UHC2030 STEERING COMMITTEE
3rd Session - 4-5 June 2018
Hotel Novotel
Geneva, Switzerland

LESSONS LEARNED FROM IHP+ FINANCIAL MANAGEMENT HARMONIZATION AND ALIGNMENT

For Information ☐ **For discussion** ☒ **For Approval** ☐

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Purpose

This document provides a summary of lessons learned from work on IHP+ financial management harmonization and alignment. The objective is to stimulate a discussion on how UHC2030 can engage more effectively on public financial management issues that have an impact on achieving UHC. The Core team would like guidance from the Steering Committee on the implications of the lessons learned for the work of the financial management technical working group (FMTWG).

Background+

1. The International Health Partnership (IHP+) program had the ambition to promote better results in health by promoting effective development cooperation principles. A fundamental aspect of the IHP+ principles was to encourage the use of country financial management arrangements for implementing development aid where such systems are adequate. If the systems are inadequate, development partners were urged to harmonize the financial management arrangements for implementing their aid. UHC2030 is now looking back at what has worked well in IHP+ Financial Management (FM) harmonization effort, and what will be done differently in the Sustainable Development Goals SDGs) era. There were seven countries, namely Burundi, DRC, Ethiopia, Liberia, Senegal, Sierra Leone and Sudan, where FM harmonization and alignment initiatives were pursued under the IHP+. Guidance from the IHP+ FMTWG which was formed in 2014 gave momentum to such initiatives, and helped to address subsisting bottlenecks to the progress of agreed upon implementation actions between participating development partners (DPs) and country partners (CPs).

2. The IHP+ FM harmonization and alignment approach involved the use of common Terms of Reference (TOR) for conducting joint FM assessments (JFMAs), including joint missions and preparation of JFMA reports, the development of joint fiduciary arrangements (JFAs) and joint capacity strengthening support. The missions were co-led by participating development partners and a country counterpart team usually consisting of officials from the ministry of health. Although, the ministry of finance was normally informed of the mission, they played a limited role in the exercise.

3. Except for Democratic Republic of Congo (DRC), all the targeted countries participated in a JFMA exercise: Ethiopia in 2011, Sierra Leone and Senegal in 2013, Burundi in 2014 and lately, Liberia and Sudan in 2016. The FM assessment and harmonization initiatives involved all together a total number of 13 development partners (DPs), including multilateral and bilateral partners, with joint teams formed by two to eight DPs depending on the country. Core participating donors included Global Fund (GF), GAVI and World Bank (WB). The second set of participating donors include African Development Bank (AfDB), European Union (EU), United States Agency for International Development (USAID), The Japan International Cooperation Agency (JICA), The World Health Organization (WHO), United Nations of International Children's Emergency Fund (UNICEF), The UK Department for International Development (DFID), The United Nations Development Program (UNDP), The United Nations Food and Agriculture Program (UNFPA) and IRISH Aid.

Lessons learned

4. Although the FM harmonization work only picked momentum after five years of IHP+'s existence, with the support of IHP+ Financial Management Technical Working Group (FMTWG), significant progress was made with various levels of achievement from one country to the other. Countries that have set up a integrated fiduciary coordination unit have been able to cross some of the hurdles on the way to alignment, partially embedding national PFM process into the joint unit's procedures, thus gradually using country systems where possible. The implementation of integrated fiduciary coordination units using agreed upon financial management procedures, a common accounting software as well as one audit arrangement, are usually underpinned by Joint Fiduciary Arrangements (JFA). Building on JFMA findings and recommendations, JFAs are a form of MoU that specify the FM arrangements to be used by participating donors in implementing their support to a country. However, the creation of JFAs is quite challenging looking at the slow progress made since completion of the Joint Financial Management Assessment (JFMA) exercises in some countries. Lack of funds to implement the JFMA action plans and lack of commitment from CPs have been the main challenges to developing and implementing JFAs. Insufficient harmonization and lack of coordination among participating DPs at the country level also contribute to the challenges.

5. Specific areas of financial management arrangements where progress was made in terms of harmonization include the use of a common accounting software, preparation of consolidated financial reports, and the use of common staff for accounting and financial reporting although, such staff are usually short-term consultants. The areas where least progress was made is having one audit report for all projects under the management of integrated units, and the transfer of skills to country staff. While consolidated financial reports are prepared, DPs still insist on having separate audit reports for their specific funds. This is partly due to different funding and year-end cycles among DPs. Also, there continues to be differences among DPs on what entity qualifies to conduct external audit for their specific funds. While some DPs are open to using the Supreme Audit Institution (SAI) of a Country, others prefer to use private audit firms. Progress could be made on having one external audit report if, for the support they provide, DPs will align their financial audit year end with that of the country partner's. With respect to what external audit firm to use, memorandums of understanding (MoU) on the use of audit firms for projects could provide a good basis for deciding on which auditor to use. Such memorandum of understanding may require a separate assessment of SAIs or private audit firms. The World Bank and the Global Fund are currently working on such an MoU.

6. Transfer of skills to local capacity is also slow due to a confluence of slow implementation of JFMA recommendations to help build trust in the use of country systems and unclear skills transfer arrangements. To set expectations for skills transfer, a clear articulation of how such transfer will take place at the outset of forming integrated financial management units is necessary. In addition, clear milestones for skills transfer, periodic monitoring and reporting of progress will help bring attention and focus to such an important task. DPs funding is also pivotal to help scale up skills capacity building, alongside the joint effort to strengthen countries systems that will enable lasting reliability on those systems at one point in the future.

