

Executive Summary²⁾

I. BACKGROUND

Country ownership is neither a superficial nor rhetorical term that exists only on paper. It is, rather, a guiding principle of all development cooperation activities and a driving force that makes long-term development possible. The international community's recent spotlighting on ownership issues reflects the situation that country ownership is no longer considered to be a mere symbolic expression, and the renewed interest on such functionality in practical terms. At the core of the ownership issue stand public financial management (PFM) systems, including public procurement management (PPM) systems, as key systems that make a country function as a sovereign entity.

In the 2005 Paris Declaration (PD), the international community agreed on several measures to further strengthen country ownership. The focus is on developing and strengthening the capacity of partner countries to effectively manage their own development programmes, and PFM systems are the key to this management capacity. The PD addresses the issue directly by focusing on strengthening partner countries' PFM and PPM systems through supporting reform processes led by partner countries (Indicators 2a and 2b) and using PFM and procurement systems in delivering aid (Indicators 5a and 5b). Some other elements, notably Indicator 3 on alignment to national priorities, Indicator 6

2) The present paper is the draft summary of Rhee, H. (2009), *The Use of Country Public Financial Management and Procurement Systems: Strategies for KOICA*, written in Korean. Opinions, recommendations or other information expressed in this paper are those of the author and do not necessarily reflect the official views of KOICA. The author would like to take this opportunity to thank Kailash Raj Pokharel (Nepal Ministry of Finance, Foreign Aid Coordination Division), Sunil Maskey (Nepal Information Technology Centre), Prem Prasad Dhungana (Nepal Public Procurement Monitoring Office), Sishir Bhattarai (DFID), Shiva L. Bhusal (DANIDA), Pramesh P. Shrestha and Madhu Pd. Sharma (SDC), Yoshio Fukuda and Sushil Kumar Bhattachan (JICA), Pradeep Man Tulachan (Norad), Krishna R. Panday and Raju Tuladhar (ADB), Yogesh Bom Malla (the World Bank), Renate Sherpa and Chakra Bahadur Gurung (GTZ) for time and useful insights, which were of significant contribution to this publication.

on reducing parallel project implementation units (PIUs), and Indicator 9 on programme-based approaches (PBAs), complete the picture.

Korea, as a signatory to the PD, participated in the monitoring processes both in 2006 and 2008. It showed considerable achievement on a number of issues, including Indicator 6. However, on Indicators 5a and 5b, the scores were lower than other indicators, and Korea was among the worst performers participating in the monitoring process. Such a context, yet in conjunction with Korea's accession to the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD/DAC) membership, consequently called for serious commitment from the Korean government and to develop practical measures to translate it into actions.

II. ABOUT THE STUDY

1. Objective

The purpose of this study is twofold:

- Promote the understanding of official development assistance (ODA) practitioners in Korea on the issues pertaining to the use of country systems.
- Propose a set of strategic recommendations for the Korea International Cooperation Agency (KOICA), the key implementing agency of Korea's grant aid, on how to use country systems in delivering grant aid, and more particularly, how to integrate the PFM and PPM issues into its aid delivery systems and procedures.

2. Scope

The rationales and operations of grants and loans are distinctly different when it comes to the use and strengthening of country systems. Loans would necessarily, though superficially in some cases, use country systems, whereas the inevitability link is much weaker in grants. Using country systems is not a procedurally inherent necessity but a strategic choice when providing grants. This study will focus only on grant aid. Therefore, explanatory notes and

recommendations that this report aims to provide would most appropriately apply to KOICA, which is in charge of the majority of Korea's grant aid.

3. Structure

This study is structured in four parts:

- The first part explains the concepts of country systems and meaning of using such systems.
- The second part provides an analysis on the evolution of international discourse and the state of current efforts.
- The third part examines donors' policies and strategies on the issue, and distills lessons from various practices. Focus will be given to bilateral donors' approaches, but the cases of multilateral and regional organizations will also be worthy of study.
- The fourth and final part will give an overview of Korea's policies and performance, and examine the potentiality of using country systems, from various angles. A set of recommendations, along with actions forward, will also be provided.

