

INFORMING THE APPROACH OF MULTILATERAL DEVELOPMENT BANKS TO USE OF COUNTRY SYSTEMS

Cyril Prinsloo, Chelsea Markowitz,
El Mostafa Jamea & Kwame Owino



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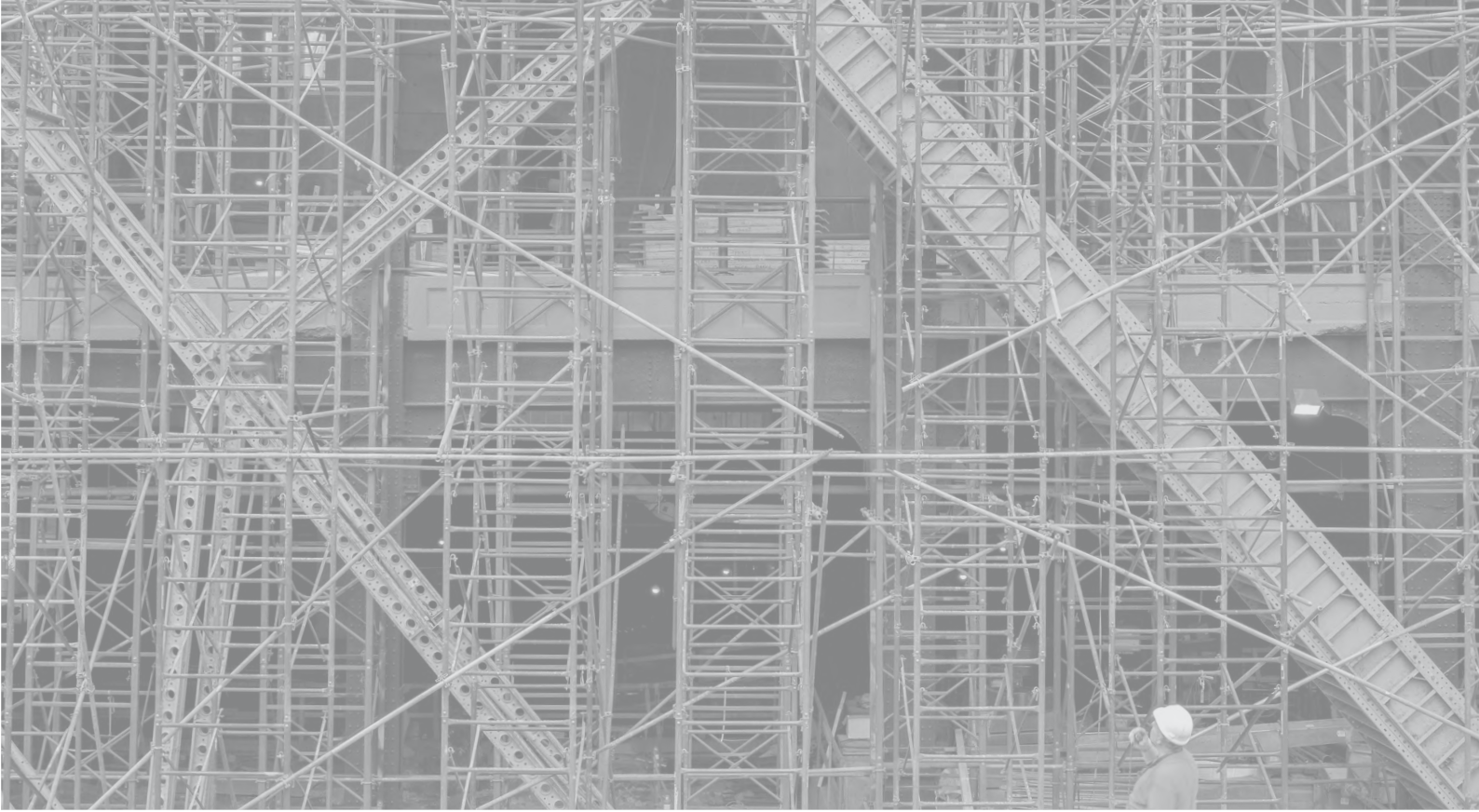
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ABSTRACT

Most countries consider infrastructure development as a key enabler of development, as it spurs job creation, trade and investment. For many developing countries, multilateral development banks (MDBs) are important in addressing their infrastructure financing deficits. MDBs have historically dictated the terms of financing by prescribing rules on financial management and environmental and social safeguards, despite the presence of similar systems in the relevant countries. Increasingly, however, both MDBs and their borrowers are seeking to eliminate such extra requirements in favour of the full utilisation of countries' own domestic systems and processes, broadly referred to as the 'use of country systems' (UCS). The defining benefit of greater UCS to MDBs is that it respects the sovereignty of countries by not imposing external conditionalities. UCS also promotes national ownership of development projects by increasing the involvement of domestic actors, institutions and processes, and hence increasing projects' sustainability. At the same time, UCS can strengthen domestic systems through greater utilisation, thereby exposing deficiencies that can be corrected and eliminating the duplication of costs and efforts engendered by parallel systems. Ultimately, UCS gives developing countries a greater stake in their own development trajectory, as well as the tools to manage the process better. Yet the greater uptake of an UCS approach by MDBs and borrowers has been hampered by a number of key challenges. Firstly, UCS increases financial, reputational and development risks for all participants, notably around procurement functions. Secondly, the inflexibility of MDBs' approaches to safeguards, together with implementation challenges, has hindered greater uptake. Thirdly, borrowers and MDBs face political challenges that hinder greater cooperation in this regard. Lastly, both MDBs and countries often lack the capacity to adequately implement UCS. This discussion paper explores the opportunities and challenges facing UCS in Africa by critically examining both literature and case studies of select African countries (Kenya, Morocco and South Africa) and their perceptions of and experiences with UCS. Ultimately, the research aims to contribute to a better understanding of UCS to inform the approach of MDBs operating in Africa – both established MDBs and emerging MDBs such as the New Development Bank.

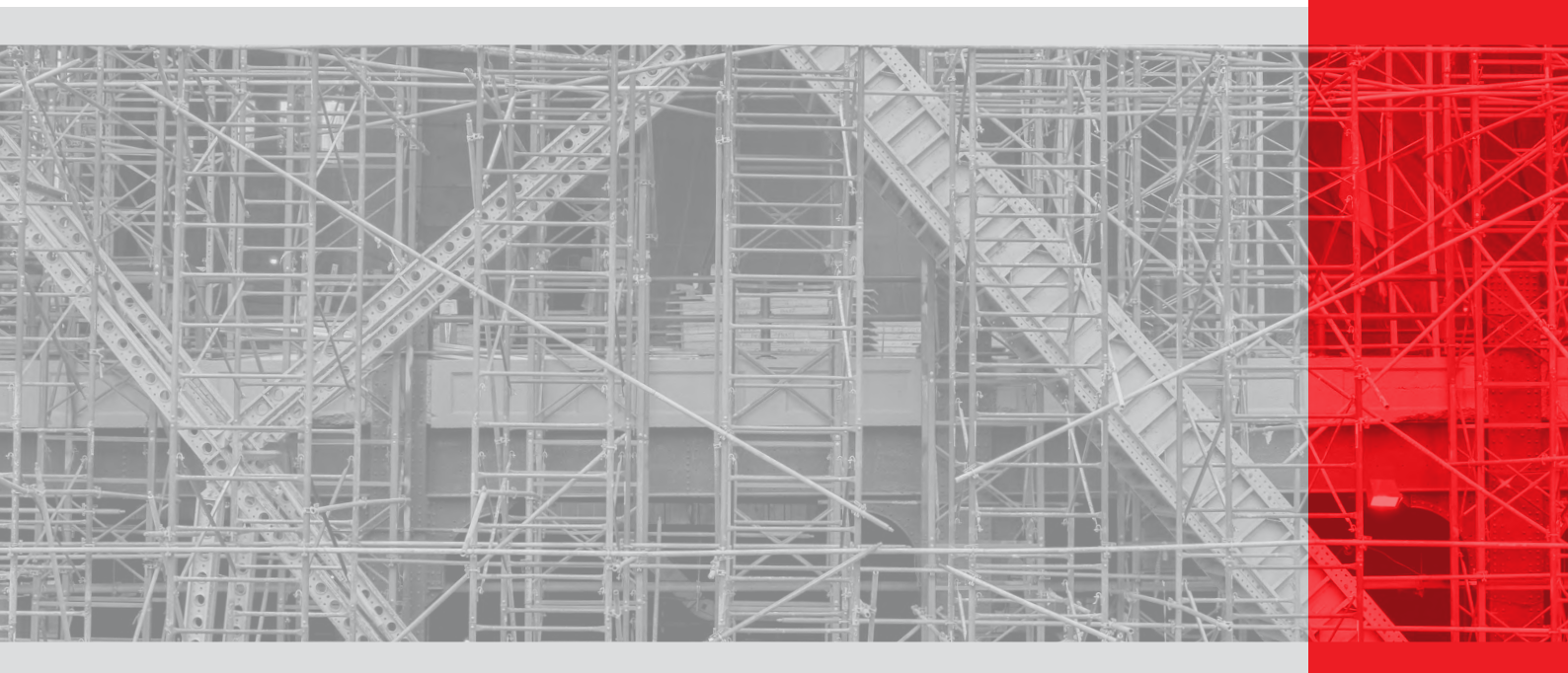
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INTRODUCTION

Infrastructure development is a critical enabler of growth and economic development, spurring job creation, trade and investment. In developing countries, which face growing infrastructure deficits, the infrastructure financing landscape remains fundamentally shaped by multilateral development banks (MDBs) such as the World Bank and the African Development Bank (AfDB). Developing countries face constraints in raising sufficient domestic resources and are often perceived as too risky by many private lenders. In turn, MDBs offer highly concessional loans and technical assistance. Between 2004 and 2013 the average annual financing of infrastructure by MDBs was nearly \$40 billion.¹

Typically MDBs have dictated the terms of finance to developing countries, prescribing rules on financial management, environmental and social safeguards. MDB terms are enforced alongside and despite the presence of similar safeguard systems in most countries. This is largely because these domestic systems vary in the strength of both legislation and enforcement capacity, and MDBs want to ensure that their risks are minimised. Increasingly, however, both MDBs and their borrowers

¹ Bhattacharya A *et al.*, *Delivering on Sustainable Infrastructure for Better Development and Better Climate*, Brookings, December 2016, https://www.brookings.edu/wp-content/uploads/2016/12/global_122316_delivering-on-sustainable-infrastructure.pdf, accessed 30 May 2017.

are seeking to eliminate these extra requirements in favour of the full utilisation of countries' own domestic systems and processes, broadly referred to as the 'use of country systems' (UCS).

The promotion of greater UCS in development financing respects countries' sovereignty by employing their own legislation, institutions and processes rather than imposing external conditionalities.² It will also strengthen domestic systems through increased usage;³ decrease costs and bureaucratic delays in project implementation; and ensure greater domestic participation in procurement. Ultimately, UCS aims to enhance projects' development impact on countries.⁴

Several commitments have been made by MDBs, other development partners and countries towards more comprehensive UCS, most notably in the 2005 Paris Declaration on Aid Effectiveness. Most international and regional MDBs have further signalled their commitment to the UCS agenda by introducing UCS pilot programmes or revised environmental and social frameworks (ESF) or procurement strategies. It is clear that UCS calls for a more equitable relationship between development partners and countries. While its implementation has been challenging for both MDBs and borrowers, this does not negate the pressing need to scale up, address and promote further cooperation, especially as new and alternative sources of finance continue to emerge.

This paper seeks to explore the opportunities and challenges facing UCS in Africa by critically examining the literature on and case studies of select African countries (Kenya, Morocco and South Africa) and their perceptions of and experiences with UCS. Ultimately, the research aims to contribute to a better approach towards UCS for MDBs operating in Africa – both established MDBs and emerging MDBs such as the New Development Bank (NDB).⁵

The first section of this paper highlights the methodology and approach of this study, while the second section provides a brief contextualisation of the debates surrounding UCS. The paper explores the country contexts of the specific case studies, and then draws on the existing literature and fieldwork to critically examine UCS. Finally, the paper offers some recommendations for MDBs in refining their approach to UCS.

2 Humphrey C, 'Time for a New Approach to Environmental And Social Protection at Multilateral Development Banks', ODI (Overseas Development Institute) Briefing Paper, April 2016, <https://www.odi.org/publications/10380-time-new-approach-environmental-and-social-protection-multilateral-development-banks>, accessed 24 August 2017.

3 *Ibid.*

4 Larsen G & A Ballesteros, *Striking the Balance: Ownership and Accountability in Social and Environmental Safeguards*, World Resources Institute, April 2013.

5 For a succinct discussion on how the NDB can draw on lessons from traditional MDBs, see Prinsloo C, 'Informing the New Development Bank's Approach to UCS', GEG Africa (Global Economic Governance Africa) Policy Brief, forthcoming, <http://www.gegafrika.org/>

METHODOLOGY

Following an outreach by South Africa's National Treasury and the GEG Africa programme at the AfDB's Annual Meeting in Zambia, May 2016, UCS emerged as a critical issue for stakeholders (including public officials, businesses and civil society representatives from across the continent) engaging with MDBs. By critically assessing UCS in Africa for infrastructure financing, and drawing on the experiences of selected countries in employing UCS for development financing, this report aims to inform the UCS approach of MDBs operating on the continent. Equally, it will provide evidence to support or invalidate broader issues around UCS in global discussions such as those of the BRICS or G-20 (eg, the Development Working Group).

While UCS is a theme in broader discussions around official development assistance (ODA), the focus of this report is on non-concessional lending by MDBs. Non-concessional lending has a significant impact on the financial viability of MDBs, as the level of risk and volume of lending are often much greater and the accountability mechanisms and internal policies of MDBs differ from those of, for example, traditional bi-lateral donors. Particular emphasis is placed on the non-concessional windows of the World Bank and the AfDB, considering their significant infrastructure financing activities on the continent.

Middle-income countries (MIC), which are more likely to borrow from such non-concessional windows, typically have stronger domestic systems, and therefore the incentives for MDBs to employ these are greater. The countries used in this study – Kenya, South Africa and Morocco – were thus selected based on their level of economic development, while factoring in their historical engagement with MDBs, lending volumes from MDBs and geographic location.

EMERGENCE OF THE UCS APPROACH

BRIEF HISTORY

MDBs emerged in the post-Second World War era primarily as institutions geared to finance large-scale infrastructure. MDBs typically used their own financial, environmental and social safeguard processes to facilitate loans to countries. This mirrored similar processes already employed by recipient countries to manage their own public finances, including infrastructure projects (although many countries had less developed systems). While MDBs in the past have employed countries' domestic systems for facilitating loans, they have been selective about the processes they use.

