Financial Management (FM) Harmonization Report and Guidance Note: Executive Summary

December 2012

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Purpose of Report

The purpose of this report and guidance note is to provide clarity on the objectives, processes, steps and outputs that need to be undertaken and produced in order to gradually achieve full financial management (FM) harmonization in the health sector. The guidance note, which is a part of the report, provides a roadmap for a systematic approach to designing and implementing harmonized FM at the country level. It also serves as a tool to deepen collaboration, confidence and experience building amongst stakeholders.

The guidance note responds to the need, identified by both Partner Countries (PCs) and Development Partners (DPs), for better organization of FM related activities. It builds upon an extensive review of materials and documentation, consultation within the 3 agencies initially involved in this initiative (GAVI Alliance, Global Fund, and the World Bank) as well as input from other DPs and countries (provided through the Executive Team of IHP+). It also draws upon lessons learned from previous efforts by the donor community, mainly the use of Sector Wide Approaches (SWAps) to provide financial support to PCs, as well as other sector programs and partnerships. Finally, this note also incorporates lessons learned from country level FM assessments and harmonization exercises carried out[2] since the start of this exercise in 2010.

Context and progress of efforts to advance FM harmonization

Two key messages have emerged from reviews of IHP+ and the aid effectiveness agenda.

- More needs to be done to enhance and increase the use of well-functioning country financial management systems.
- More needs to be done to reduce transaction costs for both DPs and PCs, partly inflated due to duplicate and sometimes unnecessary FM assessments, parallel FM systems, uncoordinated and complicated processes, disjointed technical assistance (TA), and uncoordinated supervision and monitoring.

An FM team representing three donor agencies (GAVI Alliance, Global Fund, and the World Bank) was appointed under the Health System Funding Platform (HSFP) to review and report on the opportunities and potential for harmonization and simplification of FM at the global and institutional level. The team undertook a review of FM policies, processes, and practices to identify areas where major duplications and overlaps occur, overburdening PCs. It generally found that, due to fragmentation and lack of coordination, transparency and accountability were reduced. At the same time, diverse processes resulted in complicated, complex arrangements and requirements that are costly during the life of an operation.

The team singled out FM assessments as the entry point for harmonization. It also identified three other focus areas where the impact of FM harmonization would be the greatest. It detailed a joint approach to harmonization and suggested that this approach and its recommended steps be tested in few countries. It was agreed that the lessons learned from this exercise would inform this report and guidance note. In November 2011, the three institutions agreed to test the recommendations at the country level and in 2012 jointly undertook several exercises with facilitation from the WHO.[3]

[1] This is a draft executive summary for discussion at the 4th IHP+ Country Health Teams Meeting in Nairobi, Kenya, 11-14 December 2012.
[2] Full or partial/limited exercises were carried out in Benin, Ethiopia, Nepal, and Sierra Leone.
[3] Benin, Ethiopia, and Sierra Leone.

A wider consultation with DPs and PCs at the IHP+ 4th Country Health Teams Meeting, followed by the dissemination of the final report and guidance note, will conclude work at the global level for the first phase of harmonization. The next phase, outlined in more detail in the following sections, will involve drafting and agreeing on generic elements of a Memorandum of Understanding (MoU) for joint fiduciary arrangements, in addition to systematically implementing the harmonized approach at the country level. The success of implementation depends on how the quickly the persisting challenges are resolved.

Aim of harmonization at the global, agency, and country level

FM harmonization is expected to generate greater transparency and accountability as well as enhanced efficiency for all stakeholders. Therefore, it should be seen as a critical instrument for accelerating results in countries. In light of these common benefits, the implementation of FM harmonization needs to be pursued at DP community, individual agency, and country levels in order to reach its full potential.