4. Methodology

Broad literature reviews of policy papers, research publications and articles provide clear understanding on the concept and dynamics around the issue. In addition, a case study of Nepal has been conducted, as a part of which in-depth interviews with practitioners from different bilateral and multilateral donors, as well as Nepalese government officials, were carried out³⁾. This exercise provided useful insights and critical lessons in developing recommendations for KOICA. Finally, consultations with KOICA staff in the Policy Planning Team, Procurement Team and Research Office at KOICA Headquarters, and the KOICA Overseas Office in Kathmandu, Nepal, have been carried out to fully reflect KOICA's strategies, capacity and constraints.

3) Nepal's CPIA rating was 3.5 in 2005 and 2007. 2008 PD Monitoring Survey Results showed 68% of aid to government sectors was provided through Nepal's PFM system, and 56% through PPM systems. Nepal is also Korea's partner country receiving approximately USD 5 million in grants in 2007, and the volume has increased threefold over the last three years.

III. DEFINING CONCEPTS

1. What are country systems?

In the most general sense, “country systems” is a broad concept that comprises all legal, regulatory and institutional structures, arrangements and procedures enabling a country to properly function as a sovereign entity. The PD recognizes the extensiveness of this concept, while narrowing down the frame, as being those that “typically include, but not restricted to, national arrangements and procedures for public financial management, accounting, auditing, procurement, results frameworks and monitoring.”⁴⁾ Referring to this definition, the majority of donors usually limit the definition of country systems to PFM, including PPM, when using the term.

A PFM system usually refers to a whole structure that comprises regulations, institutions and procedures of a national budget cycle, and more specifically that encompasses all of the processes of a budget cycle, such as budget planning, revenue management, budget execution and procurement, accounting, monitoring, reporting and auditing. To assess the reliability of PFM systems, the World Bank’s Country Policy and Institutional Assessment (CPIA) ratings are the most widely used, as it is the case for PD Indicator 2a.

Procurement in general refers to “the process of identifying what is needed, determining who is the best person or organisation to supply this need, and ensuring what is needed is delivered to the right place, at the right time, for the best price, and that all of this is done in a fair and open manner.”⁵⁾ The PD does not provide a detailed explanation on public procurement systems, but a reverse-analysis on the assessment indicators of DAC Joint Venture’s Methodology for Assessment of National Procurement Systems (hereinafter referred to as “DAC Methodology on Procurement”), indicates that a procurement system can be inferred as being composed of i) laws, regulations and codes of conduct relevant to public procurement activities, ii) public institutions or entities in charge, iii) procedures and standard procurement documents, iv) procurement audit systems

4) 2nd High Level Forum on Aid Effectiveness, 2005, Paris Declaration on Aid Effectiveness, Article 17

5) OECD 2006e OECD (2006), *Why is Procurement Important?*, Fact Sheet, Paris: OECD

and procedures, and v) a complaint mechanism. Procurement is a part of a PFM system, but has slightly different scope and a much broader stakeholder group (public works but involving individuals and entities outside the public sphere) than PFM. The PD, reflecting this, deals with the two issues separately.

2. What does the use of country systems mean?

“Using country PFM and procurement systems” means implementing development aid through a partner country’s PFM and procurement systems, in accordance with procedures as established by the partner country’s laws and regulations, unmodified at the donors’ discretion, and administered under responsibilities of the line management of the partner country. More specifically, it can be said that ODA was delivered using country systems, when donors provide aid in using sub-processes of PFM, i.e., budget planning, execution, accounting, auditing, monitoring, and reporting. The PD takes only i) budget execution, ii) financial reporting, and iii) auditing procedures, to measure the progress of Indicator 5a.