Decisions on which country systems to use are driven by a combination of factors, including risk mitigation and the lending ideology and interests of key shareholders.⁶ Domestic systems are used where risks (financial, reputational and developmental) are perceived to be low, while MDB systems or derogations from country systems are employed where such risks are perceived to be high. Conversely, MDBs also employ their own systems to impose better governance (transparency, democracy), environmental (biocultural preservation, cultural heritage) or social (human rights, workers' rights, especially of marginalised groups) conditions in countries where these are perceived to be low. However, as borrowers and non-borrowers alike have realised, risk mitigation often becomes excessive, to the point where positive development outcomes are actually being hindered. At the same time, MDBs are also under pressure to lessen the time and cost burdens on borrowers, as the number of alternative infrastructure financiers such as China or private sector lenders with less onerous conditionalities has grown, making MDBs less attractive as the primary choice for infrastructure finance.

In response to these risks and the changing landscape, MDBs are adopting policies and approaches that promote a more comprehensive UCS. The move towards greater UCS is also couched in various aid effectiveness frameworks, such as the adoption of the Millennium Development Goals in 2000 (eg, sustainable development and global partnership for development), the Monterrey Consensus in 2002 (mobilisation of finance, addressing systemic implementation issues) and the first high-level forum on aid effectiveness in Rome in 2003 (improving and aligning development partner and recipient cooperation).⁷

The first major push towards greater, less selective UCS was made in the Paris Declaration on Aid Effectiveness (PDAE) in 2005, signed by more than 150 stakeholders, including 28 international organisations and MDBs, bilateral development partners, international organisations and 138 countries, both aid-providing and -receiving.⁸ The PDAE committed signatories to five key principles: greater ownership of development finance by recipients; greater alignment of development finance with national priorities, goals and systems; harmonisation of development finance to avoid duplications of efforts; and greater measuring of development results and mutual accountability between development partners,

6 MDBs' 'lending ideology' refers to characteristics of engagement with developing countries, largely on the insistence of their major shareholders, typically developed countries. Such characteristics include promotion of neoliberal policy reforms such as liberalisation and privatisation, promotion of developed-country preferences in MDB procurement, and insistence on excessive environmental and social safeguards.

7 Dabelstein N & MQ Patton, 'The Paris Declaration on Aid Effectiveness: History and significance', *Canadian Journal of Program Evaluation*, 27, 3, pp. 19–36.

8 OECD (Organisation for Economic Co-operation and Development), 'Countries, territories and organisations adhering to the Paris Declaration and AAA', <http://www.oecd.org/dac/effectiveness/countriesterritoriesandorganisationsadheringtotheparisdeclarationandaaa.htm>, accessed 20 May 2017.

recipients and their respective constituencies.⁹ UCS, therefore, was a central element of the PDAE, as it responded to a number of these principles.

Subsequent policy processes such as the Accra Agenda for Action (2008), the Busan Global Partnership Agreement (2011), the Addis Ababa Action Agenda (2015) and the Global Partnership for Effective Development Co-operation (2016) have reaffirmed this commitment.

MDBs, for their part, have also committed to this agenda by partaking in these processes. The World Bank and other regional MDBs such as the AfDB and the Asian Development Bank (ADB) have made concerted efforts to move towards comprehensive UCS, typically starting with pilot studies in select countries to gauge their readiness for UCS. They have also revised existing or adopted new policy frameworks that place UCS at their centre, such as procurement or ESF. As will be explored throughout this report, most of these pilot programmes and subsequent efforts have had limited results.

DEFINING UCS

This section defines the parameters under which UCS is explored in this paper. The overarching focus is on MDBs and loans (with specific reference to their non-concessional financing windows) rather than bilateral aid or grants. While MDBs also extend grants, their lending operations are more material to their financial sustainability, as most MDBs levy small charges on concessional loans to cover their operational costs.

Most of the available literature on UCS focuses on the broader category of ODA, rather than specifically on loans from MDBs. The exception is the literature generated by MDBs on the various pilot programmes or policy changes undertaken pertaining to UCS.¹⁰ However, a distinction needs to be drawn between grants and loans, as this distinction is material to the willingness of MDBs to support the uptake of UCS.

First, the level of risk is typically proportional to the volume of the financial transactions. As loans to countries are typically larger than grants, loans are viewed as riskier. Second, there is a difference in the accountability chain between bilateral donors and MDBs. Bilateral donors are directly accountable to their populations, and there is significant pressure to show ‘value for money’ and avoid financial or

9 Dabelstein N & MQ Patton, *op. cit.*

10 See, for example: World Bank, ‘The World Bank Group and public procurement: An independent evaluation’, <http://documents.worldbank.org/curated/en/393351468133192256/The-World-Bank-Group-and-public-procurement-an-independent-evaluation>, accessed 24 August 2017; AfDB (African Development Bank), ‘Assessment of the Use of “Country Systems” for Environmental and Social Safeguards and the Implications for AfDB-financed Operations in Africa’, *Safeguards and Sustainability Series*, 1, 2, February 2015, https://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/SSS_-_Use_of_Country_Systems-Intérieur_web_-_EN.pdf, accessed 24 August 2017.

reputational risk.¹¹ Last, while bilateral donors can direct ODA to serve their national interest, for example by dictating procurement terms that favour their own firms and national interests, this is less of an incentive for MDBs, which have a much broader constituency of companies that will compete for procurement opportunities.¹²

In discussing UCS in the context of MDBs and loans, two key overarching domestic processes are of importance: public financial management (PFM) processes and ESF. PFM and ESF are not singular and succinct processes, but are made up of a number of smaller, inter-related processes, which in turn comprise various actors, institutions and legal frameworks. They differ across countries, levels of government and sectors, and tend to be dynamic. PFM and ESF are employed by governments to manage both public expenditure and external financing, and are designed to provide safeguards (financial, environmental, social, etc.) that mitigate risk and, ultimately, hold governments accountable to their citizens.

Public financial management

PFM is understood to include all the individual processes involved in the management of public funds. In the case of infrastructure, this implies that a particular infrastructure project is trackable from the planning through to the public reporting phase. While the UCS approach dictates that MDBs should employ domestic processes for each of the steps outlined in Figure 1, both real and perceived risks have prevented them in the past from fully engaging in all domestic processes and phases.

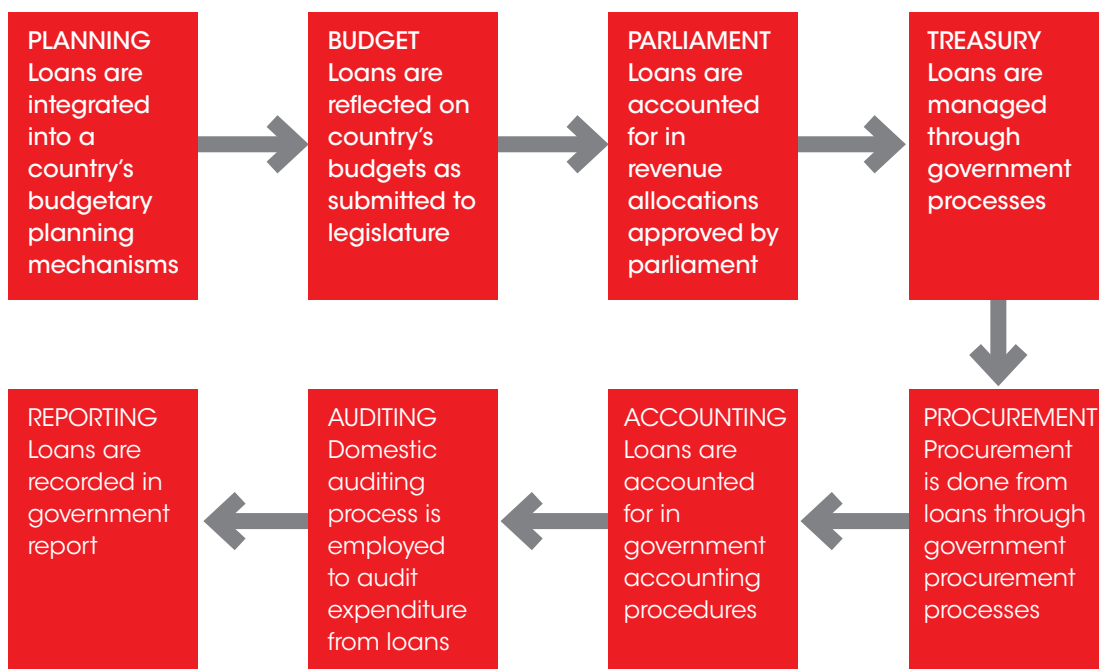
For example, a project might use a country's planning process, but financing is facilitated either through the MDB's headquarters or country office, or through a project implementation unit (PIU) that manages the financing, procurement, accounting and auditing functions. Financial risk for MDBs is largely concentrated in four PFM pillars: budget, procurement, audit and reporting.¹³ At any one point in each of these processes, the mismanagement of funds is detrimental to the financial institution. Hence, alternative or supplementary systems have been used to mitigate these risks.

As will become evident throughout this paper, within the context of PFM and UCS, procurement is the most contested and controversial aspect of UCS. Multiple reasons for this are highlighted, including process and reputational risks (eg, financial mismanagement) for MDBs and countries, the preference given to developed country firms in MDB procurement, use of procurement as a development instrument by developing countries, and weak procurement systems in many developing countries.

11 Knack S, 'Aid and donor trust in recipient country systems', *Journal of Development Economics*, 101, 2013a, pp. 316–329.

12 *Ibid.*

13 CABRI, *Towards a Greater Use of Country Systems in Africa: Recent Trends and Approaches*, August 2014, https://www.effectiveinstitutions.org/media/Towards_a_greater_use_of_country_systems_in_Africa.pdf, accessed 24 August 2017.

FIGURE 1 DIFFERENT FUNCTIONS OR COMPONENTS OF PFM SYSTEMS*

* While this definition – developed by the Collaborative Africa Budget Reform Initiative (CABRI) – specifically refers to 'aid' across the PFM cycle, it could equally be adopted to apply to loans from MDBs.

Source: CABRI, *Towards a Greater Use of Country Systems in Africa: Recent Trends and Approaches*, August 2014, https://www.effectiveinstitutions.org/media/Towards_a_greater_use_of_country_systems_in_Africa.pdf, accessed 24 August 2017

Environmental and social frameworks

Throughout this study ESF will refer to the collective legislation comprising environmental and social safeguards, as well as the subsequent implementation and enforcement of these safeguards. Various pieces of legislation typically set out the measures that must be assessed ahead of the implementation of infrastructure development projects, including environmental and social impact assessments, cultural heritage assessments and economic feasibility assessments. No country has a uniform set of laws, and each project will trigger a different combination of laws given their differing environmental and social impacts. For example, in South Africa the most commonly triggered ESF laws include the:

- National Environmental Management Act (1998);
- Environmental Impact Assessment Regulations (2014);
- Expropriation Act (1975);
- National Heritage Resources Act (1999); and
- Biodiversity Act (2004).

Typically, an ESF's objective is to anticipate social and environmental risks or impacts; mitigate such risks or impacts; monitor and manage the implementation of risk and mitigation plans; and respond to the challenges that arise.¹⁴ MDBs began to incorporate ESF safeguards from the 1980s onwards as pressure mounted from civil society and communities that were negatively affected by projects funded by development finance institutions. The World Bank initially developed these safeguards, and other regional MDBs and most bilateral donors have followed its example. In some instances, safeguards have gone beyond the 'do no harm' principle to actively promoting 'do good' policies in response to pressure from civil society organisations (CSOs).¹⁵

Following the shift in the discourse around UCS towards increasing country ownership, the World Bank began piloting UCS for specific projects in its investment lending profile in 2005. Other MDBs have followed suit, with particularly strong efforts from the ADB. Scaling up this approach has been slow, with only approximately 25 World Bank projects piloted since its initiation. However, in August 2016 the World Bank released a new ESF framework, which is notable for its emphasis on a greater shift towards UCS. The new ESF has garnered criticism, particularly from international non-governmental organisations (NGOs) and governments, as well as some NGOs in borrowing countries, owing to what is perceived as a dilution of the bank's previous standards and an increasing utilisation of country systems even when they are not up to World Bank standards. At the same time, many borrowing countries predict the new standards will not do enough to reduce bureaucracy and costs.¹⁶ However, the growing number of actors advocating greater UCS views the rollout of the new ESF (which will begin in 2018) with cautious optimism, owing to its potential in opening doors to a genuine move towards UCS, potentially also setting a precedent for other MDBs.

Despite the differences between PFM and ESF it is useful to study these two systems under the cross-cutting banner of 'UCS', as both face similar challenges in the implementation of UCS. The way in which MDBs adapt to employing national frameworks, such as pilot projects or new policies, can provide useful lessons for both MDBs and countries looking to increase UCS. Furthermore, UCS for a

14 Larsen G & A Ballesteros, *op. cit.*

15 *Ibid.*

16 Bretton Woods Project, 'Conflicting views on direction of World Bank's safeguards review', 28 September 2015, <http://www.brettonwoodsproject.org/2015/09/conflicting-views-on-direction-of-world-banks-safeguards-review/>, accessed 10 April 2017; World Bank, 'World Bank meets African caucus in advance of fresh round of talks on safeguards amidst record lending for the continent', Press Release, 10 September 2015, <http://www.worldbank.org/en/news/press-release/2015/09/10/world-bank-african-caucus-safeguards-record-lending-continent>, accessed 10 April 2017; BiC (Bank Information Center), 'World Bank's updated safeguards a missed opportunity to raise the bar for development policy', Press Release, 21 July 2016, <http://www.bankinformationcenter.org/world-banks-updated-safeguards-a-missed-opportunity-to-raise-the-bar-for-development-policy/>, accessed 10 April 2017; Human Rights Watch, 'World Bank: Dangerous rollback in environmental, social protections', 4 August 2015, <https://www.hrw.org/news/2015/08/04/world-bank-dangerous-rollback-environmental-social-protections>, accessed 10 April 2017.

development project, irrespective of the financing source, requires engagement with each of these ‘systems’ from the project-planning phase through to implementation, monitoring and maintenance.

THE CONTEXT OF AND ATTITUDE TO UCS IN SOUTH AFRICA, KENYA AND MOROCCO

The political economy around UCS in different country settings is an important factor in understanding differences in UCS uptake. Various elements come into play, such as the level of economic development and sophistication of an economy, political culture, depth of financial markets, robustness of institutions and availability of finance. While these issues are addressed in more detail in the main section of the report, the following section briefly looks at the background to the case study countries’ engagement with MDBs, specifically focussing on UCS. They are largely drawn from interviews with government officials, staff from MDBs, private financial institutions and NGOs, and independent experts in the respective countries.

SOUTH AFRICA

Understanding the power dynamics between South Africa and MDBs is crucial to the analysis of the country’s position on UCS. South Africa’s political culture has traditionally championed national independence and self-sufficiency. As the economic powerhouse of the Southern African region, South Africa is less reliant on MDB loans than other countries, while also contributing to the concessional windows of key MDBs, which is indicative of its economic position. Conversely, as a middle-income country (MIC) with general political stability, strong country systems and the ability to pay back loans, South Africa is highly sought after by MDBs. This gives it significant leverage in negotiating loan terms with MDBs. Thus, in South Africa the concept of UCS is viewed as a right rather than a privilege. Among government stakeholders, UCS is widely regarded as necessary to ensure that South Africa’s developmental objectives are protected and promoted. Conditionalities put forward by MDBs are viewed with suspicion and often result in reconsideration on South Africa’s part.

