political landscapes pulling back from international assistance, donor support (from governments or NGOs) is less secure. According to Cramer and Honig, the question, then, is not if government functions transition to delivery through country systems, but when and how. And the earlier and more robust that transition is, the more sustainable and cost effective it will be. Speaking to these interests may help incentivize donors to make the rule changes necessary to enable greater use of country systems now. However, it is not just about speaking more effectively to donor incentives. As one ministry official brought up at a g7+ meeting at the IMF in October 2017, it is also about how country leadership creates space for reform, by doing their part to build better internal systems and institutional culture, and to tackle corruption. Recipient governments can better consider – and take steps to improve on – the constraints that prevent donors from using country systems.

Effectively incentivizing use of country systems demands more feasible expectations and reasonable timelines, on both sides of the New Deal compact. It is not realistic to make progress on all fronts at once, but select and sectoral progress can still be regarded and celebrated as progress. In all three case studies, development partners identified, rewarded, invested in, and ultimately expanded on priority sectors and “islands of excellence”. These islands may be sectoral, regional, institutional – and they are different in different contexts. Moreover, consultation participants pointed out that expectations cannot be measured against metrics that aren’t suited to the task. In Somalia, a ‘statebuilding’ objective sets the stage for process indicators that measure progress towards the desired outcome – rather than, say, immediate service delivery metrics.

A shared understanding of the objective (and metrics) is key. However, as the case studies demonstrate, misaligned conceptions of what the New Deal or “use of country systems” means in practice has been a significant obstacle to progress. Because of the central role of ministries of finance through the g7+, both are often understood as translating to public financial management (PFM). But there is scope to

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45 Cramer and Honig, Strengthening Somalia’s Systems Smartly.

46 The g7+ and the Institute for State Effectiveness co-hosted the launch of State Building in Conflict Affected & Fragile States: A Comparative Study on PFM and the g7+ policy note draft on use of country systems during the World Bank 2017 fall annual meetings.

47 With an “islands of excellence approach, however, the key is to not overwhelm absorption capacity of successful teams/units/ministries, and to be wary of the ‘chicken and egg dilemma’ whereby donors invest only in systems that are already strong. Cramer and Honig, Strengthening Somalia’s Systems Smartly.
understand “use of country systems” as a broader initiative to strengthen institutions. Stronger **consensus on definitions** and definitions that can apply to a range of state-strengthening contexts will help stakeholders clarify goals, compare data, share their experiences, and advance the global agenda. The CABRI framework is a start to delineating different modalities.

The lack of consensus on definitions within and across different countries points to a broader communications challenge. Continuing to draw unspecific global recommendations is not moving the persistent roadblocks. **New kinds of communications** may help re-energize the dialogue and commitment, and in the process unlock some of these challenges. As this report attempts, strategic communications should seek to (i) bring out country nuances and specificity, encouraging and demanding more country-level dialogue, and (ii) effectively express where there have been wins, and why they are successes. Dialogue between donors and governments has changed (no small feat); metrics and goals of both development partners and governments have already changed; and there are many examples of successful and continuing use of country systems, including but not limited to, earlier donor engagement, increased government oversight, greater transparency of what donors/NGOs are doing, stronger coordination, imbedded technical assistance that reports to ministries, gradual transfer of ownership, and earmarking at the sector level rather than at the project level. These are all different and involve different levels of risk, but are all valid forms of donor use of country systems. Moreover, by framing these developments as progress in the New Deal’s use of country systems priority area, better communications can help **clarify the New Deal’s role and impact**. In New Deal reviews, observers often object that a certain policy or program began before the pilot, or that policymakers didn’t explicitly reference the New Deal. The New Deal offers a vocabulary and justification for a broad movement. This agenda started before the New Deal was endorsed and covers a vast ecosystem of actors and decisions. The progress under that umbrella are successes for the New Deal agenda.

As mentioned above, this communication needs to be **tailored to the interests and language of different audiences**, especially if it is to support quality dialogue. The private sector, media, civil society, donor headquarters, donor country offices, and political actors have varying terminology and focuses. As the Somalia Working Group pointed out, even between the WB and DFID there are different key issues and rhetoric. Tailoring communications does not only mean highlighting different priorities and sector vocabulary. It also means being digestible and concise. 200 page reports filled with bureaucratic and technical terms present a significant burden for local civil servants or busy field operators (for whom English is often a second language). Feedback from consultation has been that this contributes to the slow movement from the page to practice, when in fact, one benefit of using country systems is to make governments less reliant on knowing how to navigate international bureaucracy and codes.