7. The IHP+ FM harmonization and alignment approach, where pursued, has brought DPs and CPs together. It created a platform for a common understanding of the constraints to use of

country FM systems, and helped the country and DPs reach consensus on key mitigation measures, and how to proceed with common implementation arrangements while building requisite country capacity and systems. However, to succeed, the current approach that emphasizes fiduciary oversight must be preceded by a strong upstream programmatic coordination framework and capacity, which begins with developing a Country Compact[1] that defines or supports sector aid coordination strengthening, and provides the foundation for joint support of the sector strategic plan. If done well, with country leadership and DPs buy-in, the Country compact becomes the overarching aid coordination framework, as well the foundational document for upstream financial management aspirations such as aligning the budget of DP project support with the countries' budget cycle, sector budget support, Sector Wide Approach (SWAPs), pooled funding, downstream project financing implementation arrangements, and external audit.

8. Although, all the countries where JFMAs were conducted had a country compact in place, in some of the countries, development partners' as well as the health ministry's adherence to its coordination provisions was largely lacking. Country leadership and ownership of Compact's provisions implementation needs to be more visible. At the same time, development partners need to walk the talk after signing the country compact.

9. Having a capable donor aid coordination and program implementation unit is also crucial to advancing the FM harmonization and alignment agenda. Combining an integrated fiduciary risk management/mitigation unit with an aid coordination mechanism/unit, that is embedded in the country health system at the programmatic level is essential to optimizing harmonization. Besides, it will help strengthen the national strategy and, plan that is expected to be funded by interested contributors to the health sector, including funding from the national budget. If such a unit does not already exist, the creation of a "Joint Programmatic Coordination Unit" (JPCU) with an institutional anchoring under the ambit of the health services function of health ministry should be considered. Setting up such a unit should be done carefully through a phased mainstreaming of fragmented and parallel project implementation units (PIUs) and national vertical programs. Such an approach will help to reinforce the current FM harmonization approach.

10. Moreover, after the design and roll out of joint FM harmonization arrangements in the countries where the IHP+ FM harmonization initiatives were pursued, rarely were joint missions conducted to assess how well such arrangements were functioning, except when there was a problem with the arrangement. A case in point was the Sierra Leone Integrated Health Projects Administrations Unit (IHPAU), where some development partners threatened to withdraw from the arrangement due to disagreement over the hiring of some of the Unit's staff. Although, not all situations could be envisaged, periodic joint supervision missions by participating DPs and dialogue with country authorities will help to detect challenges to the effectiveness of joint arrangements early, and provide a better opportunity to mitigate such challenges timely. Periodic review of arrangements will also help the country authorities and DPs to hold themselves accountable to the provisions of the JFA, especially with respect building requisite capacity and country systems to support future transition of implementation arrangements to country systems, if envisaged.

[1] IHP+ developed guidance help country governments and their partners to better define the objectives they want to achieve with a country compact or equivalent partnership arrangements.

Suggestions for the way forward

11. A suggested approach that may guide future operations and initiatives toward FM harmonization and alignment could be articulated around the following broad steps:

(1) Signing a country compact to provide a foundational framework and foster mutual accountability;

(2) Conducting a JFMA at the request of the country partner to ensure commitment from the governments. The scope of the JFMA should include a thorough review of the aid coordination mechanisms

(3) Securing funding from DPs to support:
- the implementation of the JFMA action plan to strengthen the country PFM system;
- the design and implementation of an integrated fiduciary coordination unit within the finance function of the ministry, supported by both a JFA and an MOU, to help ensure harmonization among DPs towards “ONE” fiduciary risk management/mitigation framework with gradual alignment with country systems;
- the design and implementation of an integrated programmatic coordination unit within the health services function in a step-wise approach to avoid chaos,

(4) Conducting joint progress review of the country compact, JFMA action plan, as well as the joint fiduciary coordination unit at the country level. The results of such monitoring should be included in the existing annual health sector review process.

12. The FM technical working group would consider updating the guidance on financial management harmonization and alignment taking these lessons into consideration. The new guidance should also consider the aspiration to achieve Universal Health Coverage (UHC) by the year 2030, and the emphasis on domestic financing in the SDGs era. There are two specific areas that PFM can contribute to UHC: (i) supporting service delivery, and (ii) enabling health financing.

13. The entire PFM cycle from budget formulation to external audit and oversight should support better delivery of health services. Many low income and emerging economies would need to strengthen their country PFM systems to ensure such that the efforts towards the achievement of UHC are not hampered by PFM bottlenecks and misalignments.

14. On health financing, there is the need to align health financing reforms objectives -that include financing adequacy, efficiency, predictability, equity and transparency and accountability- with public financial management objectives that include aggregate fiscal discipline and strategic resource allocation. Aggregate fiscal discipline requires effective control of the total budget and management of fiscal risks that include the sustainability of health financing. Strategic allocation of resources involves planning and executing the budget in line with government priorities aimed at achieving policy objectives.

15. These areas provide further opportunities for the UHC2030 PFM Technical Working Group to contribute to gathering evidence of links among PFM, health financing and health service delivery, and sharing such knowledge globally.

Questions for discussion

16. Are the focus areas identified by the Technical Working Group including (i) leveraging FM harmonization and alignment to strengthen country financial management systems; and (ii) gathering evidence and sharing knowledge on the links between PFM and improved service delivery and health financing adequate?