Additionally, South Africa’s ESF regime is the strongest in the region. It meets many benchmarks that MDBs consider to be non-negotiable, such as limits on pollution levels, mandatory public participation and the consideration of cumulative impacts. Similarly, strong PFM in South Africa is underpinned by an efficient revenue collection authority, prudent macroeconomic policy and a PFM act that promotes fiscal accountability and transparency. The combination of South Africa’s negotiating power and strong systems makes it a comfortable choice for the World Bank’s piloting of UCS for lending. This has resulted in two UCS pilot projects in South Africa for ESF – the Isimangeliso Wetland and the Medupi Power Station – as well as the use of South Africa’s procurement systems for various projects.

While both MDBs and the South African national government favour UCS, its implementation is not without challenges. The application of ESF is a good example of the challenges that can arise. Although South Africa's standards measure up internationally and are generally in harmony with those of MDBs, and its implementation capacity is also strong, this still does not necessarily translate into the smooth execution of ESF. While the Department of Environmental Affairs is broadly in agreement with the environmental standards of MDBs, other infrastructure-focused departments prioritise the prompt rollout of infrastructure services (such as water, energy and transport) to the population. They regard some of the national ESF standards promulgated by the Department of Environmental Affairs as overly time consuming and an obstacle to service delivery and economic development, and any additional obligations imposed by MDBs are viewed with further frustration. This leads to tension around UCS, with MDBs and between departments. To the dismay of MDBs and their international shareholders, this has also resulted either in ESF standards' being lowered or, if they are not relaxed, in fuelling South Africa's unfavourable view of MDB loans.

These dynamics, together with South Africa's ability to mobilise its own resources, have resulted in a slower uptake of MDB-financed projects in the country than expected, given its favourable profile among MDBs (see Table 1 and Figure 2). Despite the fact that no restrictions were placed on South Africa's lending from the World Bank throughout the apartheid era (1948–1994), lending remained low.¹⁷ It only joined the AfDB in 1995,¹⁸ with its first significant activities being in 1997 with a line of credit to the Development Bank of Southern Africa (ZAR¹⁹ 330 million [\$25.5 million]) and equity participation in the South African Infrastructure Fund to the value of ZAR 113 million (\$8.7 million).²⁰ South Africa has never been eligible for funding through the World Bank and AfDB's concessional windows, but has contributed to both.

17 Bond P, *Against Global Apartheid: South Africa Meets the World Bank, IMF, and International Finance*. Basingstoke: Palgrave Macmillan, 2003.

18 Bolin L, 'SA backs former Zim minister for AfDB head', *Mail & Guardian*, 20 April 2005, <https://mg.co.za/article/2005-04-20-sa-backs-former-zim-minister-for-afdb-head>, accessed 31 May 2017.

19 Currency code for the South African rand.

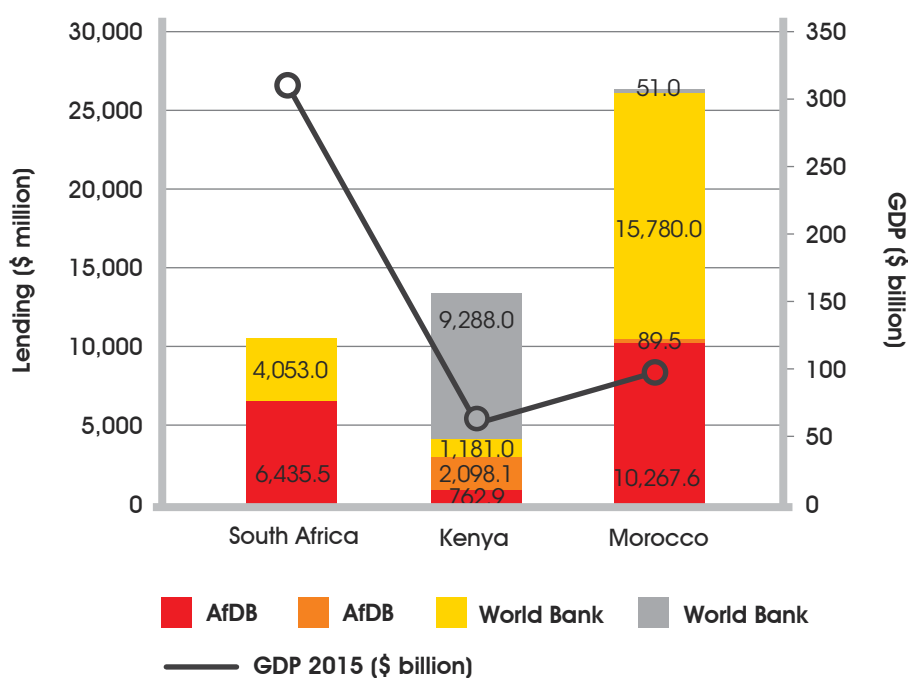
20 AfDB, *Republic of South Africa: Results-based Country Strategy Paper 2008–2012*, February 2008, <https://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/ADB-BD-WP-2008-12-EN-SOUTH-AFRICA-2008-2012-CSP-FINAL-REVISED-18-FEBRUARY-20081.PDF>, accessed 31 May 2017.

TABLE 1 MDB LENDING TO SOUTH AFRICA (\$ MILLION)

AfDB		WORLD BANK	
AfDB (1967–2015)	ADF ^a (1974–2015)	IBRD ^b (1945–2016)	IDA ^c (1960–2015)
\$6 435,55	0	\$4 053,00	0

- a African Development Fund
 b International Bank for Reconstruction and Development
 c International Development Association

Source: AfDB, 'Compendium of Statistics 2016', <https://www.afdb.org/en/knowledge/publications/compendium-of-statistics-on-bank-group-operations/compendium-of-statistics-on-bank-group-operations-2016/>, accessed 1 September 2017; World Bank, 'Annual Report 2016', <http://www.worldbank.org/en/about/annual-report/>, accessed 1 September 2017

FIGURE 2 HISTORICAL LENDING FROM MDBs AND GROSS DOMESTIC PRODUCT (GDP) – SOUTH AFRICA, KENYA AND MOROCCO


Source: AfDB, 'Compendium of Statistics 2016', <https://www.afdb.org/en/knowledge/publications/compendium-of-statistics-on-bank-group-operations/compendium-of-statistics-on-bank-group-operations-2016/>, accessed 1 September 2017; World Bank, 'Annual Report 2016', <http://www.worldbank.org/en/about/annual-report/>, accessed 1 September 2017; World Bank Databank, 'World Development Indicators', <http://databank.worldbank.org/data/home.aspx>, accessed 12 June 2017

KENYA

In Kenya the government is much less likely to insist on full UCS than in South Africa. Government stakeholders strongly advocate the adoption of a ‘hybrid’ system in the use of PFM and ESF. This consists of a combination of MDB requirements and Kenyan laws, where MDB requirements can be adapted to the Kenyan context in appropriate cases. The general government sentiment is that Kenya should be (and is, for the most part) compliant with international standards as it is a capable lower middle-income country (LMIC) that should set an example for its region. It has also updated its legislation in recent years to ensure that this is, in fact, the case.

The [2012 constitution](#) highlights the importance of protecting the environment and the need to balance sustainable development and economic progress. It also introduces a new form of devolved government to improve financial accountability, supplemented by the [Public Financial Management Act of 2013](#). Given that both these pieces of legislation incorporate international best practice, government stakeholders believe that there is not a major difference between Kenya’s standards and those of MDBs. Stakeholders also expressed an understanding of the legal accountability requirements of MDBs and the need for Kenya to comply with these. Negotiations during the financing agreement phase generally serve to iron out any tensions that might exist between Kenya’s system and the requirements of MDBs.

Furthermore, Kenyan stakeholders also do not fully ascribe to the common criticism of increased red tape when having to use ‘parallel’ systems when adopting MDB frameworks. While some view MDB frameworks as bureaucratic, particularly those of the World Bank, they also note that there has been a significant effort in recent years to reduce red tape. A strong driver in the improved relations with MDBs is the large number of active MDB projects in Kenya (see volume of lending from AfDB and WB in Table 2). Kenyan government officials have developed effective domestic capacities, structures and cumulative experience to deal with MDB projects as they become familiar with requirements over multiple projects. Stakeholders also assert that Kenyan systems are used primarily in MDB projects, with only minimal additional oversight by MDBs. The main disparities arise at the enforcement level, an area in which stakeholders believe there is room for improvement by the Kenyan government. They also hold the view that MDB enforcement mechanisms should remain in place until it does improve.

TABLE 2 MDB LENDING TO KENYA (\$ MILLION)

AfDB		WORLD BANK	
AfDB (1967–2015)	ADF (1974–2015)	IBRD (1945–2016)	IDA (1960–2015)
\$762,86	\$2 098,05	\$1 181,00	\$9 288,00

Source: AfDB, ‘Compendium of Statistics 2016’, <https://www.afdb.org/en/knowledge/publications/compendium-of-statistics-on-bank-group-operations/compendium-of-statistics-on-bank-group-operations-2016/>, accessed 1 September 2017; World Bank, ‘Annual Report 2016’, <http://www.worldbank.org/en/about/annual-report>, accessed 1 September 2017

MOROCCO

Morocco has a smaller economy than South Africa but shares many of South Africa's MIC characteristics, namely a well-developed and diversified economy, strong financial sector, well-established legislation in line with international best practice and reasonable capacity in public institutions to carry out the government's policies and mandate. However, Moroccan attitudes towards UCS are more ambivalent, with clear instances where public institutions reject the imposition of external rules, but also cases where there is a realisation of shortcomings in domestic processes, and an acceptance of the imposition of external rules.

For example, within PFM most functions appear to be well established, with the exception of procurement and auditing functions across different spheres of government. In these two areas, which materially influence process risks for MDBs, public officials are more open to MDB guidelines, rules and interventions. At the same time, Morocco considers its ESF to be on par with international best practice, and has been less willing to entertain derogations from national legislation in this area (although serious gaps remain, for example, in the protection of marginalised groups).

Unlike South Africa, Morocco's more amiable relationship with and pliable attitude towards MDBs is strongly influenced by its extensive engagement with and borrowing from these institutions. It is the largest lender of the AfDB, with its total commitment exceeding \$10 billion. Morocco's loans from the World Bank total nearly \$16 billion (see Table 3) with marginal loans from, for example, the International Development Association as a result of graduating from this window in 1975.²¹ At the same time, Morocco has consistently displayed a willingness to actively reform itself, supported by a pro-active engagement with MDBs through, for example, its participation in various UCS pilot programmes.

TABLE 3 MDB LENDING TO MOROCCO (\$ MILLION)

AfDB		WORLD BANK	
AfDB (1967–2015)	ADF (1974–2015)	IBRD (1945–2016)	IDA (1960–2015)
\$10 267,58	\$89,46	\$15 780,00	\$51,00

Source: AfDB, 'Compendium of Statistics 2016', <https://www.afdb.org/en/knowledge/publications/compendium-of-statistics-on-bank-group-operations/compendium-of-statistics-on-bank-group-operations-2016/>, accessed 1 September 2017; World Bank, 'Annual Report 2016', <http://www.worldbank.org/en/about/annual-report>, accessed 1 September 2017

Ultimately, it is clear that the level of support for and buy-in to UCS differs from country to country. The understanding of UCS in South Africa, Morocco and Kenya already highlights three different attitudes: South Africa views UCS as

21 World Bank, 'IDA graduates', <http://ida.worldbank.org/about/ida-graduates>, accessed 12 June 2017.

non-negotiable; Morocco takes a more pragmatic view by identifying weaknesses in its own systems and displaying a willingness to compromise by using MDB systems for select functions; and Kenya recognises that its domestic processes often fall short of international best practices and is happy to work with a ‘hybrid’ country–MDB system. In a continent of 54 countries there are likely to be many more attitudes to UCS.

A CRITICAL ANALYSIS OF UCS: THEORY AND PRACTICE

Greater UCS purportedly brings both financial benefits, such as increased efficiency and effectiveness, and non-financial benefits, such as strengthened domestic systems and greater local capacity. Overall, increased development impact should also be a cross-cutting benefit.²² Among development partners, MDBs have consistently posted higher UCS rates.²³ Nevertheless, as countries and MDBs increase their uptake of country systems, several challenges are putting a strain on the process, such as greater risk exposure for MDBs, limited capacity among countries, system fragmentation where MDB and country safeguards are mixed, and varying degrees of political appetite for UCS among countries and MDBs.

The following section provides an overview of some of the key benefits and challenges of UCS, while also considering the underlying incentives and disincentives for both MDBs and countries to employ UCS.

BENEFITS OF UCS

National ownership, sustainability and sovereignty

First, proponents of UCS suggest that greater UCS increases a country’s buy-in to development projects and ‘democratises’ development²⁴ through the greater involvement of domestic stakeholders, institutions and legal processes. Countries experience increased ownership of projects and feel that their sovereignty and policy space remains intact when MDBs do not impose alternative systems that are not country and context specific. By employing countries’ domestic systems that have evolved organically, MDBs are – in theory – not dictating a particular

22 World Bank, ‘Frequently Asked Questions on the Use of Country Systems in Bank-supported Operations’, 18 October 2004, <http://www1.worldbank.org/publicsector/pe/befa05/usecountrysystems.pdf>, accessed 24 August 2017.

23 OECD, ‘Making Development Co-operation More Effective: 2016 Progress Report’, 3 November 2016, <http://www.oecd.org/publications/making-development-co-operation-more-effective-9789264266261-en.htm>, accessed 12 June 2017.

24 OECD, ‘What are the Benefits of Using Country Systems?’, Policy Brief, 3, <https://www.oecd.org/dac/effectiveness/48780926.pdf>, accessed 24 August 2017.

development path but rather respecting a country's own development processes.²⁵ This perspective is dominant in South Africa and is thus also one of the reasons why the country borrows infrequently from MDBs. On the other hand, Kenyan stakeholders noted that the added option of accessing Chinese development finance has emboldened the government to exercise more leverage in shaping the financing terms for development projects (ie, insisting on using Kenyan systems). They thus feel that there is adequate space to accommodate sovereignty concerns even when utilising MDB systems.²⁶

Second, greater UCS could enhance the sustainability of projects by facilitating development finance more holistically. One of the key challenges of infrastructure development is reoccurring costs related to the ongoing maintenance and management of projects following completion. Arguably, ensuring that infrastructure spending is 'on plan' from a domestic budgeting perspective also ensures that provision is made for recurring costs.²⁷ Sustainability of development impact is further strengthened when funds are more predictable and governments can plan better.²⁸

Third, by employing local systems there should also be a stronger alignment between MDB activities and national development priorities and strategies. Countries value the balance of environmental protection, social protection and economic objectives differently. Thus, the value placed on these three pillars of sustainable development in MDB safeguards can support or conflict with national development priorities. In the case of South Africa, for example, national development objectives to eliminate poverty and address structural and historical inequality are clearly defined, and strategic objectives in every sector are linked to this mandate. Yet South African government representatives tend to find that systems imposed by MDBs conflict with these objectives. For example, MDBs often require that strategic project positions are held by international staff, which conflicts with national objectives of promoting historically disadvantaged individuals and marginalised groups (women and the disabled) and building capacity. Additionally, prioritising certain environmental protections, for example the protection of an endangered species, often results in costlier and lengthier projects, which also have implications for the provision of resources to the poor.²⁹

Strengthened domestic systems

UCS can also strengthen domestic systems. Strong domestic systems become increasingly important where MDBs and public funds are unable to meet all the infrastructure financing needs of a country and other sources of infrastructure

25 Humphrey C, 2016, *op. cit.*

26 Personal interviews, various public officials, Nairobi, 13–17 March 2017.

27 OECD, 'What are the Benefits of Using Country Systems?', *op. cit.*

28 CABRI, *op. cit.*

29 Personal interviews, public officials, Pretoria, 6–11 April 2017.

finance become more prominent. Investment in strengthening domestic systems should allow countries to better manage their resources, as well as private, bilateral or national bond finance.³⁰ This is especially pertinent given the focus on the contribution private finance can make to address infrastructure financing deficits in key global policy dialogues such as the G20.

