

Financial Management Harmonization & Alignment

Note for the IHP+ Steering Committee 15 January 2014

As one of the seven behaviors, Financial Management (FM) remains critical to achieving better health outcomes in partner countries. Harmonizing and ultimately aligning development partners' (DP) financial management systems will make budgeting and budget execution more effective; reduce transaction costs; and increase transparency and oversight.

Most countries have identified strengthening their public financial management (PFM) as a high priority. And for many development partners a sufficient capacity and robustness of the country's PFM system would make it possible to use it.

Given constraints to FM harmonization and alignment among DPs, the need arises for a technical working group to examine this agenda closely with the aim of finding common solutions and an agreed mechanism for achieving FM harmonization followed by alignment in partner countries.

The link between Financial Management and Results

Adequate FM arrangements support the achievement of service delivery outcomes by ensuring that funds are used for intended purposes in an economical and efficient manner.

Financial Management (FM) alignment - and to a large extent harmonization - will greatly facilitate better health results, not only for donor funds but also for the much larger domestic public funding. It will do so because:

- When all funders use the same budget and accounting system, managers will have the budget overview needed to effectively allocate resources against key priorities.
- Using one common budgeting and reporting system for all funds will reduce both planning and reporting transaction cost, and free up staff time to deliver services.
- A single audit of all donor and government funds will be able to connect all the dots and therefore effectively identify inefficiencies and misuse, and generally help improve fiscal transparency and accountability for the use of resources.
- Joint support for capacity building - that is part and parcel of moving towards using country systems - will further improve efficiency and accountability.

Financial Management harmonization is aiming at harmonizing a group of DP's financial management approaches and requirements. FM harmonization occurs when DPs use the same financial management systems including utilize the same internal control framework and same financial report formats for the different DP funding streams, and use one audit for all DP funding streams. Pooled funding is not a prerequisite for FM harmonization, because under a well-functioning harmonized mechanism, it is possible to monitor and track different sources of funds.

FM alignment is the ultimate, most advanced type of FM harmonization where DPs use the country PFM system for funds flow (including bring aid on budget), accounting, financial reporting and external audit of both donor and partner country's funds through the latter's national audit arrangements.

IHP+ principles

The harmonization and alignment approach is based on four main principles:

1. Align with country systems whenever they meet the minimum acceptable level.
2. Harmonize among development partners, when all or part of the national Public Financial Management (PFM) system is not sufficiently developed.
3. Agree and support implementation of a joint action plan that strengthens the national systems so as to bring about the necessary changes to make the alignment feasible.
4. Not wait until all problems have been solved, but use a step-wise approach by using elements of country systems as soon as possible as part of the process of improving systems and developing capacity.

Issues for Discussion

It is proposed that IHP+ will facilitate FM harmonization and alignment in the following ways:

1. Seek endorsement from development partners and countries for the IHP+ approach to Joint Financial Management Assessment¹ as the preferred option for partners when doing FM assessments. A Joint FM Assessment follows a risk-based methodology that identifies strengths and weaknesses of the national public financial management system through benchmarking against internationally accepted core principles and best practices. The results of the assessment provides a basis for designing the Joint Fiduciary Arrangements (JFA); and a capacity development action plan for the parts of the national PFM system that are not yet ready to be used.
2. Facilitate countries that wish to develop Joint Fiduciary Arrangements (JFA), by developing and seeking partners' endorsement of agreed language of the Memorandum of Understanding (MoU) that governs a JFA. This would apply to the areas that can be standardized across country contexts, and in those areas where context specific agreed language is needed, options would be developed. The MoU would document the Joint Fiduciary Arrangements (JFA), covering governance, planning and budgeting, flow of funds, aspects of procurement, internal controls and risk management, accounting and reporting, audits, supervision and other arrangements.
3. Facilitate - on request from countries - direct support for financial management harmonization and alignment.

Follow up

The work would be facilitated by the Core Team as well as an IHP+ Technical Working Group consisting of FM experts; draft TORs (Annex 1) as well as an outline of the process (Annex 2) are attached.