Speaking to different stakeholders in relevant terms and topics also helps create a **more inclusive community**. This includes across government, such as the high-level Cabinet or Head of State commitment needed to ensure whole-of-government participation; from civil society, who have not been sufficiently engaged in New Deal implementation and therefore may not understand its mission; the private sector, which is generally under-represented in fragile contexts; and citizens and local stakeholders, where, as the Timor-Leste and Liberia case studies show, more consultation is needed to legitimate national visions and plans. Implementing use of country systems is both a technical and political endeavor, and engagement by all these actors is key to advance on both tracks.
F. Conclusion: The Overall State of Play and a Call to Action for 2018 and Beyond

It is clear from the documentation and consultation reviewed in this report that there is a growing international consensus behind the principles of the New Deal and that there is room for stronger implementation. A closer look at developments at the country level, however, reveals a state of play that is more nuanced in its progress. There are substantial successes which are sometimes under-appreciated, especially in light of the particular challenges of operating in different fragile environments. Likewise, the challenges are not always so easily understood when removed from context. Examining and sharing these context-specific successes and challenges may help decisionmakers accelerate implementation.

As it moves into 2018 then, IDPS can help overcome the very real challenge the New Deal faces by supporting a more nuanced look at use of country systems in fragile states, thereby helping members address the specific issues they face. To this end, the experiences of individual countries and multilateral reporting found in this paper can inform the focused priorities for IDPS and its partners over the coming year. First, IDPS remains a powerful convener and dialogue facilitator. By championing more country-led, targeted dialogue, it could help countries more widely share their experiences, and connect with others with similar organizational, political, or social experiences to build relevant strategies around donor incentives, sequencing, and opening space for reform. To that end, IDPS could also support countries’ domestic conversations by hosting issue- or sector-specific consultations and working groups, such as the Somalia Working Group, that may more effectively engage the whole range of in-country stakeholders from donor agencies, government, civil society, and private sector. On the donor side, IDPS could directly connect development partners who would like to use country systems to existing country initiatives that best suit their incentives and risk appetite.

Second, IDPS is an information-sharing platform. At a global level, it could continue to guide clearer, more practical definitions around use of country systems. For example, as has been highlighted above, there is a range of understanding of “use of country systems” among development partners. As a hub of varying country experiences, IDPS is also a database of the wide variety of mechanisms, modalities and promising practices that support and comprise use of country systems. Its Helpdesk could be more widely promoted and used as a library of the many issues and options at play, helping leaders and decision-makers choose and implement sound development paths that fit specific contexts. This aggregation could help facilitate more standardized data collection, so the development community can analyze relevant and consistent data, and build a sound and effective evidence base.

Third, IDPS is an advocate. IDPS could focus on disseminating knowledge about the New Deal and its implementation at country level to a range of political and operational audiences across donors, governments and civil society. IDPS could hold targeted discussions that speak to specific technical and political actors in languages they understand and from angles they care about. Expanding the base of informed stakeholders in this way will also enable greater inclusion and hopefully put more pressure at the leadership level to expand the New Deal from the purview of Ministries of Finance or Planning into a more whole-of-government approach. This supports IDPS’s critical mission – making a strong case for why New Deal principles and use of country systems belong at the heart of a country’s development and statebuilding effort. Too often, the use of country systems is understood as purely a PFM effort. But it is IDPS’s role to always seek more effective ways to persistently remind stakeholders of the endgame and its importance: overall institution-strengthening and securing a country – and a regional and global – trajectory toward greater stability and peace.
Bibliography


The g7+ Group, *Policy Note on The Use of country systems in Development Assistance: the g7+ Perspective*: July 2017.


*The New Deal for Engagement in Fragile and Conflict Affected States – Liberia Field Study Report.*


Additional background:


*New Deal Country Insight: Democratic Republic of Congo.*
### Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>AfDB</td>
<td>African Development Bank</td>
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<tr>
<td>CEPAD</td>
<td>Centre for Studies of Peace and Development</td>
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<td>DPMU</td>
<td>Development Partnership Management Unit</td>
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<td>EU</td>
<td>European Union</td>
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<td>IDPS</td>
<td>International Dialogue on Peacebuilding and Statebuilding</td>
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<tr>
<td>ISE</td>
<td>Institute for State Effectiveness</td>
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<tr>
<td>LRA</td>
<td>Liberia Revenue Authority</td>
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<tr>
<td>MOF</td>
<td>Ministry of Finance</td>
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<td>MOFDP</td>
<td>Ministry of Finance and Development Planning</td>
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<tr>
<td>NGO</td>
<td>Non-Government Organisation</td>
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<td>PSGs</td>
<td>Peacebuilding and Statebuilding Goals</td>
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<td>UNDP</td>
<td>United Nations Development Program</td>
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<td>UNMIL</td>
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<td>WB</td>
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