As for PD Indicator 5b, the use of public procurement systems means when “donors use national procurement procedures when the funds they provide for the implementation of projects and programmes are managed according to the national procurement procedures as they were established in the general legislation and implemented by government.”⁶⁾ Furthermore, donors should not “make additional or special requirements on governments for the procurement of works, goods and services.”⁷⁾

In both cases, the underpinning principles are i) the recognition of a partner country’s systems and procedures, and ii) the respect of validity of such systems, even incomplete or inefficient in the majority of cases. Also worth mentioning is the paradigm shift, in which country ownership has growing importance, and donors do not have the upper hand over systems and regulations to be modified only for their convenience.

6) OECD (2006), Guidance for the 2006 Survey on Monitoring the Paris Declaration on Aid Effectiveness, on the website <http://www.oecd.org/dac/effectiveness/monitoring>

7) OECD (2006), Guidance for the 2006 Survey on Monitoring the Paris Declaration on Aid Effectiveness, on the website <http://www.oecd.org/dac/effectiveness/monitoring>

IV. ANALYSIS OF INTERNATIONAL DYNAMICS ON THE USE OF COUNTRY SYSTEMS

1. Around the Paris Declaration

Discussions around country systems started from introspection over the “lost 10 years” of the 1990s, from which the international community realized that “more aid” is important but “more effective aid” is critical. This consequently led to a common understanding in the 2000s on the urgent need to place focus on aid effectiveness, with country ownership, aid alignment and coordination as key principles.

The 2003 Rome Declaration pointed out the vicious cycle in which uncoordinated and unaligned aid has incapable partner countries coping with the plethora of different demands from donors, and consequently deprived them of opportunities to properly develop their own capacity to effectively devise strategies and implement development programmes by themselves, which finally left donors with no choice but to deviate from country systems. It outlined the importance of national development strategies, built on the principle of country ownership, as a means to enable aid harmonization and alignment, and foster capacity building of partner countries.

Links among country ownership, aid alignment and harmonization have been further developed around the issues of the use of country public financial and procurement management (hereinafter referred to as “PFM/PPM”) systems in the 2005 Paris Declaration. In the Declaration, partner countries promised to take the responsibility and lead efforts to reform PFM/PPM systems. Donors agreed to align aid to national development strategies, provide more harmonized aid among different donors and use country systems as much as possible, and to support capacity building processes led by partner countries. In addition, both parts agreed to use common standards and mechanisms when conducting assessments, implementation and monitoring.

2. The results of the PD monitoring process

During the post-PD years, donors and partner countries both made various efforts so as to further strengthen and use country PFM/PPM systems. Most donors established actions plans, while partner countries made various attempts to build their system capacity and pursue reform processes. However, PD monitoring surveys in 2006 and 2008 showed the progress on Indicators 5a and 5b as being insufficient⁸⁾ as of yet. OECD/DAC concludes that efforts should be accelerated in the coming years, and that more innovative approaches must be put in place, to be able to meet the PD targets by 2010.

3. AAA and beyond

At the Third High-Level Forum on Aid Effectiveness held in Accra, Ghana, the international community reiterated commitment toward the principle of using country systems, and further explored measures to be taken. It was fully reflected in the Accra Agenda for Action (AAA), which provides more detailed and practical points than the PD.⁹⁾ The underlying elements of the AAA can be resumed as i) aligning aid to partner countries' national development policies/strategies, ii) developing partner countries' PFM/PPM capacity, and iii) using country systems when delivering aid.

In accordance with the AAA, donors have developed action plans and have attempted practical measures to be able to use country systems in delivering aid, which include developing strategic guidance, staff manuals and tools on PBAs, sector-wide approaches (SWAp) and budget support. As for partner countries, governments have undertaken initiatives to self-assess PFM/PPM systems and develop a set of reform plans to enhance effectiveness, with assistance from bi- and multilateral donors. To monitor the progress of such reform activities, the partner countries have undertaken portfolio review processes at regular intervals.