FM harmonization needs to take into consideration specific country circumstances. At the country level, a primary objective is to build lasting country capacity in order to sustain accountability and transparency. Strengthening a country's planning and budgeting capacity, when done in conjunction with harmonized FM, will be mutually reinforcing. This, coupled with national and international alignment behind the country's one plan and one budget, will provide a robust foundation for the development of country FM systems that can eventually become a country's instrument for financial accountability and reporting. Supporting one sector FM capacity building program will provide the basis for achieving these objectives.

Proposed approach and its perceived benefits

The FM team has identified four areas where harmonization is expected to be beneficial and have the most impact:

(a) Undertaking a joint full FM assessment of the necessary scope and nature, without duplicating the work already done by others;
(b) Jointly defining a common FM framework - agreed by the government and its partners - that relies on and builds upon well-functioning parts of the government system. This framework will define:
    - a common FM system and related arrangements at the country level that make maximum use of the existing system and satisfy the needs of all sector financiers;
    - one set of periodic (monthly, quarterly, annually) FM reports that are clear, complete and satisfactory for good management and are needed by government central ministries and DPs; and
    - a single, comprehensive audit;

    Depending on the robustness of government systems, these arrangements may fully or partly align to government systems.
(c) A single, comprehensive Technical Assistance (TA) and capacity building program, agreed by the government and DPs, to harmoniously support sector development in the areas of planning, budgeting, internal controls and processes, accounting, and reporting.
(d) Coordinated and joint FM supervision during implementation of the financed programs.

In the past, there have been efforts made towards FM harmonization and joint FM assessments. SWAps are a good example where the countries and donors have come together and accepted a

common set of arrangements. Furthermore, donors increasingly rely on exercises such as Public Expenditure and Financial Accountability (PEFA) to provide budget support.

However, joint FM assessments and other efforts to harmonize have been generally ad-hoc and limited to participating donor agencies that at a specific point in time jointly financed an operation by pooling their funds. As a result, other donors who were unable to pool funds, had a lower risk tolerance, or needed attribution were left out; thus, at times the objective of developing long-term capacity and the goal of harmonizing FM among all DPs was inadvertently undermined. When one donor conducted an FMA, the benefits were limited in terms of harmonization. Parallel systems persisted, (at least for accounting and financial reporting) and audits remain fragmented. This is due to the fact that a single donor who conducts the assessment does not necessarily design a fiduciary framework and systems that take into consideration the needs of others.

While the recommendation to jointly undertake FM assessments is nothing new, this report offers a comprehensive approach to harmonization with a framework and specified set of activities that can be generalized and applied to most country situations; this approach allows for both pooling and non-pooling donors to co-exist under the same harmonized framework.

Principles underpinning the proposed approach

There are three main principles on which the proposed approach is based:

(a) Align with the partner country systems whenever they meet minimum acceptable level;

(b) Harmonize among development partners, when all or part of the national PFM system is not sufficiently robust to satisfy the needs of DPs, and do this in a way that the burden on the country and participating DPs is minimized;

(c) Agree and support implementation of a joint action plan which strengthens the national system so as to bring about the necessary changes to make the alignment with the country system increasingly feasible.

Specific steps to the proposed approach

In light of the linkages between the identified areas, the FM team proposes joint FM assessments as an entry point to broader FM harmonization. Joint FM assessments are not new, and therefore should not be seen as controversial or unfeasible. In fact, they do not necessarily need to be done comprehensively in the field; full FM assessment should be the result of a comprehensive desk review of existing information and necessary field work to bridge gaps in information. Depending on the quality and quantity of already available information, the proposed approach allows teams to best focus their efforts on areas where there are gaps. The proposed process suggests a careful initial assessment and scoping to prevent duplication and redundancies. It includes the following features:

- A joint stocktaking and desk review of all existing assessments and information to determine if and to what extent additional FM field work is required. This allows the assessment team to carefully define the scope of necessary work, bridge any existing gaps, and prevent duplication;[4]
- An agreement on the expertise needed, the timing of the assessment, the composition of the assessment team (which includes PC staff), and expected outputs.

[4] Under the proposed approach, the scope of field work will vary, depending on work previously done and country circumstances, but the approach and the roadmap will remain the same.