First, MDBs can, through the transparent use of national country systems, expose deficiencies in these systems. Concomitantly, they can offer countries incentives to strengthen their systems (eg, through grants for technical support or capacity building).³¹ An assessment of the World Bank's approach to UCS confirms that building on national systems not only strengthens these systems but also embeds them over the long term, as utilisation further institutionalises them.³² At the same time, MDBs' willingness to use country systems signals to a government that it conforms with international best practice, while showing other potential financiers that the country systems meet international requirements.³³

BOX 1 AUDITING AND CAPACITY BUILDING IN MOROCCO

Like procurement, an auditing function is vital for financiers. Yet the approach taken to auditing by financial institutions in Morocco has been ineffective in developing local systems. The development of public auditing capacity has been continuously undermined by outsourcing auditing functions to reputable private firms. Most stakeholders in this sector note the need for more investment by the country in building reputable public auditing institutions. This is especially urgent against the backdrop of the conclusions of the AfDB's Country Strategy Paper 2012–2016 completion report, which notes that UCS in its entirety should be feasible from 2020 onwards for project implementation (including utilisation of the public expenditure circuit) in Morocco. The hope is to have a Court of Auditors in place by 2020 that will certify capital accounts. It is essential that the relevant domestic capacity within the government be built pro-actively to meet both this target and the quality standards – such as transparency – expected by financial service providers. This will require a different approach to the mere outsourcing of this function to independent private firms, but it is difficult to envisage how this might occur without the significant boosting of local capacity.

30 OECD, 'What are the Benefits of Using Country Systems?', *op. cit.*

31 Humphrey C, 2016, *op. cit.*

32 Larsen G & A Ballesteros, *op. cit.*

33 *Ibid.*

Second, by implementing MDB-specific safeguards and policies, countries become more acquainted with international best practice, which should ultimately strengthen domestic systems.³⁴ The World Bank, however, notes that while the strengthening of its own procurement rules during the 1990s led to fewer instances of financial mismanagement, the new principles and rules did not always change the behaviour of its borrowers. As a result it made a concerted effort to build domestic institutional capacity on PFM functions.³⁵

Third, greater UCS and fewer parallel systems will reduce incidents where MDBs ‘poach’ the most qualified government officials through offers of higher salaries.³⁶ In more developed countries such as South Africa and Morocco, which can offer adequate civil service salaries, this is not a major problem. However, in countries such as Kenya this is of greater concern, evidenced by the high staff turnover in government departments. This not only removes capacity from domestic systems but also fails to promote the long-term sustainability impacts of development projects. Systems are therefore strengthened when UCS ensures that the most experienced officials remain in public institutions.

Eliminating duplication of efforts and costs

Greater efficiency and lower transaction costs are also benefits stemming from UCS, both for borrowers and for MDBs. Instead of managing parallel systems that essentially perform the same tasks, employing only one set of management systems should reduce both the time and costs to the various parties. Transaction costs, for example, could be brought down by eliminating the need for large numbers of staff dedicated to managing dual processes and preparatory studies.

The prohibitive costs of dual processes are highlighted in countries’ and MDBs’ execution of ESFs. For example, the AfDB notes that it finds environmental and social assessments ‘cumbersome and costly in time and financial resources’.³⁷ Estimates suggest that World Bank equivalence and acceptability assessments for a single country cost around \$104,000, with bank staff finding it difficult to access the necessary finances internally and partner countries unwilling to carry the costs.³⁸ Table 4, originally included in an Independent Evaluation Group (IEG, an independent body of the World Bank that evaluates the development effectiveness of the World Bank Group) report evaluating the effectiveness of World Bank safeguards, shows that borrowing countries shoulder the bulk of safeguard costs. In addition, a private investment firm in Morocco has noted that doing an environmental impact assessment (EIA) for Morocco using the domestic system costs roughly \$20,000–

34 *Ibid.*

35 Pallas CL & J Wood, ‘The World Bank’s use of country systems for procurement: A good idea gone bad?’, *Development Policy Review*, 27, 2, pp. 215–230.

36 Knack S, 2013a, *op. cit.*

37 AfDB, 2015, *op. cit.*

38 Larsen G & A Ballesteros, *op. cit.*

\$30,000 per study, while the costs would be at least five times as much for World Bank or Equator principles (a risk management framework adopted by numerous financial institutions).³⁹ These estimates do not include the cost of implementing the guidelines where they fall short of MDB standards.⁴⁰ The AfDB has called for an improvement on current tests, suggesting a simplified approach that could 'take into consideration country reviews or some of their components accompanied and supplemented by policy dialogue with the country concerned'.⁴¹ It suggests that such an approach be focussed on three principles: a good understanding of the country system, the implementation of terms and conditions, and flexibility.

TABLE 4 THE AVERAGE AND MEDIAN COSTS OF SAFEGUARDS (\$)

	BANK COSTS (n=60)		BANK CLIENT COSTS (n=53)		IFC COSTS (n=37)	
	AVERAGE	MEDIAN	AVERAGE	MEDIAN	AVERAGE	MEDIAN
A	72,412	51,061	19,230,200	8,357,000	254,450	60,264
B	45,675	22,876	5,168,489	4,031,200	24,654	12,195
Sample total	59,766	38,700	13,544,300	5,920,000	62,953	19,062

NOTE: These cost tables include data from completed and active projects in the portfolio sample and provide an incomplete picture of full costs on safeguards/performance standards at closure. World Bank data are based on 60 projects: 28 completed projects (22 category A, and 16 category B), and 32 active projects (15 category A, and 17 category B). IFC data are based on 37 projects: 6 completed projects (all category B), and 31 active projects (6 category A, and 25 category B). While they are instructive in providing the relative proportion of safeguard costs, and in comparing costs of individual projects with risk-adjusted benefits, they are not appropriate for drawing inferences on resource allocation for safeguards. Category A refers to 'very high impact' projects and Category B to projects with 'substantial impact'.

Source: IEG (Independent Evaluation Group), 'Safeguards and Sustainability Policies in a Changing World: An Independent Evaluation of World Bank Group Experience', The World Bank Group, 2010, https://ieg.worldbankgroup.org/Data/reports/safeguards_eval.pdf, accessed 12 June 2017

Finally, duplication of effort and the increased associated costs are some of the compelling reasons why countries choose private finance that relies more on UCS, over MDB finance.⁴² As African countries – including MICs such as South Africa and Morocco and LMICs such as Kenya – improve their macroeconomic positions, they become increasingly attractive to alternative infrastructure financiers, underlining the need to strengthen country systems. Encouragingly, in South Africa MDBs were

39 Personal interviews, private financial institutions, Casablanca, 27–31 March 2017.

40 *Ibid.*

41 AfDB, 2015, *op. cit.*

42 Prinsloo C, *op. cit.*

praised by stakeholders interviewed for their cooperation on projects with multiple financiers, for example by coordinating preparatory or supervisory missions.⁴³

CHALLENGES TO GREATER UCS

Risks to MDBs

Lending inherently carries risk for all financial institutions. While safeguards appear to be overly burdensome and stringent, many policies are instituted to protect MDBs against financial, fiduciary, reputational or development risks. The analysis of risk below not only highlights some of the advantages and disadvantages of UCS but also addresses the incentives and disincentives for MDBs to undertake UCS.

Financial

The levels of financial risk differ at various stages of lending and are country dependent. Financial risk also needs to be understood vis-à-vis the different mechanisms used by MDBs to facilitate funds.⁴⁴ Three main channels feature in MDB disbursements to countries: directly to the Treasury; directly to the responsible institution; or through a third party (eg, a project implementation unit or consultancy). The first two methods rely on country systems and carry more risk, while the third largely circumvents the domestic system and is perceived to be less risky.⁴⁵

Perhaps the greatest financial hazard for MDBs lies in process risks. These are risks faced throughout the lending cycle, largely concentrated in four PFM pillars: budget, procurement, audit and reporting.⁴⁶ At any one point in each of these processes, the mismanagement of funds (waste and corruption) is detrimental to the institution. It directly affects its credit rating and ultimately its ability to offer concessional loans.⁴⁷ Therefore, the wish to mitigate these risks through, for example, independent financial controls and oversight is understandable. While repayment risk – the ability of a country to repay its loans to an MDB – is also a consideration, it is less pertinent in relation to UCS considering the long-term nature of loans, the preferred creditor status often enjoyed by MDBs, and the ability to restructure loans should a country be unable to service its debt. The Development Bank of Southern Africa, for example, has never had a country default on any of its loan obligations.⁴⁸

43 Personal interviews, public officials, Johannesburg and Pretoria, March 2017.

44 Larsen G & A Ballesteros, *op. cit.*

45 CABRI, *op. cit.*

46 *Ibid.*

47 Personal interview, MDB representative, Nairobi, 17 April 2017.

48 SAIIA (South African Institute of International Affairs), GEG Africa & UNCTAD (Conference on Trade and Development), Conference Discussion, *Finance and Development: Lessons from Africa, Asia and Latin America*, Johannesburg, 10–11 May 2017.

A lack of adequate ESF safeguards could also negatively affect a project's financial health. If too little time is spent on identifying and mitigating environmental and social impacts, disaffected populations or civil society groups could initiate protests or legal proceedings that could hinder project progression, thereby increasing costs and inducing project delays.⁴⁹ At the same time, project cancellations are equally a liability. Significant resources (technical and financial) are devoted to preparing a project, all of which are lost if projects are cancelled.

Morocco presents an interesting and replicable example of how financial risks are mitigated by MDBs using local private financial institutions to channel infrastructure financing, while also increasing uptake of country systems. By using domestic banks, a type of financial intermediary (FI), they ensure that up to 90% of domestic processes and systems are used, with incidences of financial mismanagement of less than 3% being reported (see Box 2).⁵⁰ A Moroccan financial expert argues that MDBs should channel development finance through local banking institutions, given that they match global fiduciary criteria and at the same time assure greater transparency, accountability and development impact.⁵¹ This could be a vital entry point for MDBs into greater UCS.

BOX 2 MOROCCO SUSTAINABLE ENERGY FINANCING FACILITY

The Morocco Sustainable Energy Financing Facility (MorSEFF) is an initiative by the European Bank for Reconstruction and Development, the European Investment Bank, Agence Française de Développement and the Kreditanstalt für Wiederaufbau that channels infrastructure development finance to SMEs to invest in efficient energy (EE) and renewable energy (RE) equipment. The programme is managed through a PIU, whose primary activities include the provision of financing through on-lending to local private financial institutions (BMCE Bank and Banque Populaire) and providing technical assistance and capacity-building support to these institutions. This entails advising the banks on the proposals they receive and providing the loan beneficiaries with factory walkthrough assessments.

The project allows for the use of up to 90% of domestic systems by effectively 'outsourcing' all activities to domestic banks, which are responsible for advertising opportunities, identifying beneficiaries and undertaking financial viability and environmental and social impact assessments. Because the project works exclusively with private banks and SMEs, this essentially means that a large part of the UCS is 'private'

49 AfDB, 2015, *op. cit.*

50 Personal interview, MorSEFF, Casablanca, 27–31 March 2017.

51 Personal interview, private financial institutions, Casablanca, 27–31 March 2017.

rather than country PFM. At the same time all the projects need to comply with domestic ESF legislation. Equally, by outsourcing financial risk management to reputable financial institutions, the MDBs manage to mitigate their financial risks, with less than 3% financial mismanagement reported (two out of 65 projects).

This project has already led to a number of positive development gains in Morocco. First, it uses country systems to a significant extent. Second, due to sensitisation to RE and EE, many banks are now preparing their own project units specialising on this area to assist their clients, while also looking to replicate the system in sub-Saharan Africa in cooperation with the AfDB. Third, the project is also very conscious of the impact on the domestic environment. For example, it provides financing to banks at market rates to not distort the market (with technical assistance and capacity building being the main value-add) and staffs the PIU with exclusively Moroccan technical experts (12 in total, with an equitable gender representation).

Nonetheless, there are also clear shortcomings in the project. By working only with the Moroccan private sector, the project misses an important opportunity to build government capacity. Based on experiences in Eastern Europe on which this project was modelled, the project is specifically designed to exclude public institutions, as this would slow down processes and likely increase risks for its backers (MDBs). In addition, having a PIU manage this project rather than locating it in a ministry in itself runs counter to a UCS approach. While domestic systems are used, little is being done to improve these systems. For example, beneficiaries complain about payouts being late or delayed because of bank processes.

Nevertheless, the attraction of this approach for MDBs lies in the extensive UCS while mitigating financial risk. This is certainly an approach that could be scaled up, with some amendments.

Source: Personal interviews, MorSEFF, 30 March 2017; MorSEFF, <http://www.morseff.com/fr/>, accessed 20 May 2017.

However, this approach does not come without its risks. The International Finance Corporation (IFC), the World Bank's private sector lending wing, distributes over 50% of its funds to FIs, and has faced harsh criticism for both the negative community impacts that often result from these projects and the IFC's slow path to reform. Although the IFC requires FIs to institute its own ESF framework, oversight of subprojects' implementation is not periodic and has given rise to controversial project impacts, such as land grabs. Additionally, FIs have often not been transparent about the risk level of their subprojects, and the IFC has not

held them accountable.⁵² Therefore, while greater utilisation of domestic banks can increase country usage of financial processes and capacitate SMEs, because FIs have greater distance from the actual end projects it is also easier for them to outsource risk and oversight, resulting in lack of adherence to a country's ESF standards. It is thus important to ensure that the potential pitfalls are recognised from the outset and managed acutely when engaging FIs, rather than waiting to address these retroactively.

Other innovations, such as the Programme for Results (PfR) approach, have also been aimed at limiting risks for MDBs while promoting UCS and better development outcomes. PfR was first adopted by the ADB in 2005, and later piloted by the World Bank in 2012. Here the disbursement of funds is linked to measurable development outcomes, hence the focus is less on processes than on positive development outcomes. Safeguards from MDBs could be relaxed, allowing greater UCS, provided that positive outcomes are achieved.