8) The baseline scores of Indicators 5a and 5b were 40% and 39%, respectively (PD monitoring in 2006), with targets fixed both at 80% by 2010. However, the results of the 2008 PD monitoring process showed the scores at 45% for Indicator 5a and 39% for Indicator 5b, which made progress of only 5% and 4% for each. [OECD (2007), 2006 Survey on Monitoring the Paris Declaration, Overview of the Results, Paris: OECD]

9) Accra Agenda for Action, Articles 12–15

The process around the use of country systems has shown how political commitment has been evolved into real, practical measures. It also brings out that the issues pertaining to the use of country systems are now being placed, not as a rhetorical principle but a strategic imperative in providing aid.

V. DONORS' POLICIES AND PRACTICES: LESSONS LEARNED

1. United Kingdom (UK)

The UK's strategy is built around a Country Assistance Plan (CAP), into which the PFM/PPM issues are incorporated as integral and core part. An in-depth analysis on the country system, along with its fiduciary risk assessment results, is mandatory for each CAP. Enabling the identification of the strengths and weaknesses of a system, the CAP serves as a basis of further decision-making as to whether and to which extent to use country systems in delivering aid. Also, it serves to identify necessary actions to support partner countries' PFM/PPM reform processes.

Traditionally, the UK is renowned to have expertise in methodology and technical tools, and this has been fully brought to the fore in the matter. The UK was among leading donors participating in the establishment of assessment methodologies, such as the Public Expenditure and Financial Accountability (PEFA) Assessment Methodology and the DAC Assessment Methodology on Procurement. For fiduciary risk assessment, the UK Department for International Development's (DFID's) How to Note is used as a reference methodology, widely shared by other donors. DFID also has actively supported self-assessment missions undertaken by partner governments.

The UK uses country PFM/PPM through budget support, depending on the quality of the system and the level of risks. For Nepal, the case study country, it is carried out mainly in the form of sector budget support to education and health SWAp. Due to the high risk and weak system, DFID does not, as any other donor in Nepal, provide general budget support, at least for the time being. DFID simultaneously carries out various capacity building activities.

2. Denmark

Successful transition from project-based aid to a much wider programme approach during the first half of the 2000s has enabled Denmark to rank as one of the model countries with regard to issues on the use of PFM/PPM systems. Denmark has developed strategies and completed establishing instructions and guidelines relevant to programme management, sector programme support, budget support and PFM/PPM-related procedures. Budget support is the main modality to use country PFM/PPM systems. In Nepal, a majority of Danish aid is provided with a focus on support for major SWAps, such as Education for All (EFA) and School Sector Reform (SSR) programmes.

Denmark's approach is closely linked with aid harmonization among donors at the partner country level, mostly under the Nordic+ framework. It offers a chance to accordingly combine the use and capacity development of country PFM/PPM systems under a coordinated policy. It also helps share the burden of concomitant risks, and enforce monitoring process. Outside the Nordic+ framework, Denmark has been also actively engaged in coordination between the partner country's government and donors, and among different donors at the country level.

3. Norway

Norway uses country PFM/PPM systems mainly in the form of budget support. When implementing aid activities, the primary responsibilities are those of the partner country's government. For the budget provided by Norway and implemented through partner country systems, the country is required to monitor, audit and monitor the progress on budget flow.

As for methodologies and tools, Norway carried out its own PEFA assessment, first as a DAC donor. Such a practice can be translated as an expression of strong adherence toward the PEFA Assessment Methodology. In partner countries, Norway widely uses PEFA results in establishing Country Assistance Strategies and mid-term expenditure framework, when setting priorities, deciding on aid modalities and reporting aid budget flow. DFID's Fiduciary Risk Assessment results also tend to be widely used.

4. Germany

When it comes to the use of country PFM/PPM systems, Germany's use is relatively low compared to its European counterparts. Though it implements budget support in a number of countries in Africa, Germany seems to be not generally active and remains cautious in deciding whether and to which extent to use PFM/PPM systems. Rather, Germany places more focus on developing capacity on PFM/PPM in partner countries, in which Germany has traditional expertise through a wide range of training programmes and other technical assistance projects, than on reflecting on measures on how to use systems that still are weak.