Following a decision on the scope of the FM field work, the next major opportunity for reducing redundancies lies in generating buy-in among all participating and future partners. This is done by maintaining joint and open quality assurance, ensuring a good division of labor, and establishing clear Terms of References (ToRs).

The output of the FM desk review and field work[5] should be sufficient to jointly design the FM framework and common arrangements. The design of common FM arrangements should:

- Facilitate maximum participation
- Accept both pooling and non-pooling of funds, as flow of funds is only one of the six pillars of FM and not the only driver

Retrofitting of on-going programs should also be envisaged in the design.

Subsequently, PCs implement an agreed upon, time-bound action plan. One important step is that DPs, in collaboration with the government, need to draft and sign a Memorandum of Understanding (MoU), which documents the common FM arrangements. In the past, the drafting of such documents (generally known as Joint Financing Arrangements, Joint Fiduciary Arrangements, MoUs, Administrative Agreements, etc.) has been very time consuming. Standardizing these generic parts at the global level would significantly accelerate process and allow for faster completion of the documents at the country level. Furthermore, a limited number of options could be agreed upon, depending on the specific context. This will allow the team to focus on those FM aspects which need to remain country-, context- and operation-specific in the documents.

The final step of harmonization is coordinated (and preferably, joint) FM supervision and monitoring work during the implementation phase. This will simultaneously enhance accountability & transparency and improve risk management. These two steps - the drafting of a generic document for MOUs and joint supervision and monitoring - are the focus of the next phase of this work. It will require further discussion and collaboration amongst countries and a larger group of DPs. A plan to undertake this by a larger FM technical working group has been agreed by the IHP+ Executive Team.

Conclusion: benefits of FM harmonization and persisting challenges

The benefits of conducting a joint FM assessment in the health sector are not limited to reducing the number of FMAs. A joint FMA is the vehicle to reach agreement on a commonly accepted FM framework, a single set of requirements and rules, a single accounting and reporting system, and a single arrangement for audits. Maximum harmonization comes about when both the assessment and the design of frameworks take place jointly and simultaneously.

Challenges:

Challenges to FM harmonization in the health sector include:

- Institutionalizing FM harmonization efforts in the work programs of relevant government institutions and within each DP;
- Developing, operationalizing, and sustaining close coordination and collaboration between governments and DPs;
- Generating a MoU with standardized elements and limited options that depend on the country context;
- Mobilizing support for the implementation of action plans at the country level. Experience shows that where support has been provided, it has been ad-hoc, uncoordinated, and without a vision to build country systems. In order to respond to this challenge, this note recommends that

[5] In this report, the full FM assessment refers to the combination of desk review and the FM field work to complement the available information and assessments.

one of the outputs of a joint FM assessment be a comprehensive capacity building program, fully supported by donors.

Benefits:

In summary, the benefits of the proposed FM harmonization approach include:

- Stronger risk assessment and management for all operations financed by participating donors in the health sector;
- Reduced PC burden due to less frequent FM assessments, a single FM framework, and a single set of processes (preferably aligned with the country's framework);
- A fewer number of accounting and reporting support systems (software, ledgers, etc.);
- One set of periodic reports with three advantages: a) greater transparency through the reduced risk of duplication and/or double counting, b) a more complete picture of the financial position and performance of the sector, and c) reduced burden on production of reports;
- Fewer number of auditors and streamlined audits, with better scope and possibility for cross verification between inputs and outputs, in addition to better visibility by auditors and management;
- Improved government FM capacity and systems (which provides the foundation for increased alignment of DPs to government systems);
- Increased harmonization and alignment of all sources of funding. This not only produces harmonized financial reporting, but also facilitates comprehensive budgeting and improves managers' ability to align all funding sources to fit with the government's strategic priorities, thereby improving the performance of the health sector and advancing results.
- Significant savings in time by the reduced number of drafts of the MOU for common financial management Arrangements and the fewer number of joint FM supervision missions.