As of mid-2016, the World Bank approved 57 projects totalling \$13.8 billion using a PfR approach. Although the approach is still new, borrower feedback has been favourable and includes fewer transaction processes, borrowers' institutionalising the verification of results, and a shift in focus from verification to results. Yet despite the positive sentiments regarding this approach found in the case study countries and from MDBs, there are potentially two key drawbacks: withholding funds from countries due to their failure to achieve results could create the impression that MDBs are holding countries hostage; and if funding is not adequately planned for in government budget planning cycles, implementing institutions could experience cash-flow constraints. Additionally, an IEG report shows that the World Bank has been more cautious in terms of the project risk level that it will finance with this mechanism, given PfR's greater flexibility. This could lead to the exclusion of certain project components with higher environmental and social risks, which then continue without any bank oversight.⁵³ While PfR pilots have mainly been implemented in social sectors such as health and education, this approach is beginning to be adopted in certain portions of infrastructure loans. Measuring developmental impacts for infrastructure may be more challenging and less straightforward, and the approach may also experience more resistance given that infrastructure finance carries more risk. This could lead to a potentially problematic piecemeal approach to PfR that

52 Edwards S, 'IFC still failing to track impact of investments on local communities, reports say', *Devex*, 17 March 2017, <https://www.devex.com/news/ifc-still-failing-to-track-impact-of-investments-on-local-communities-reports-say-89821>, accessed 30 May 2017; Oxfam, 'The Suffering of Others: The Human Cost of the International Finance Corporation's Lending through Financial Intermediaries', Oxfam Issue Briefing, April 2015, https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/ib-suffering-of-others-international-finance-corporation-020415-en.pdf, accessed 1 September 2017; Bretton Woods Project, 'IFC funding to financial intermediaries: Unfit for purpose', 31 March 2013, <http://www.brettonwoodsproject.org/2014/03/ifc-funding-financial-intermediaries-unfit-purpose>, accessed 30 May 2017.

53 IEG (Independent Evaluation Group), *Program-for-Results: An Early-Stage Assessment of the Process and Effects of a New Lending Instrument*, World Bank, <http://ieg.worldbankgroup.org/Data/Evaluation/files/program-for-results-full.pdf>, accessed 13 June 2017.

absolves MDBs from financing and taking responsibility for some of the riskiest portions of projects.

The prevailing sentiment in Morocco is that technology has the potential to change the risk for MDBs by ensuring better accountability and transparency. Great strides have been made in recent years towards improving performance through the introduction of e-governance and e-procurement. E-governance can also increase effectiveness and efficiency.⁵⁴ Here, importantly, a focus on transparency remains key.

Reputational

In the past MDBs have experienced significant reputational damage from allegations of financial mismanagement or gross environmental or social violations occurring in MDB-financed projects.⁵⁵ It is therefore understandable that MDBs would wish to mitigate such risks by imposing appropriate safeguards. These risks have become even more prominent since the 1980s, when NGOs and other CSOs began to directly oppose World Bank ESF policies through mass protests and petitions,⁵⁶ as well as indirectly through lobbying policymakers in shareholder states. The latter approach has had significant success in the US, the largest shareholding country in the bank (and in most other MDBs, such as the AfDB, where it is the largest non-regional shareholder – see Table 5), through environmental CSOs' lobbying of the US Congress, which votes on the Treasury's release of funds. While these dynamics have come to a head in the past few decades in particularly controversial projects, such as the Narmada Dam in India, CSO influence in the US Congress continues.⁵⁷ An example is the US Congress' opposition to the World Bank's new safeguards and greater UCS, enforced through the 2016 Consolidated Appropriations Act, which requires the US to vote against any projects that advocate for safeguards below the World Bank's previous standards.⁵⁸ Pressure from CSOs, NGOs and member states can have a positive impact in ensuring that the bank embraces sustainability and recognises local affected parties. However, certain scholars maintain that MDB safeguards are in place more for the purpose of defending their reputation than addressing broader ESF issues, and that transnational civil society often prioritises

54 Personal interview, private financial institutions, Casablanca, 27–31 March 2017.

55 Humphrey C, 'Challenges and Opportunities for Multilateral Development Banks in 21st Century Infrastructure Finance', GGGI (Global Green Growth Institute) & Intergovernmental Group of 24, Special Paper Series. Seoul: GGGI, 2015.

56 Bradlow DD, 'Southern African governments, multilateral development banks, non-state actors, and sustainable infrastructure: Managing changing relationships', *South African Journal of International Affairs*, 22, 3, 2015.

57 Pallas CL, *Transnational Civil Society and the World Bank*. New York: Pallgrave MacMillan, 2013; Park S, *World Bank Group Interactions with Environmentalists: Changing International Organisation Identities*. Oxford: Oxford University Press, 2010.

58 CIEL (Center for International Environmental Law), 'US Congress opposes World Bank plan to weaken environmental and social protections, seeks transparency about "beneficial owners" of shell companies', Press Room, 23 December 2015, <http://www.ciel.org/news/us-congress-opposes-world-bank-plan-to-weaken-environmental-and-social-protections-seeks-transparency-about-beneficial-owners-of-shell-companies/>, accessed 31 May 2017.

Northern environmental and social issues over the acute issues of affected parties in borrowing countries. Additional concerns surface around international organisations' interference in the important role of the state in developing countries to build accountability to its population.⁵⁹ Such organisations strongly oppose any changes to current frameworks and the reorganisation of major shareholders to include greater representation of non-OECD countries.⁶⁰ For example, the Medupi Power Project in South Africa has seen broad-based domestic and international opposition from anti-coal groups. While the funding of coal projects is heavily restricted by US Treasury guidelines,⁶¹ MDBs are able to circumvent these restrictions. It is worth noting that this prohibition is driven by US senators supported by large lobby groups in their districts.

TABLE 5 DISTRIBUTION OF VOTING POWER IN THE AfDB OF FIVE TOP REGIONAL AND NON-REGIONAL COUNTRIES AS AT 31 MARCH 2016

REGIONAL MEMBERS	VOTING POWERS	NON-REGIONAL MEMBERS	VOTING POWERS
Nigeria	8.87%	US	6.54%
Egypt	5.42%	Japan	5.47%
South Africa	4.95%	Germany	4.11%
Algeria	4.22%	Canada	3.81%
Côte d'Ivoire	3.72%	France	3.75%
Rest – Regional	32.26%	Rest – Non-regional	16.91%

Source: Prinsloo C, 'Partnering with the New Development Bank: What Improved Services Can It Offer Middle-Income Countries?', GEG Africa (Global Economic Governance Africa), November 2016

However, issues around MDBs' reputational risks do not always create tensions in borrowing countries. In Kenya stakeholders welcome additional MDB safeguards to ensure the comprehensive involvement of civil society, especially marginalised and indigenous groups, in pre-project consultations. Support stems both from a moral standpoint (given the perceived weaknesses in Kenya's legislative and implementation capacity to cover all potentially affected community members) and from an efficiency perspective to better manage civil society resistance to projects during implementation.⁶² And while Morocco has an active and vibrant NGO community, there is very little legally mandated space for it to engage; ie, there is

59 Humphrey C, 2016, *op. cit.*

60 Humphrey C, 2015, *op. cit.*

61 Reuters, 'US lays out strict limits on coal funding abroad', 29 October 2013, <http://www.reuters.com/article/us-usa-climate-coal-idUSBRE99S17Y20131029>, accessed 20 May 2017.

62 Civil society resistance to projects has become much more organised in recent years. Personal interview, Kenyan government representative and civil society organisation, 15 April 2017.

no mechanism that seeks NGOs' participation and very little information sharing.⁶³ In this case MDB systems can also be of use.

Development/performance/implementation

Development has always been the *raison d'être* of MDBs. The notion of what constitutes 'development', however, has changed. It is no longer enough for a project to merely contribute to economic growth and be financially viable. Instead, in order to ensure a positive, sustainable contribution to a country and its citizens, infrastructure projects also need to be environmentally sound and socially acceptable. While the PDAE commits to UCS 'to the maximum extent possible', it also recognises that weak country systems could have an adverse effect on the development impact of aid by inducing corruption and environmental and social degradation.⁶⁴

It is often argued, especially with controversial projects, that the involvement of MDBs –rather than other financiers – leads to better outcomes because of the premium that they place on ensuring the best development outcome.⁶⁵ According to the AfDB, typical shortcomings that engender development risk include inadequate protection of vulnerable groups or gender; lack of disclosure; insufficient public consultation; insufficient consideration and protection of archaeological or cultural heritage; and inadequate compensation to displaced people or for land acquisition.⁶⁶ Several of these shortcomings were identified across the case studies.

In moving towards greater UCS, MDBs have to be especially cognisant of domestic legislation on gender and marginalised groups, as inadequate protection or representation of such groups is often an issue in developing countries. Even where legislation exists to ensure these groups are considered in infrastructure development, implementation can be inadequate. When considering whether or not domestic PFM processes are sensitised to take women and marginalised groups into account, some questions should be raised: Do planning and budgeting processes include adequate public engagement? Where needed, are there special provisions in procurement policies to engage marginalised groups? Do auditing and reporting mechanisms account for impact on different gender and marginalised groups? If domestic systems have such provisions, are they actually implemented? As is highlighted in the case of the Mooi Mgeni Transfer Scheme project in South Africa (see Box 3), even South Africa, with arguably the most advanced ESF framework among the three case study countries, faces challenges in this regard.

The case of the Mooi Mgeni Transfer Scheme highlights the importance of addressing the concerns of affected communities, the capacity challenges faced by such

63 Personal interviews, various non-governmental organisations, Morocco, 27–31 March 2017.

64 Knack S, *Building or Bypassing Recipient Country Systems: Are Donors Defying the Paris Declaration?*, World Bank Policy Research Working Paper, 6423, April 2013b.

65 Pallas CL & J Wood, *op. cit.*

66 AfDB, *op. cit.*

communities, and the need to ensure that adequate capacity building is in place to support the process (see below).

BOX 3 THE MOOI MGENI TRANSFER SCHEME PHASE II IN SOUTH AFRICA

A key challenge facing large-scale infrastructure developments is the displacement of people throughout project development. While South Africa has strong ESF legislation to protect vulnerable people from the negative effects of infrastructure development, particularly in the form of public consultations, adequate implementation of such legislation relies greatly on the capacity of affected communities to engage with project sponsors. The [Mooi Mgeni Transfer Scheme Phase II](#) in South Africa (a dam and water transfer scheme to provide water to drought-affected urban areas), for example, highlighted the complexity of this challenge.

The community participation process consisted of public meetings during the EIA process, monthly Environmental Monitoring Committee meetings throughout implementation, and special meetings with particularly affected groups, thereby complying with and even going beyond domestic legislation. However, challenges remained, particularly in terms of reaching and effectively empowering the most marginalised. This was largely due to the drastic impacts on the livelihoods of local community members and their lack of capacity to engage with such developments via the public officials and specialists who developed the project. This limited their agency to affect change. Families who had been working informally on the affected farms for generations were displaced and relocated to townships. Although they were given new houses, which to all appearances was an improvement, they had lost their jobs and were relocated to an area with high unemployment.

Compounding this issue was the difficulty of empowering such marginalised groups to adequately voice their concerns. Given the lack of capacity within the community, project sponsors brought in an outside person with connections to the community as their representative. However, this representative did not have an in-depth understanding of community issues and rarely visited. In addition, the way in which the project sponsors engaged was not conducive to empowered participation. For example, the project sponsors presented the technical measurements of the displaced workers' new houses to older family members, who were illiterate. The community also faced structured disempowerment in terms of their ability to speak up strongly, based on the belief that the project sponsors were both more educated and powerful. When sponsors said the project would be good for the community, they felt impelled to agree.

Affected inhabitants only found relief when a local educator took up their plight as an informal representative very late in the project. This points to the necessity of specialised services to represent communities. It also illuminates the need for greater focus and capacity building by MDBs so that communities can effectively engage, especially if the aim is to step up UCS efforts.

Source: Markowitz C, *Stakeholder Perceptions of Public Participation in Development Projects: A Case Study of the Social Impacts of the Mooi Mgeni Transfer Scheme Phase II*, Graduate School for Social Sciences, University of the Witwatersrand, March 2016

Key obstacles to strengthened domestic systems

It has been more than a decade since the 2005 implementation of the PDAE, so an assessment on whether country systems have actually improved is pertinent. The OECD's evaluation of the implementation of the PDAE in 2011 suggested that⁶⁷

over one-third of all developing countries showed an improvement in the quality of their public financial management systems over the period 2005–10. At the same time, one-quarter of them saw setbacks in the quality of these systems.

Table 6, highlighting the strength of PFM systems as measured by the World Bank's Country Policy and Institutional Assessment (CPIA) between 2010 and 2015, shows that there has actually been an overall decrease in the strength of countries' PFM functions. It is difficult to isolate the causes of this decline as numerous exogenous factors should be considered, such as the impact of the global financial crisis and the commodity downturn, and national political developments. The table should be viewed within this context.

TABLE 6 THE QUALITY OF COUNTRY SYSTEMS					
QUALITY OF BUDGETARY AND PUBLIC FINANCIAL MANAGEMENT (CPIA 13)					
		2010		2015	
Score		Number of countries	%	Number of countries	%
Strong	4,5	2	4	0	0
	4,0	7	12	7	12
Moderate	3,5	23	40	21	35
	3,0	13	23	21	35
	2,5	8	14	10	17
	2,0	4	7	0	0
Weak	1,5	0	0	1	2
Total countries assessed		57		60	

Source: OECD/UNDP, *Making Development Co-operation More Effective: 2016 Progress Report*. Paris: OECD Publishing, 2016

67 OECD, *Aid Effectiveness 2005–10: Progress in Implementing the Paris Declaration*, <http://www.oecd.org/development/effectiveness/48734301.pdf>, accessed 31 May 2017.

While it appears that there has been an overall backslide over this period, this is not the case for all countries. Morocco, for example, made significant progress in controlling corruption and improving governance efficiency and accountability between 2004 and 2014. In 2015 its overall CPIA score was 4.09, making it the 13th best performer on the African continent. According to the World Bank's governance indicators,⁶⁸ the country also recorded a significant improvement in the efficiency of public participation, with its score moving from 56 to 48 between 2004 and 2014.

It is important to note that it is not only the strength of a country's PFM system that dictates MDBs' uptake of country systems. Other factors, such as the relationship between the MDB country office and the government, are also important.⁶⁹ MDBs tend to rely increasingly on the PFM systems of individual countries as their trust and confidence in these systems grow, based on ongoing engagement.⁷⁰ MDBs working in Morocco noted that while, as a rule, development policy loans have been important in helping the country to develop appropriate legislation for certain PFM and ESF functions, the relationships that have been built provided a supportive framework to persuade officials to also implement the legislation.⁷¹

Unlike PFM, no comprehensive quantifiable study has been produced to measure progress in ESF. Perhaps the closest is the AfDB's general assessment of the comparability of the safeguards of six African countries to its own integrated safeguards system. The six countries (which include South Africa and Morocco) all hover between 40% and 50% in terms of their equivalence to the AfDB's own system and their actual implementation, aside from South Africa, which stands at approximately 80%.⁷² However, the assessment did not measure progress over time.