5. Japan

Japan approaches quite circumspectly when it comes to budget support (Japan provides budget support in a number of African countries, but the volume and scope remain insignificant). Reflecting its particularity that projects remain the main modality, Japan has attempted to figure out measures to use country systems, notably PPM systems, in the context of projects. Regulations and guidelines on procurement have been consequently developed and implemented accordingly. However, the guidelines put restrictive clause on the nationality of main contractors, and furthermore on the recruitment of a Japanese administrator, who supervise overall procurement process when it is enrolled using a partner country's system. Such limitations, though a risk mitigation measure, may obstruct aid to go through the country system operating under the ownership of the government. Difficulties seem to arise from the inherent limit that stand-alone projects have as an aid instrument in using country PFM/PPM issues, which cost higher to manage risks than in the case of broader programmes.

Even though the biggest portion of Japanese ODA is carried out through stand-alone projects, Japan is seeking for harmonizing with other donors at the country level. It has actively engaged in formal and informal dialogues with donors and partner countries. As for in Nepal, although it was not involved in Education for All (EFA), Japan continuously participated in informal Development Partners meetings to share ideas, identify key issues and challenges, and most importantly, figure out how to fit the Japan International Cooperation Agency's (stand-alone) educational infrastructure building project with EFA activities, so as to avoid

overlapping and creating a synergy effect.

6. Switzerland

Switzerland is much closer to Germany and Japan than to Nordic countries, in terms of strategies with regard to the use of country PFM/PPM systems. Although it does not actively engage in budget support as a main instrument to use country systems, Switzerland focuses more on identifying their field/modality of expertise and how to exploit in practice. There is, certainly, apprehension of risks inherent when going through weak local systems.

Switzerland tends to work more efficiently with civil society organization on the ground, rather than with partner government. In Nepal, for example, SDC shares its cluster management with HELVETAS, a Swiss NGO that has 50 year-long expertise in the remote areas of the country.

7. World bank and Asia Development Bank

Making full use of its expertise in the field of PFM and procurement, the World Bank has decisively contributed to developing assessment and decision-making tools, such as the PEFA Assessment Methodology and the DAC Assessment Methodology on Procurement. It also leads support for self-assessment process by partner countries.

Both the World Bank and ADB use country PFM/PPM systems as principles, even when providing grant aid with traditional loans, as is the case in Nepal. Assessment results are mainly used to set the scope and extent of safeguard measures and capacity building programmes, rather than to decide whether and to which extent to use country systems. The focus here is not on financial outturn or asset protection against risks, but ‘learning by doing’ exercises, adjusted to partner countries’ systems and capacities, and with longer-term perspectives.

The Banks combine them with a wide range of capacity development programmes, with diversified and innovative approaches. The Bank's training programmes, consulting service and other technical support on PFM/PPM have been carried out in nearly all countries in developing world.

8. Lessons Learned

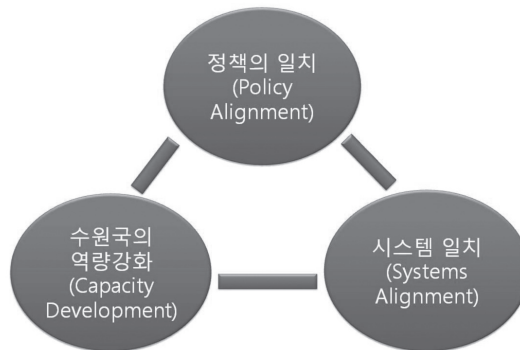
a) Overall Policy and Strategy

For donors, delivering aid through country PFM/PPM systems is risky business. Overall weakness, inefficiency and corruption may lead to higher risk, mounting transaction costs and inefficiency on the whole. However, the simple equation of “input–process–output” from a short–term perspective is not all for this issue, which has much broader and longer–term implications in terms of building country ownership and so laying foundations for sustainable development. This seems to be the basis upon which donors express strong commitment toward the use of country systems and make varying efforts to translate it into real action.