Progress will be measured both by the FM indicator in the overall IHP+ mutual accountability framework, as well as by tracking progress against agreed milestones in countries taking forward FM harmonization and alignment.

¹ Already developed:

http://www.internationalhealthpartnership.net/fileadmin/uploads/ihp/Documents/Tools/Financial_Management_Assessment/Session%206%20FM%20Executive%20Summary%20-%20Dec%202012.pdf

Annex 1

Terms of Reference for IHP+ Financial Management Technical Working Group

Background

IHP+'s achievements are well documented². However, a key message from IHP+'s 4th Country Health Teams Meeting in Nairobi 2012 was that progress on effective development cooperation in health is slower than anticipated. And, overall, countries have moved further in implementing commitments than international development partners. The meeting stressed that faster progress requires action by *all* development actors to put principles into practice. This requires political and organizational action as well as technical tools, by governments, NGOs, CSOs, private sector actors, and – especially - by international development agencies. The messages from Nairobi were taken up by global health leaders and have become known as the 'seven behaviors'³. These behaviors are not new, but they do crystallize key areas for action that would – if implemented - lead to visible results.

As one of the seven behaviors, Financial Management remains critical to achieving better health outcomes in partner countries. Harmonizing, and ultimately aligning development partners' financial management systems will help achieve better outcomes for health interventions in partner countries through bringing aid on budget; enhancing budget execution; reducing transaction costs; increasing fiscal transparency and oversight over the use of aid funds. Given constraints to FM harmonization and alignment among donor partners, the need arises for a technical working group to examine this agenda closely with the aim of finding common solutions and an agreed mechanism for achieving FM harmonization and alignment in partner countries.

Guidance for Joint Financial Management Assessment has been developed by a working group formed among The World Bank, Global Fund and GAVI, facilitated by WHO. The approach has been tried in Ethiopia and Sierra Leone with good results. In Ethiopia, Health Sector FM arrangements are very much harmonized among major development partners, whereas in Sierra Leone, harmonization and alignment efforts have started with strong country ownership. An important aim of conducting Joint FM Assessment is to develop Joint Fiduciary Arrangements, which would include joint capacity building of FM systems, common financial reporting, one common audit, and joint supervision.

Objective

To develop joint approaches to FM harmonization and alignment among development partners and facilitate support to partner countries who request this.

Scope

The FM Technical Working Group will consist of FM experts from IHP+ development partners and partner countries. The group will identify bottlenecks to FM harmonization and alignment in development and country partners' procedures as well as facilitate support for harmonization and alignment of FM to partner countries who request this.

The group will develop a work plan, and meet through audio, VC or face-to-face.

The groups work is expected to be relevant throughout the IHP+ 4th Work Plan (2014-15).

² IHP+Results and Core Team Reports

³ <http://www.internationalhealthpartnership.net/en/news-events/article/seven-behaviours-how-development-partners-can-change-for-the-better-325359/>

Responsibilities

- 1) Identify bottlenecks to FM harmonization and alignment.
- 2) Recommend a common approach to FM harmonization and alignment. This will include designing a standard Memorandum of Understanding (MoU) for Joint Fiduciary Arrangements.
- 3) Discuss, on an on-going basis, emerging issues in FM harmonization and alignment.
- 4) Facilitate on request support to countries.

Outputs

- Work plan (which will include the elements below).
- Standard text as well as text options for parts of Memorandum of Understanding for Joint Fiduciary Arrangements.
- Support for FM harmonization/alignment to countries facilitated.
- Simplified communication on what FM harmonization and alignment means.
- Other outputs as defined in the work plan of the group.

Reporting and follow up

The group will report to the IHP+ Steering committee as needed. The committee's meeting minutes shall be documented and disseminated to all participating members as well as the IHP+ Core Team and the IHP+ Reference Group.

The recommended approaches, including standardized MoUs for JFAs, will have to be endorsed by development partners, a process that may involve both their FM and Legal units.

Annex 2

Steps to design and implementation of harmonized and aligned financial management arrangements