Qualitatively analysing the three case study countries can shed some light on progress and challenges. Morocco illustrates how, by cooperating with MDBs, country systems can gradually evolve and strengthen over time. Its EIA processes have been implemented progressively through several stages. Between 1994 and 2003 EIAs were carried out on a voluntary basis by project proponents and primarily at the insistence of international donors or for reasons of sensitivity among recipient communities. The second stage, between 2003 and 2008, started with the adoption of Law 12-03 on EIA, which became the legislative reference point for EIA at the national level. In 2008 decrees for the implementation of Law 12-03 were promulgated, and community/stakeholder engagement and consultation in EIA became compulsory and institutionalised.

In both South Africa and Kenya, the new constitutions promulgated in 1996 and 2012 respectively highlight the importance of environmental protection, which

68 World Bank, 'Worldwide Governance Indicators', <http://info.worldbank.org/governance/wgi/#home>, accessed 24 August 2017.

69 Knack S, 2013a, *op. cit.*

70 Knack S, 2013b, *op. cit.*

71 Personal interviews, various MDBs, Rabat, 27–31 March 2017.

72 AfDB, 2015, *op. cit.*

must be balanced with economic growth. Their constitutions are also very ‘people-centred’ and emphasise the value of public participation in development. In both countries, however – and particularly in Kenya – stakeholders highlighted serious weaknesses in enforcement. In Kenya all of the structures to include robust public participation are in place, but efforts to implement these policies are weaker. For example, attempts to reach the affected stakeholders are inadequate, as are general efforts to educate and empower civil society. Both funding and political will were cited as reasons for these implementation challenges.

The development of a standardised evaluation similar to the OECD Paris Declaration progress report, which evaluates PFM, would help to determine whether ESF is improving across countries, and if so, to make a better case for increased use of these systems, and even to help strengthen their implementation through cooperation with MDBs. Such an evaluation is especially pertinent given that MDBs have been much more reticent to use ESF than PFM, so quantifiable indicators of improvement would be especially useful. The OECD’s monitoring survey makes some progress in this regard by measuring gender commitments and civil society participation.⁷³

Inflexibility and incompatibility of systems

One of the key challenges that countries face when working with MDBs on ESF and PFM is the rigidity of MDB systems. They are often criticised as having a ‘one-size-fits-all approach’, applying the same system to every borrowing country.⁷⁴ This creates challenges in terms of the ability to both promote national development objectives and accommodate local contexts. These systems are also inflexible when there are unexpected changes on the ground. An example in Kenya is the difficulties created by the need for a Resettlement Action Plan (RAP), required by MDBs if community members must be resettled due to project impacts. While the preparation of such a plan is not a problem for government stakeholders, the imbedded rigidities, such as both preparing the RAP and ensuring that affected parties are compensated before the project is initiated, can be a challenge given the immediate fiscal (cash-flow) constraints the government faces in one financial year. It is important that plans such as the AfDB’s Strategic Environmental and Social Assessment (SESA) are able to consider and adapt to these types of challenges and that multi-year compensatory mechanisms are accommodated.⁷⁵

The same challenges are apparent in the assessment methodology used to employ UCS. MDBs test local country systems using standards of ‘equivalence and acceptability’ of national PFM and ESF processes. Whereas ‘equivalence’ measures the similarity between MDB and partner country legislation, ‘acceptability’ measures the strength of implementation practices of domestic systems, such as capacity and track record.⁷⁶ An assessment by the World Bank of the procurement procedures

73 OECD, 3 November 2016, *op. cit.*

74 Humphrey C, 2016, *op. cit.*

75 Personal interview, Kenyan SOE, 14 March 2017.

76 Larsen G & A Ballesteros, *op. cit.*

of 52 countries found that none of the countries was qualified to fully employ domestic systems without derogations (additional safeguards) being imposed. Not surprisingly, derogations varied in number, with a country such as Burkina Faso requiring only one provision and Kazakhstan requiring 27 provisions. Overall, there was an average of 11 derogations among the 52 countries.⁷⁷

The challenge borrowers experience with the equivalence and acceptability tests and MDBs' approach to UCS is that they are expected to conform their country systems to that of the MDB. As a result, they must align their national systems to comply with varied standards from different MDBs. Some government officials believe that the World Bank's equivalence tests are a way to compel domestic systems to mimic that of the bank, rendering the concept of UCS counter-productive.⁷⁸ The outcome of this approach is bad not only for borrowers but for MDBs as well. Countries are hesitant to conform to MDB systems, given the steep adaptation hurdles and different standards. Hence they are becoming increasingly reluctant to consider MDBs as a first financing option. Although equivalence and acceptability can illuminate important gaps, they also tend to be rigid and unable to consider important country contexts that may justify an altered approach to application.

Following from this, it should be recognised that country systems respond to unique local contexts and MDBs risk bypassing these when they require equivalence. For example, in South Africa public participation considerations are very important given the country's history of racial exclusion. Some national requirements are even more stringent than that of MDBs (such as the need for a separate social impact assessment) or are conducted in ways that are particularly sensitive to the country's history.⁷⁹ Imposing MDB systems in full runs the risk of ignoring these important national contexts and nuances. In Kenya, the new constitution prioritises a system of devolved county governance equal to national governance. One of the stakeholders indicated that an MDB was unwilling to lend to the road sector because of the requirement to also engage county governments. While this is understandable given the newness and lack of capacity of county governments, it was also a missed opportunity for MDBs to help facilitate Kenya's domestic priorities, which seek to build the capacity of and encourage resource mobilisation by county governments.⁸⁰

Another frustrating result of the process of 'equivalence and acceptability' is the danger of reducing complex PFM processes and ESF to quantifiable numbers or indicators. As noted before, PFM and ESF are inherently complex systems. While

77 Ayoung A, 'Use of Procurement Country Systems', World Bank Background Paper, February 2013.

78 Larsen G & A Ballesteros, *op. cit.*

79 Personal interviews, financial institution, Johannesburg, 22 February 2017.

80 Nonetheless, Kenyan stakeholders also noted that in most cases additional safeguards are a welcome addition to help the country achieve best practice and remove potential bottlenecks that might come up in implementation that are not accounted for by Kenya's systems. Thus it is important to note that additional requirements are not always viewed as imposed and require a more nuanced and contextual analysis. Personal interviews, various public officials and research institutions, Nairobi, 13–17 March 2017.

the objective to quantify the strength of country systems has merits, it may be time to explore new approaches to measuring the robustness and appropriateness of country systems. The AfDB's new Integrated Safeguard System attempts to handle these concerns better, in particular by ensuring that the SESA is flexible and adaptive enough to handle unforeseen challenges during downstream implementation. In theory, this should allow equivalence and acceptability standards to be less rigid and able to be moulded to local contexts.

In addition, when considering the 'strength' of country systems as applied by MDBs, it is important to contextualise the strength of developing country systems vis-à-vis their developed counterparts. 'Good governance', understood as capable and accountable state institutions and processes, consists of systems that evolved over decades in developed countries under very different circumstances. PFM reform is a long process that involves both political and technical challenges. It is also a process that needs to develop organically, with significant investments in capacity building. Coercing countries into adopting rigid governance systems overnight is likely to achieve the opposite effect. Evidence from Morocco suggests that large studies with comprehensive reform suggestions are ineffective, as this can overwhelm countries, institutions and actors. Instead, proposing small changes is more effective. When the World Bank proposed significant PFM reforms in Morocco, these were largely neglected by officials. Instead, the country office managed to effect small changes, such as mandatory advertisement of public tenders, by leveraging personal networks.⁸¹

However, some differences arise in the approaches used by different MDBs. In assessing UCS for ESF in the case of South Africa, the World Bank's approach has been focused on the project level, with each UCS pilot pertaining to a specific investment project, and a new review of equivalence and acceptability completed for every project. This approach has been criticised for failing to reduce bureaucracy and costs, and for micromanagement by the bank.⁸² In the World Bank's consultations on its new safeguards, this was one of the major complaints raised by South African government stakeholders. They felt that after two UCS pilot projects, future pilot projects should have a less onerous safeguards review process and the bank should have more confidence in South Africa's ability to manage environmental and social impacts, even when projects are not exactly the same.⁸³ Here, lessons can be adopted from the ADB's approach to UCS, which has been much broader. It has focussed on offering general technical assistance to help build countries' standards beyond project specificity, to increase the chances that in the long run little oversight will be needed. The strategy has been regionally focused, for example through holding

81 Personal interviews, various MDBs and private financial institutions, Morocco, 27–31 March 2017.

82 Independent Evaluation Group, *Safeguards and Sustainability Policies in a Changing World: An Independent Evaluation of World Bank Group Experience*. Washington, DC: World Bank, 2010.

83 Personal interviews, public officials, Pretoria, 6–11 April 2017.

regional workshops to facilitate cross-country learning and cooperation.⁸⁴ The AfDB also seems to be leaning towards this approach, proposing to develop a safeguards capacity-building strategy for the region.⁸⁵ However, with this approach also comes the challenge of driving demand for general technical assistance among borrowing countries. It is therefore important that sufficient MDB resources are directed towards grant elements for technical assistance (TA) to accompany UCS. The case must be made to MDBs' executive management of how critical TA is to the effective building of UCS.

Given the challenges around UCS and its different applications, it would be useful to have a more formalised mechanism to assess the different approaches to UCS and their successes in achieving effective financial management and environmental and social protections, as well as buy-in and acceptance from borrowing countries. This could help to make the case for increasing UCS. While the various reports indicated have assessed the PFM (and to a lesser extent ESF) systems of borrowing countries, with UCS as a component, none has explicitly and rigorously focused on UCS.

Implementation and monitoring

Additional stumbling blocks to greater UCS beyond an assessment of the perceived strength of a country's legislative system are the actual implementation, monitoring and enforcement of these systems.⁸⁶ Monitoring has become a contentious issue, with debates around both the scope and intensity of monitoring and evaluation (M&E), as well as around which actors should play the most prominent role in M&E – MDBs or national entities.

With regard to M&E intensity, some suggest that ensuring country compliance with MDB safeguards is a mere tick-box exercise, with bank officials more focussed on the bureaucratic process of ensuring that the activity is done and less concerned about ensuring that the risks (whether PFM or ESF) are adequately managed.⁸⁷ Deficiencies in staffing and capacity contribute to this neglect.⁸⁸ This burden – of addressing deficient M&E through greater resource devotion and more intensive processes – should be shared by MDBs and countries. Banks are allocated fewer resources to provide guidance during the M&E phase. This raises questions about which actors should play the greatest role in M&E and how they intersect with UCS. Many MDB representatives argue that more in-house staff and resources should

84 Personal interviews, various MDBs and private financial institutions, Morocco, 27–31 March 2017; ADB (Asian Development Bank), 'Country Safeguard Systems, Second Regional Workshop Proceedings Towards Common Approaches and Better Results', Manila, 7–9 October 2017.

85 AfDB, 2015, *op. cit.*

86 Lack of implementation could be the result of a combination of factors, including poor management, unskilled public staff, an excessive focus on processes, corruption, poorly designed monitoring and implementation systems and inadequate justice systems. See Ayoun A, *op. cit.*

87 Larsen G & A Ballesteros, *op. cit.*

88 Personal interviews, MDB representative, Johannesburg, 3, 22 February 2017.

be devoted to the M&E phase, but this is likely to occur at the expense of UCS. Yet some believe that the intensity of M&E is sometimes overstated to the point where it does not serve its intended purpose, which is to manage direct social and environmental impacts, as well as cumulative impacts as they surface during and after implementation. They contend that large infrastructure projects inevitably cause changes to ecosystems and communities, as is the case with all development interventions. It is thus impossible to mitigate every possible impact, and sometimes efforts are taken too far.⁸⁹

Monitoring mechanisms such as inspection panels raise further questions. These panels ensure that safeguards are adequately implemented and that corrective actions can be taken independently of bank oversight, ie, they have the freedom to receive and investigate project complaints from affected stakeholders. World Bank inspection panels remain in place during UCS trials. Theoretically, they should provide checks and balances on the freedoms afforded by UCS, and to some extent they do. However, in practice it is challenging to apply an inspection mechanism developed to a particular bank's standards to a different set of standards utilised with UCS.⁹⁰ In South Africa the Medupi project was the first UCS pilot project where an inspection panel was summoned – given the size of the project and its use of coal, this is not particularly surprising. However, this revealed a disconnect between the bank management and the inspection panel. While the bank management, after an extensive Standard Diagnostic Review that analysed in detail South Africa's legislation and implementing bodies, was equipped to evaluate the project based on South Africa's ESF standards, the inspection panel was designed to evaluate complaints based on the World Bank's ESF standards and could only attend to issues that referred to the World Bank's responsibilities. The inspection panel raised concerns based on this mandate, while the bank management repeatedly noted in its response that the standards were not intended to be identical to those of the World Bank. Instead, the bank management felt that the standards were aligned sufficiently to achieve the same outcomes. This disconnect should be addressed, as it is likely that the inspection panel will be triggered again in future UCS pilots. Arguably, it raises a question about how to harmonise an accountability mechanism that is determined by bank standards with UCS in a way that provides necessary checks while leaving space to accept divergent country contexts and systems. Given that this was the first UCS case where the inspection panel was summoned, this issue will likely be ironed out through continued use of the panel.⁹¹

Institutional aspects of and political appetite for UCS

In addition to the technical challenges in UCS, more attention should be paid to the political commitment of both MDBs and countries to the UCS agenda, the underlying motives of different actors and the institutional constraints facing them.

89 Personal interview, South African SOE, 13 April 2017.

90 Personal interviews, MDB representative, Johannesburg, 23 January 2017.

91 *Ibid.*

There are sometimes conflicting perspectives between MDB headquarters and country offices regarding UCS. Often, the headquarters prefer parallel systems. In contrast, country or regional officers are more familiar with the domestic environment, are often residents of the target country, and have personal relationships with key in-country stakeholders, strengthening their trust in UCS. In this context, headquarters are viewed as 'guardians' of the institution, whereas country offices, with a greater appreciation of domestic contexts, are seen as more flexible and advocating for greater decision-making powers. Country offices have long pushed for greater decision-making powers, through, for example, increasing the value threshold under which they can approve projects.⁹² The AfDB has already started the process of greater decentralisation, with the institution's board approving related measures in June 2016.⁹³ However, the sense in many countries is that bank processes have been so institutionalised over the past five decades that decentralisation is not happening fast enough.

In addition, within MDB offices, whether headquarters or country offices, there is not always consensus on UCS. Different staff members have differing mandates and incentives, which inform their views on UCS. For example, safeguards specialists and inspection panel staff would naturally be more hesitant about UCS given their role of ensuring the cautious application of oversight. Investment officers, who are more focused on extending loans, might be more in favour of UCS, as it would make loans more attractive to countries. Further examining the motivations of different stakeholders within the bank and facilitating greater dialogue among these parties around their concerns about and roles in UCS may help to create the cooperation and coherence in vision that is necessary for successful UCS scale-up.