For donors, the core question now seems to be how to strike the right balance between the use of PFM/PPM systems and necessary capacity building, in a way that conforms to each donor's ODA policy/strategy and aid capacity. Three core elements that donors consider to figure out the right balance, can be summarized as i) Policy Alignment, ii) Capacity Development, and iii) Systems Alignment.¹⁰⁾

10) This also conforms to AAA's approach toward the use of country systems (in Articles 12–15).

<Figure 1> 3 Core Elements in Using Country Systems



A lesson from donors' practices is that the elements are inseparably interlinked and the question of using country PFM/PPM systems must be considered under a balanced frame. That means, without fully considering and acting upon some element(s), the other element(s) cannot properly function. For instance, without policy alignment and appropriate capacity development measures, serious obstacles may be encountered when aligning aid to country systems.

Striking such a balance is a matter that donors consider, not only under the framework of overall ODA policy, but also strategic priorities and the perspective of partnerships with recipients on case-by-case basis, at each country level.

b) Aid Modalities

When it comes to grant aid, budget support is the main modality facilitating the use of country PFM/PPM systems. Using country systems in projects would be possible, as in the case of Japan, but not without limitation. Difficulties mainly arise from concerns over monitoring issues and the incomprehensiveness of packages (lack of capacity development measures). A programme-based approach seems to be more appropriate for the issue.

Most donors that use country systems mainly rely on budget support for SWApS. Successful implementation of EFA in Nepal has shown that sectoral

budget support and the use of country systems can function well, even in fragile, post-conflict and least developed countries such as Nepal. Donors tend to move thereafter on general budget support, pending the stability of the overall environment, the robustness of the system and the level of capacity. Consideration toward general budget support involves a wide range of factors, and a circumspect approach was commonly observed in donors' practices.

c) Decision-Making Process and Methodology: Assessment Methods and Monitoring Tools

The PEFA Assessment Methodology, the DAC Assessment Methodology on Procurement and DFID's Fiduciary Risk Assessment methodology are the most commonly shared tools. Using common assessment tools prevents overlapping time-consuming processes, and furthermore facilitates co-financing and joint monitoring processes at a later stage. Using joint approaches among donors to support country-led assessment missions is widespread practice.

Assessment outcomes constitute a base resource for each donor in developing country assistance strategy. A PFM/PPM analysis, along with risk assessment results, is usually integrated into assistance strategy documents as a base foundation, regardless of whether the use of country systems or budget support is premised or not. It could be of use in decision-making on aid modalities/methods afterwards, setting the scope of activities and undertaking risk mitigation measures, i.e., strengthened monitoring and capacity development programmes.

d) Incentive Issues

The use of country PFM/PPM systems implies assessments/analyses, partnership building, and many other important but often invisible (in terms of outputs) activities beforehand. It can potentially be a burden to institutions and practitioners, and therefore needs to be addressed accordingly. At the individual level, common practices are career development opportunities, professional training and adjusted staff turnover frequency. At the institutional level, valuing personal commitment toward aid harmonization/alignment agendas as a core decision factor in appointing heads of field offices, and reinforcing field-based management seem

to be widely adopted practices. Also, the recruitment of highly-skilled local staff for senior manager level positions is worth mentioning. Analyses have shown that, the local staff usually has more commitment toward aid alignment agendas than international staff, and they possess an advantage in terms of local language and understanding of local systems, which definitely facilitates working with partner government counterparts.

VI. RECOMMENDATIONS FOR KOICA

1. The state of performance

In PD monitoring surveys in 2006 and 2008, Korea recorded the lowest scores on Indicators 5a and 5b. The scores for the use of country PFM systems (5a) were 45% in 2006 and 10% in 2008. As for the PPM systems (5b), it recorded 0% in 2006 and 5% in 2008. For comparison, donor averages were 39% in 2006 and 45% in 2008 for Indicator 5a, and 39% and 43% for 5b. Even more, Korea's already very low scores came entirely from loan aid. None of grant aid was provided through country PFM/PPM systems.