From an MDB perspective, there has also been genuine concern about the level of countries' commitment to UCS and the will to improve their domestic systems.⁹⁴ Successful application of UCS is ultimately dependent on the desire to implement it well. Countries may favour UCS because incentives such as rents are institutionalised in domestic systems. Similarly, governments may prefer to use MDB systems as it gives them political cover by externalising unfavourable conditionalities.⁹⁵ One South African public official noted that for certain smaller projects, the ministry actually preferred to 'outsource' project management to the development partner, as this not only lightened the workload but was also more time efficient than the South African government process.⁹⁶ A financial institution in Morocco adopted a slightly different lens, suggesting that a desire to retain the existing power hierarchy also played a major role in the lack of transformation towards UCS. While a more

92 CABRI, *op. cit.*

93 Prinsloo C, *op. cit.*

94 CABRI, *op. cit.*

95 Humphrey C, 2016, *op. cit.*

96 Conference, SAIIA & Ethiopian Economics Association, Johannesburg, 22 November 2016.

decentralised system would serve the country better, key Moroccan ministries were unwilling to relinquish power to other, smaller offices and departments.⁹⁷

Therefore, it is important to consider both political appetite and political economy dimensions when deciding to begin scaling up UCS. As indicated in the political economy examinations of the three case study countries, the differences in political appetite for UCS among countries can be quite distinct. It is important that MDBs take this into consideration, and are willing to devote significant resources to ensuring that chosen cases and countries for a scale-up of UCS are successful, and that adequate resources for activities such as technical assistance are allocated, as opposed to spreading resources thinly to cover many countries, some which might not have high political will.

Procurement

Procurement has always been contentious in the relationship between MDBs and borrowers,⁹⁸ given that the procurement rules of most MDBs typically prescribe the use of internationally competitive bidding processes. These bidding processes tend to exclude domestic companies on the basis of a lack of capacity, the absence of value chain linkages or their inability to meet the standards of the bids. The World Bank's procurement rules, for example, specifically prohibit offering 'preference to domestic bidders' or 'splitting of contracts into small lots for purposes of promotion of the participation of small enterprises'.⁹⁹ This position often conflicts with the desire of governments to use procurement as a developmental tool in promoting industrialisation and job creation, capacitating locally owned companies or addressing inequality by giving preference to SMEs or marginalised groups such as women. Figure 3 shows that companies from South Africa, Morocco and Kenya already benefit from procurement in World Bank-funded projects. However, the greater inclusion of domestic firms in MDB procurement can increase the development impact of MDBs' infrastructure financing on these countries.

On the other hand, using MDB systems rather than country systems could actually promote effectiveness in procurement. For many international companies, aid-funded procurement has often acted as an entry point into a country for foreign investment. Trust is initially bolstered by MDBs' procurement systems, eventually leading to further engagements directly with governments.¹⁰⁰ Others have argued¹⁰¹ that national systems can make international procurement more inefficient. When international companies deal with different MDBs they face only a few differing rules (specific to each MDB). However, if national systems were to be employed for procurement, service providers would face a significant increase in the number of

97 Personal interviews, various MDBs and private financial institutions, Morocco, 27–31 March 2017.

98 Humphrey C, 2016, *op. cit.*

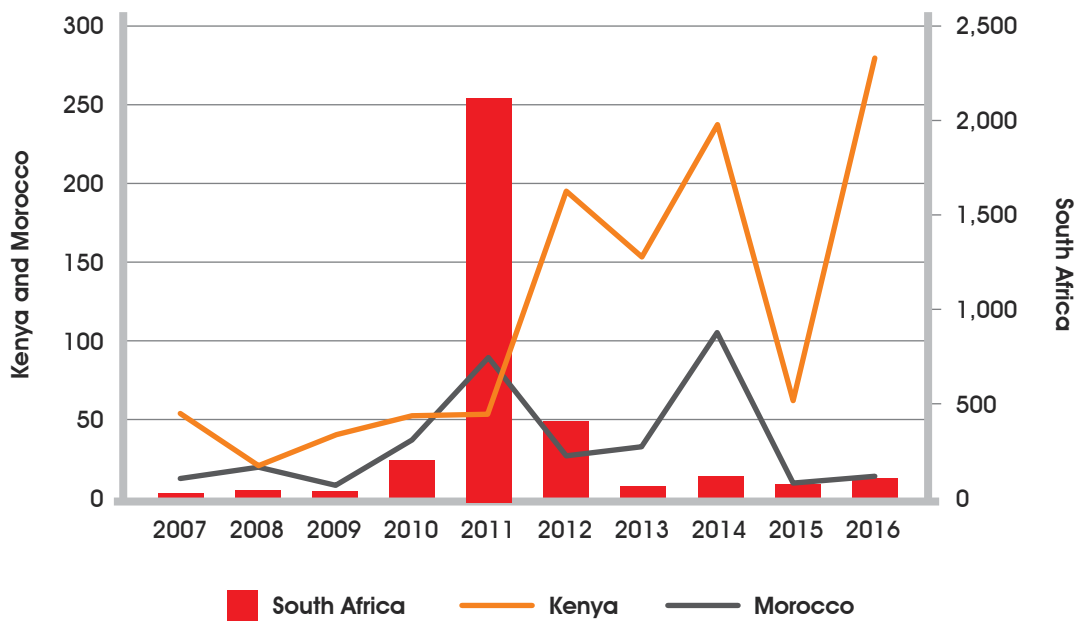
99 Ayoung A, *op. cit.*

100 Pallas CL & J Wood, *op. cit.*

101 Personal interviews, MDBs and private financial institutions, Casablanca, 27–31 March 2017.

systems with which they engage, thus making them less likely to become involved in a variety of countries.

FIGURE 3 SOUTH AFRICA, KENYAN AND MOROCCAN-BASED COMPANIES' CONTRACTS UNDER IBRD AND IDA FINANCED PROJECTS (2007–2016, \$ MILLION)



Source: World Bank, 'Procurement contracts award summary', <http://www.worldbank.org/en/projects-operations/products-and-services/brief-summary-and-detailed-borrower-procurement-reports>, accessed 31 May 2017

This point is illustrated in the case of Morocco, where the country's procurement system has more than 240 rules for tendering and bidding, since each institution or agency has its own system. This could ultimately limit competition for tenders, making procurement more expensive.¹⁰² As a result there has been a strong convergence between MDB and country procurement systems, with many countries, such as Kenya, modelling their procurement systems on international templates such as those of the World Bank. According to Kenyan officials, what is most important in procurement is harmony between MDB and country systems and reaching a point of convergence. The belief is that, as Kenya matures, it is more appropriate to align to international standards. For example, Kenya and Morocco's current procurement

102 Pallas CL & J Wood, *op. cit.*

frameworks only evaluate tenders based on cost, but they are now also considering adopting quality standards in line with international best practice.¹⁰³

Having said this, the lack of adequate domestic procurement frameworks remains a key concern for MDBs, given the significant scope for financial mismanagement and reputational and development risk. For example, a 2009 Public Financial Management Report by the World Bank¹⁰⁴ notes certain weaknesses with respect to dealing with complaints around public procurement in Morocco, and specifically in relation to bids with a ceiling of over MAD¹⁰⁵ 200,000 (about US\$20,000). One of the challenges is that the Moroccan public procurement process does not make provision for procuring individual consultants – all consulting services have to be procured through firms, thereby adversely affecting the cost effectiveness and efficiency of these services. In addition, ‘procurement’ is not recognised as a specialised function in public institutions, with nominated procurement officers ill-equipped to handle the process. While these observations were made nearly a decade ago, MDBs operating in Morocco still believe that the domestic procurement system does not address these challenges adequately, posing risks for MDBs and making the facilitation of loans more ineffective.¹⁰⁶

At the same time, the greater participation of developing countries in procurement is undesirable for developed countries that have vested interests in MDBs’ international procurement. Despite the fact that they are often non-borrowing (with firms operating outside home countries) their firms are still major beneficiaries of MDB contracts. As Figure 4 highlights, between 2000 and 2016 nine of the top 22 countries whose companies benefitted most from MDB contracts were OECD members (highlighted in green). Although most of these OECD countries are non-borrowers, they still benefitted from more than 26% of total procurement contracts over this period, signalling their vested interests.

In many developed countries this is an intentional commercial strategy. As one publication by the US Congressional Research Service notes,

Billions of dollars in contracts are awarded each year to complete projects financed by the MDBs. The Foreign Commercial Services (FCS) has representatives at the MDBs who are responsible for protecting and promoting American commercial interests at the MDBs. Congress has exercised oversight of MDB procurement policies and US commercial interests at the banks.¹⁰⁷

103 Personal interview, Kenyan SOE, Nairobi, 16 April 2017.

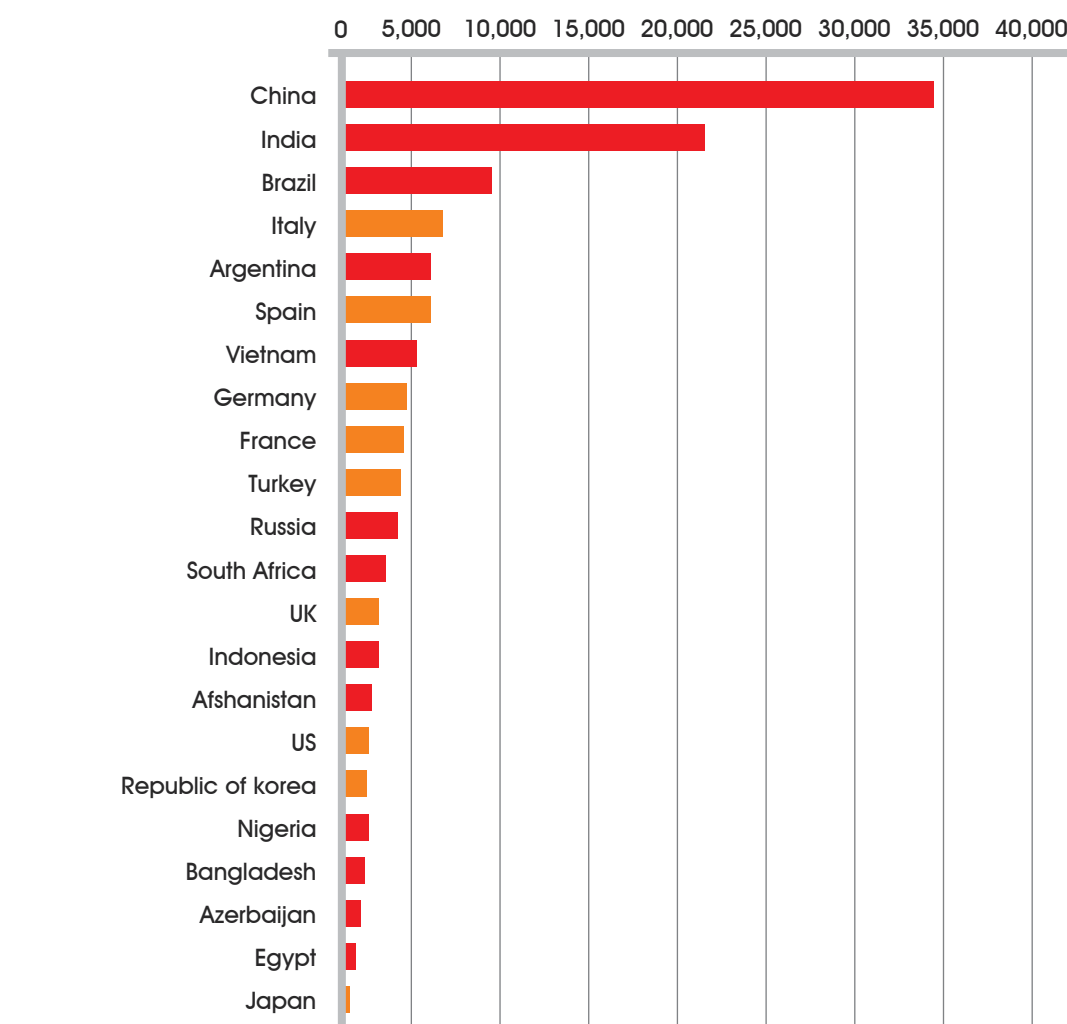
104 World Bank, *Morocco – Public Financial Management Performance Report (PEFA): Assessment of Public Financial Management Systems, Procedures, and Institutions*, <https://openknowledge.worldbank.org/handle/10986/3146>, accessed 31 May 2017.

105 Currency code for the Moroccan dirham.

106 Personal interviews, various MDBs and private financial institutions, Morocco, 27–31 March 2017.

107 Nelson RM, *Multilateral Development Banks: Overview and Issues for Congress*, Congressional Research Service, 2 December 2015, <https://fas.org/sgp/crs/row/R41170.pdf>, accessed 31 May 2017.

FIGURE 4 TOP 22 BENEFICIARY COUNTRIES OF CONTRACTS UNDER IBRD AND IDA FINANCED PROJECTS (2000–2016, \$ MILLION)



Source: World Bank, 'Procurement contracts award summary', <http://www.worldbank.org/en/projects-operations/products-and-services/brief-summary-and-detailed-borrower-procurement-reports>, accessed 31 May 2017

It adds that US legislation mandates its representatives at MDBs to advocate policies that favour its national commercial interests, and share potential procurement opportunities with the secretary of the treasury, the secretary of state, the secretary of commerce, and companies.¹⁰⁸

108 Nelson RM, *Multilateral Development Banks: Overview and Issues for Congress*, Congressional Research Service, 2 December 2015, <https://fas.org/sgp/crs/row/R41170.pdf>, accessed 31 May 2017.

While countries have more leverage to dictate such conditions within their own aid agencies, this is still very much a strategy in MDBs.

Nevertheless, despite these challenges, within the past year MDBs conscious of this changing landscape have undertaken major reforms of their procurement systems. While the World Bank initiated this reform, other MDBs, including the AfDB, followed suit. Cross-cutting themes for procurement reforms in both the World Bank and the AfDB have included greater value for money, procurement speed, flexibility in procurement and capacity transfers to borrowing countries, as well as a specific focus on post-award contract management.¹⁰⁹ The World Bank and the AfDB started implementing these policies in 2016, but their complete roll-out (and an assessment of their impacts) is likely to take some time.

Capacity constraints

Capacity and capacity building have significant implications for facilitating greater UCS. The issue is multifaceted, encompassing the advantages and the disadvantages of UCS, as well as the incentives and disincentives for MDBs and countries.

First, one needs to consider the capacity of both parties (MDBs and countries) to employ UCS. Does the MDB have the technical staff capacity to support such processes, as these could be extensive, based on the level of PFM/ESF development of a country and the technical/capacity-building support required? Staff rotation also needs to be considered, as UCS relies heavily on personal relationships and trust building.¹¹⁰ Similar questions need to be raised regarding the capacity of the government and its subsidiary institutions to manage activities associated with increased UCS, especially the technical, accounting, procurement and legal aspects of loans.