2. Policy implications: Potentiality and Opportunity

Right after the 2006 PD monitoring survey, KOICA indeed developed an action plan to address challenges. Proposed actions included i) expanding dialogue with donors and partner countries, ii) gradually introducing PBAs and budget support, iii) improving management structure, delegating more powers and roles to field offices, and iv) promoting the use of country systems, in relation with aid untying. It is true that there has been progress in some actions to date, but issues were too broad, comprehensive and interwoven to have a positive outcome with a limited number of fragmented activities. A more innovative and holistic approach needs to be put in place.

As a new member of the OECD/DAC, Korea needs to improve aid strategies and delivery mechanisms so as to better respond to ever-growing demands in development cooperation. It is time for re-thinking aid from a longer-term and a partner country's perspective. Reflecting on how to use country PFM/PPM systems

would provide ideas on how to address challenges more effectively. Firstly, it will give clues on how to improve Korea's CAS, which currently provide only a summing-up overview of country situations and Korea's strategies in a broad and general way. Secondly, it also will offer an opportunity to diversify KOICA's aid modalities with PBAs, SWAps and budget support.

3. Recommendations for Using Country Systems

When it comes to the use of country systems, KOICA starts from zero. It has no legal and administrative arrangement that make use of country PFM/PPM systems. In fact, KOICA's current regulations do not have any clauses on PBAs or budget support, and money cannot go through outside of KOICA's own procurement and financial management system. Under the current framework, using country systems is an impossible matter.

For the effective use of country PFM/PPM systems, moving forward to PBAs and budget support seems to be not an option but an imperative. However, as seen in other donors' cases, the use of country systems is a complex matter, because of the enormity of problems – weak, corrupt and inefficient systems and irrational procedures – that are tightly interwoven. It thus requires conceiving KOICA's strategy from various angles. The key here is how to find and manage balance among policy alignment, capacity development and systems alignment, as in other donors' practices.

a) Policy Alignment

At the policy level, there needs to be further tuning-up of KOICA's aid so as to be more centered around CAS that are currently under major revision. A newly-built CAS needs to include a thorough analysis of a partner country's PFM/PPM systems, as well as a fiduciary risk assessment, based on commonly shared methodologies, i.e., the PEFA Assessment Methodology, the DAC Assessment Methodology on Procurement and DFID's Fiduciary Risk Assessment.

Secondly, there should be a streamlined strategy specific to PFM/PPM issues within KOICA, which would make the use of country systems possible where conditions are right. Developing such a strategy requires in-depth and continuous

consultations with different stakeholders, especially the partner country governments. The strategy then should be further complemented by practical manuals and guidelines.

Strengthened collaboration with partner countries and donors, and active participation in the assessment process and result-sharing stage, are the key in aligning policy. KOICA thus needs to figure out how to build partnerships with various stakeholders.

b) Capacity Building of Partner Countries

Since the 1990s, Korea has implemented training programmes in a wide range of areas including tax management, PFM, and public auditing. More than five programmes have trained 50–100 invitees annually, with continuous increases for the last few years to better cope with growing demands. These programmes could be further used for as PFM/PPM capacity building measures. In doing this, current programmes need to be adjusted, from a two- to three-week one-time invitational programme to more intensive, more field-based and sequenced programmes. Also, the curriculum must be more country-specific, which currently is not always the case. Furthermore, KOICA's volunteer programmes and dispatching of experts could also be of good use, as well as projects on e-government and e-procurement.

c) Systems Alignment

Considering KOICA's current situation and the tremendous scope of the issue, a step-by-step approach would offer ways to deal with the issue more realistically.