Second, a key premise of greater UCS is that where countries lack adequate capacity, loans are accompanied by technical support and capacity-building activities. Typical capacity-building efforts of the World Bank include the promotion of legal and institutional reforms, creation of transparency mechanisms, establishment of anti-corruption agencies and electronic procurement systems, and capacity-building support for contracting authorities and judicial institutions.¹¹¹

Government officials and MDB staff interviewed for this paper suggested that not enough resources were dedicated towards supporting countries in the implementation of safeguards. Some Moroccan stakeholders said that, in terms of technical expertise, MDBs did not always have the best experts, as they focus too heavily on extending loans to countries as a primary activity. Thus their

109 Swan CD & S Harutyunyan, 'Multilateral development banks in an era of procurement reform: How larger development goals are shaping revamped approaches to procurement', *The Government Contractor*, 58, 14, 2016.

110 CABRI, *op. cit.*

111 Ayoung A, *op. cit.*

prioritisation remains the financial aspects of loans. This viewpoint was confirmed in interviews with numerous MDB staff members who suggested that especially ESF-related personnel positions in MDBs appeared to be under-resourced.¹¹² This creates practical challenges irrespective of whether MDB or country safeguards are used.

At the same time, MDBs and development partners typically face challenges in implementing capacity-strengthening activities. Capacity building requires a massive investment from development partners, but the benefits are often not clearly visible or measurable. In addition, the intangibility of these benefits often makes the case for disbursing capacity-building funds difficult. While the AfDB believes that capacity building should be an ongoing activity, it often struggles to ensure ongoing support from development partners, and capacity-building activities tend to manifest as limited projects or programmes. Finally, when capacity building is done, benefitting officials often opt for higher paying jobs in other countries or private institutions, leading to a brain drain.¹¹³

Often the capacity of civil society is also neglected. Where MDBs relinquish more control to governments through UCS, civil society should continue to play an active role in keeping government accountable to domestic PFM and ESF processes. Hence the capacity building of civil society should endeavour to ensure that the broader population is informed and has the tools and knowledge to engage governments.¹¹⁴ It is difficult to achieve such a result. South Africa's civil society and participation structures show both vibrant activism and highly contentious outcomes. On the one hand, mechanisms such as public participation in EIA processes and the oversight role of environmental monitoring committees ensure that civil society has a voice in project activities. However, this role is highly contested. Many national stakeholders point to civil society activities that are obstructionist and that cater to much narrower interests, rather than being fully related to specific projects. On the other hand, CSOs claim that forums that facilitate their involvement are only surface level and have no real bearing on how projects are implemented.¹¹⁵ In Morocco civil society stakeholders argue that MDBs' focus on cooperation with governmental agencies is a missed opportunity to work with other partners that could enhance development impacts, such as SMEs, development organisations, development associations and foundations, especially in relation to marginalised groups.¹¹⁶

112 Personal interviews, various MDBs and public officials, Rabat, 27–31 March 2017.

113 AfDB, 2015, *op. cit.*

114 Telephonic interview, poverty and gender expert, Johannesburg, 14 February 2017.

115 Personal interviews, various public officials, Pretoria, March 2017.

116 Personal interviews, various NGOs, Morocco, 27–31 March 2017.

UCS – WHERE TO FROM HERE?

The preceding section presented a bewildering maze of information on the costs and benefits of and incentives and disincentives for UCS for both MDBs and countries – both developed and developing. But what does this mean?

Firstly, UCS is inherently a complex issue, as the contentious nature of procurement, safeguards and various risks has shown. While some of these issues are overstated or misperceived, there are often also legitimate concerns. Between MDBs and their borrowing and non-borrowing shareholders, there is a need to a) isolate the politics and technical underpinnings of issues, and b) address them accordingly.

Secondly, infrastructure finance and the relationship between MDBs and borrowers increasingly call for a more equitable role in development, and this is desired by all parties. Within the context of UCS this is evidenced by the emphasis placed on, for example, national ownership or the desire to develop country systems.

Thirdly, following on the previous point, it is evident that the development finance milieu is rapidly changing and MDBs too need to evolve in order to maintain their relevance. There is already recognition of this, as highlighted by the numerous policy changes made by MDBs in terms of UCS in procurement and ESF policies. This is also encouraging for borrowing countries, given MDBs' ability to blend favourable financing with positive development outcomes.

Fourthly, just like MDBs have to play their part in the changing development finance landscape, so too is there a role for both developed and developing countries. In developing countries this requires sincere efforts and the will to address shortcomings in their country systems. It also requires a greater prioritisation of domestic financial resources to, for example, bolster capacity-building efforts. In developed countries there is a need to sincerely promote development, even if this comes at a cost to the countries themselves or their national interests (eg, not influencing procurement policies at MDBs to favour their companies).

Lastly, it is clear that there is a desire to scale up and increase the speed of development. Developing countries want to improve the lives of their citizens and are getting increasingly impatient with the lack of progress. In terms of infrastructure development, this sentiment has been bolstered by the arrival of alternative financiers. But this too, comes at a cost that must be guarded against – higher interest rates and lower development yields.

RECOMMENDATIONS

Based on the findings of the country case studies and a broader understanding of UCS outlined in preceding sections, there are a number of ways in which traditional MDBs and emerging MDBs such as the NDB¹¹⁷ can best approach UCS. Recommendations are grouped under six cross-cutting categories, namely general recommendations, risk management, the importance of political buy-in from both countries and MDBs to the UCS mandate, the role of country offices, and suggestions on procurement and capacity building.

General recommendations

MDBs should move away from a ‘one-size-fits-all’ approach to one that is tailored to a specific country. While this will increase the burden on MDBs, the changing context of development finance signals the need to adapt to new realities. MDBs already do this to some extent through their country strategy papers, but this must be scaled up to other aspects of cooperation. Specific recommendations are included in the relevant sections below.

More broadly speaking, MDBs should guard against the institutionalisation of processes and procedures over decades that inhibit reform and adaptation to the changing environment.

Risk management

Greater UCS potentially holds greater risk for MDBs. There are a number of ways in which they can successfully manage such risks.

First, while equivalence and acceptability assessments are driven by external factors, they also provide a baseline from which capacity gaps can be identified and baseline guidance for risk mitigation by MDBs. A supplementary approach could also be pursued: instead of MDBs’ developing their own guidelines, these could be informed by the policies of their member states. This could be supplemented by international conventions or agreements that have widespread support, specifically among their members. Agreements such as the International Covenant on Economic, Social and Cultural Rights (ratified by 160 states) could be used as a baseline.¹¹⁸

Second, MDBs could leverage technology to improve governance and mitigate risks. For example, the introduction of e-services in procurement, with a strong focus on public disclosure, will achieve efficiency gains and enhance transparency. Such changes could be incorporated into the proposed capacity-building strategy (below), as part of the institutional support to countries.

117 For a succinct discussion on how the NDB can draw on the lessons from traditional MDBs, see Prinsloo C, *op. cit.*

118 Larsen G & A Ballesteros, *op. cit.*

Third, disbursement mechanisms such as PfR, which places the onus of positive development outcomes on governments, can also be explored. While PfR has largely been used in social development projects, the indications are that it can also be applied to infrastructure projects. Developing this approach may take time, but should be a key focus for MDBs.

Fourth, MDBs can ensure risk management in the long term by establishing a robust M&E system for the application of UCS. Currently, MDBs such as the World Bank that have instituted UCS pilots have not designed a mechanism to measure the effectiveness of UCS or the challenges faced by MDBs and countries in the process. Although answers to these questions are beginning to emerge from various studies on UCS, developing a formalised mechanism to measure results will help make a stronger case for improving weaknesses in UCS and ensuring that it is an effective and less risky approach.

Fifth, MDBs can adopt a simple yes/no approach to financing.¹¹⁹ Countries can be required to submit a project financing application, which would include typical requirements such as financial viability, environmental and social impact assessments, etc. – all based on country processes. MDBs can then make a yes/no decision. In case where small adjustments can be made, an MDB can negotiate these with the respective country. However, if this is not feasible, and if the opportunity costs are too high or the project is fundamentally flawed, it can simply refuse to fund it. Countries will then have to approach other, potentially more expensive sources to finance the project. If other sources refuse as well, they will have to amend or discard the project, or fund it themselves.

MDBs can also mitigate risks through greater collaboration with countries in terms of monitoring the implementation of development projects. As such efforts should not duplicate existing monitoring mechanisms, both parties (borrowers and MDBs) must share this responsibility and ensure adequate monitoring of projects.

Finally, the usage of domestic institutions (FIs) to channel funding is also a successful way of increasing UCS while managing the key risks facing MDBs, provided that the country counterpart has adequate procedures and systems in place. Local institutions are likely better acquainted with the environment/legislation/risks/business culture, which will allow them to better understand and assess the risks involved, ultimately reducing the risk of non-performing loans. Such an approach, however, does not absolve MDBs from all responsibilities with regard to environmental or social safeguards.

MDB and country buy-in

Commitment to UCS – from both MDBs and borrowers – is a critical success factor for greater UCS. The level of support for UCS differs from country to country. In this study three different attitudes to UCS were identified, with likely many more

119 SAIIA, GEG Africa & UNCTAD, Conference Discussion, *Finance and Development: Lessons from Africa, Asia and Latin America*, Johannesburg, 10–11 May 2017.

prevailing on the continent. Assessing the intent of countries at an individual level, rather than taking a blanket approach, will be useful in this regard. Even within countries, certain sectors or institutions might indicate a greater intent on UCS, which can be used as an entry point for MDBs.

For countries with less of an appetite for UCS, a phase-in approach can be adopted. The case of Morocco, for example, highlighted that small incremental changes, rather than significant reform proposals, were more easily digestible.

Country offices

The importance of MDBs' physical proximity to their clients has been highlighted in this research. MDBs should invest more in local offices that better understand the domestic context and can assist with managing day-to-day operations and the timely resolution of issues, ultimately acting as a good risk mitigation tool for MDBs. These offices must be adequately staffed with officers who have the expertise required, and not concentrate, for example, on only one priority area (eg, investment officers).

Merely having a country presence is not enough. Country offices must be adequately capacitated in terms of decision-making power to carry out their mandate. This calls for the greater decentralisation of decision-making powers from MDBs' headquarters to regional and country offices.

Procurement

Procurement on MDB-financed projects presents a range of challenges, both political (eg, non-borrower interests) and technical (risks and weak country systems). Such risks should be identified and addressed accordingly. Political risks could, for example, be addressed by allowing developing countries greater shareholding in MDBs. Technical risks could be addressed through capacity building (see below).

Both national procurement systems and MDBs' procurement systems hold benefits. MDBs and borrowers should work together to ensure greater harmonisation of national and international competitive bidding procedures, to promote efficiency gains while maintaining domestic priorities.

Capacity building

Capacity building remains a key constraint to greater uptake of UCS.

First, and perhaps most importantly, a comprehensive capacity-building strategy is required. It is not enough to have project-specific capacity-building components. Instead, MDBs should develop capacity-building strategy papers for each country. Such a strategy should consider both institutional strength and capacitating individuals who might be tempted to leave for higher salaries. Institutional strengthening should include both 'soft' interventions, such as developing adequate procedures and policies to facilitate loans, and 'hard' interventions, by ensuring that

physical infrastructure is in place (eg, computer systems and software to handle procurement functions). While capacitating individuals is important, a high staff turnover could be prevented through various retention strategies and incentives. A capacity-building strategy should consider the institutional capacity within each country to address the identified shortcomings – for example, are there tertiary institutions that could provide the required training?

Second, capacity strategies should not neglect civil society. Various sectors of society, including the media, academia, civil society and those vulnerable to the negative effects of infrastructure development, are important actors in PFM and ESF processes. Experiences in this regard indicated that capacity building should focus on two key areas: institutional engagement processes between those undertaking infrastructure development and broader society; and the often-inadequate strength, voice and visibility of non-state actors. CSOs can also enhance their development impact by improving coordination among themselves and enhancing reporting on their development efforts.¹²⁰ Capacity building in the broader society can be done by ensuring that adequate reporting and feedback mechanisms are in place in countries, through disseminating information on projects or running civic education programmes. Civic education, particularly on environmental and social issues, should not be limited to workshops and training but also extend further, through working with governments to touch on these areas in general school curricula and as options for higher education specialisations, in order to facilitate the development of a robust local civil society.

It is important that such a strategy be developed in consultation with each country or, better yet, led by each country and supported by MDBs. Without adequate buy-in from countries, and without clear identification and recognition of the need for such a strategy, efforts are likely to be fruitless. Having countries lead on the development of such a strategy would help to make it context-specific. It is also advisable that countries work with MDBs and other development partners in designing the strategy. Total OECD bi-lateral donor spend on ‘government and civil society’ programmes comprised more than 5% of total ODA spend in 2015, indicating that this is a priority for most development partners.¹²¹

The capacity-building strategy should also consider financing capacity-building activities. MDBs could consider levying a special fee on loans to raise revenue that is ring-fenced for capacity building. The prospect of making loans more expensive might be discouraging, but considering how vital capacity building is, this should at least theoretically receive support from MDBs and borrowers.

120 OECD, 3 November 2016, *op. cit.*

121 OECD International Development Statistics, ‘Detailed aid statistics: Official bilateral commitments by sector’, 2017, <http://dx.doi.org/10.1787/data-00073-en>, accessed 12 June 2017.

ANNEX 1. STAKEHOLDERS CONSULTED

Note: Most interviews were conducted under the condition of anonymity to ensure robust dialogue. Only institutional affiliations are indicated below.

MOROCCO

- AfDB office in Morocco
- Association, Ribat Al Fath
- Bank Al Amal
- Centre de Développement de la Région de Tensift (CDRT)
- Chaabi Bank
- Groupement Professionnel Des Banques Du Maroc (GPBM)
- Moroccan Agency for Sustainable Energy (Masen)
- Moroccan Society for Renewable Energy
- Moroccan Sustainable Financial Facility (MorSEFF)
- OCP Policy Center
- Suntrace
- Energy and Sustainable Development Consulting (former engineer, Ministry of Mines, Energy, Water and Environment, Morocco)
- World Bank office in Morocco

KENYA

- AfDB
- Japan International Cooperation Agency (JICA)
- Kenya Institute for Public Policy Research and Analysis (KIPPRA)
- Kenya National Highways Authority (KeNHA)
- Kenya Rural Roads Authority (KeRRA)
- Kenya Urban Roads Authority (KURA)
- Ministry of Energy
- Ministry of Environment and Natural Resources
- National Environmental Management Authority (NEMA)

SOUTH AFRICA

- AfDB (country expert)
- AfDB (expert on Medupi)
- AfDB (safeguard specialist)
- AfDB (social safeguards specialist)
- Development Bank of Southern Africa

- Department of Transport
- Department of Water Affairs
- Independent expert, formerly on World Bank, ADB, AfDB inspection panels
- Independent infrastructure expert (former World Bank employee)
- Professor, University of Pretoria
- South African National Roads Association Limited
- Water Research Commission
- World Bank (specialist on Medupi project)
- World Bank (environmental specialist)



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