Step 1: Laying Foundations

The first step aims to lay the ground and prepare KOICA to be able to use country PFM/PPM systems when delivering its aid. The focus here is to create a synergy effect from combining the use of country systems with many efforts to improve Korea's aid, which are currently taking place in light of its accession to

the OECD/DAC membership. Activities that need to be undertaken at this stage may include:

- Promote the understanding of PBAs, SWAps and budget support, as well as implementation procedures and modalities among KOICA staff and other aid practitioners
- Promote the understanding of common assessment tools (the PEFA Assessment Methodology, the DAC Assessment Methodology and DFID's Fiduciary Risk Assessment) to practitioners, and figure out ways to participate in the process and engage with like-minded donors
- Include country PFM/PPM issues in newly-reformed CASs
- Validate the draft regulations on host country procurement (that are currently under final revision)
- Establish KOICA regulations and guidelines as appropriate
- Develop a detailed and practical plan on how to improve KOICA's current technical assistance (training, volunteers and dispatching of experts) on PFM/PPM systems toward more intensified and comprehensive capacity development programmes

Step 2: Pilot Testing of PBAs and Using of Country PPM Systems in Implementing Projects

After the completion of Step 1, pilot testing of PBAs in one or two partner countries would be possible. As initiatory stage to PBAs, focus should be placed on integrating current stand-alone projects into a much wider, coordinated and aligned programme framework. In doing this, it would be preferable to be a part of multi-donor SWAps that have been already in place. Usually having much clearer objectives and input-output process than general PBAs, SWAps will more fit for beginners as KOICA to understand the dynamics around the system. Also, a multi-donor framework would offer opportunity to learn how to work within an commonly agreed system among different partners.

In addition to the pilot testing of PBAs, host-country procurement also needs to be applied at project level, as soon as the draft regulations come into effect.

Step 3: Expanding toward Budget Support

Step 3 consists of expanding PBAs toward budget support, based on lessons from experiences in the previous stage and accordingly adjusted policy and guidelines. As a starting point, it would be preferable to try a small-scale budget support for the SWApS of Step 2. The key point is, through participating in the overall process from budget preparation to monitoring, to acquire practical knowledge on how the use of country PFM/PPM systems operates within budget aid. The duration needs to be set for more than a year, so that KOICA fully understands the flow of the entire annual budget cycle and how the feedback of monitoring results works beyond the annual cycle. Also, reflecting lessons and challenges from first-hand experience, regulations and guides established in Step 1 need to be revised accordingly.

From then on, increasing scale/scope of contribution or adopting general budget support could be considered. Even though general budget support would be a much more delicate issue for Korea, at least for the time being, ultimately targeting general budget support would offer opportunities to more efficiently deal with issues related to expanding PBAs.

4. Incentive Issues

A proper incentive system will be necessary. At the individual level, a range of career development opportunities, specialized training and job promotion needs to be developed and incorporated into the current human resources management system. At the institutional level, more should be undertaken, starting from empowering KOICA field offices by delegating more authority and reinforcing their financial and human resources, so that the field offices can more actively get into partnerships building with partner governments and donors. In this refurbishing process, one of the key issues that need to be seriously considered is the use of skilled local manpower in the field of PFM/PPM issues, in which KOICA does not have much firsthand expertise. A more rationalized remuneration/benefit system and level of responsibility, in addition to improved language concerns within KOICA's internal system, need to be considered.

5. Actions Forward

Tremendous challenges that Korea faces when it comes to the use of country PFM/PPM systems are not limited to the lack of adequate regulative arrangements and know-how in key aid modalities. For Korea, as much as commonly for other emerging countries, the key concern is on the consent of the public that, despite ever-increasing support toward ODA, still remains skeptical about “giving away money”. Many of the general public prefers building a school to supporting curriculum reform processes led by the partner country. Such visibility concerns need to be addressed through effective public awareness raising programmes that can outline the significance of country ownership and communicate benefits of aid delivered through country systems.

Also, in-depth research should be continuously undertaken so as to offer effective ground in establishing strategies, regulations and guidelines. Current research functions within KOICA must be adjusted and accordingly reinforced. In pursuing this, current publications and events such as the “International Development Magazine” (quarterly) and the “KOICA Policy Research Forum” could first be explored.