Financial Management Harmonization & Alignment

Frequently Asked Questions (FAQ) & Guidance

Introduction

The harmonization of Financial Management (FM) arrangements by Development Partners (DPs) can assist in reducing the burden of multiple FM systems on governments, refocusing the attention of managers to health service delivery and developing capable health systems, thereby leading to better results. This FAQ note summarizes and addresses questions that frequently arise when the harmonization of FM arrangements is discussed. While the FAQ focuses on harmonization the ultimate goal is DPs aligning with and using well-functioning country FM systems. The FAQs contain overall guidance on how to conduct and follow up on a Joint FM Assessment (Section B).

What is IHP+ doing in the area of FM harmonization and alignment

Initially this work was carried out by World Bank, Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) & GAVI facilitated by the World Health Organization (WHO), partly financed by IHP+ and under the auspices of the Health Systems Funding Platform. This group developed a draft Financial Management Harmonization and Guidance Note[1] in 2011. From 2012 the work on FM was subsumed under the IHP+' work plan. IHP+ has been supporting the development and review of joint financing arrangement in Nepal (2009 & 2013); Joint FM Assessments in Ethiopia (2011), Sierra Leone (2012 with follow-up in 2014) and Burundi (2014). FM harmonization & alignment has featured prominently at the 4th IHP+ Country Health Teams Meeting (Nairobi 2012), and on the IHP+ web-site, for example here: http://www.internationalhealthpartnership.net/en/key-issues/financial-management/ .

In October 2013 the IHP+ Core Team was strengthened by the secondment of a senior FM specialist from the World Bank. Following endorsement in January 2014 by the IHP+ Steering Committee the IHP+ FM Technical Working Group, with members from a number of countries and DPs, was established May 2014, and has started its work. With the decision in September 2014 of the Global Health Agency Leaders to focus on joint financial instruments, FM harmonization & alignment is expected to be a key part of their agenda.

[1] In 2012 further developed as Financial Management (FM) Harmonization Report and Guidance Note: Executive Summary.

IHP+ Principles for moving towards FM alignment

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. **Do things jointly**: Joint FM Assessment, joint action plan for strengthening the system and joint supervision
4. **Not wait** until all problems have been solved, but use elements of country systems as part of the process of improving systems and developing capacity.

Questions and Answers (by group of questions):

A. What do we mean by FM harmonization, and what are the expected benefits for each stakeholder?

1. What is FM harmonization?

Financial Management harmonization is aiming at harmonizing a group of development partners' financial management approaches and requirements. Key elements will be to use the same financial management systems including utilizing the same internal control framework and same financial report formats for the different DP funding streams, and using one audit for all DP funding streams (see below for more details on the elements of a FM system). Note that 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 without separating the funds by using separate bank accounts.

A harmonized FM should ensure a process by which financiers of a national programme (e.g. DPs) obtain regular and useful financial reports and receive independent opinions from qualified independent auditors. This is intended to provide reasonable assurance that the financial statements reflect the true financial situation, and that accounts and reports provide a true and fair picture of the financial transactions and the state of the finances of the programme. Additionally, mechanisms need to be in place to prevent and curb fraud and corruption; and when such instances are discovered, there is a system of sanctions and remedies.

Good FM harmonization practices also include joint efforts to strengthen country systems, enabling DPs to rely on those systems at one point in the future.

2. What is FM alignment?

FM alignment is the ultimate, most advanced type of harmonization of FM, namely that DPs use the country public financial management system (PFM) for the fund flow, financial transactions, and accountability of their funds and the Government auditors are responsible for the audit, i.e. public as well as DP funding goes through the same government PFM system and is subjected to the same audit arrangements.

Alignment with the country PFM system and using the national policies and procedures is predicated upon a minimum level of maturity and performance of the country system.

3. What are the elements of FM harmonization?

FM harmonization would result in participating DPs using some or all of the following elements in their individual funding processes:

- Same funding cycle
- Same budgeting and budgetary controls (including internal controls and internal audit)
- Same accounting policies, method and system
- Same format and timing for financial reporting
- Common audit arrangements
- Common response to misuse of funds
- Joint FM supervision (regular procedure to assure stakeholders that FM systems are functioning as intended)
- Joint support for a government led plan for FM capacity and systems strengthening

4. What are the different levels of harmonization?

This table illustrates two dimensions of harmonization

Degree of Harmonization & Alignment →			
	DP using **same FM** system (in some cases only part of the FM system will be common)	DP using **same FM** system which includes **parts of country PFM** system	DPs using **only country PFM** system
Number of Development Partners (DPs) using same FM system ↓	**Few DPs use** common FM system **All DPs use** common FM system	**Mix** of Harmonization and Alignment, used to a varying degree	Only **few DPs use** country PFM **All DPs use** country PFM

PFM = Public Financial Management

Often there is a **mix of harmonization and alignment**: While the ultimate objective is to harmonize around a country PFM system, i.e. alignment, only that part of the system which provides necessary assurance and performs satisfactorily can be used. For example, when the country has a cash rationing, and consequently cash flow within the national treasury system is neither predictable nor reliable, then a parallel fund flow mechanism needs to be used while still using the government FM system; i.e. the funding channel used by the government is different from that of the DPs (parallel), but other FM arrangements are the same. Another example is countries where DPs use the government's FM system at sub-national level (e.g. district level), but not at the central level.

5. Can harmonization be different under different country circumstances?

Harmonization is not a one size fits all exercise or outcome. Although principles and standards of good FM practices are uniform, each country situation is unique. FM systems, capacity, and risks differ according to country context, as does the degree of flexibility and risk tolerance among the development partners. However, regardless of context, harmonization exercises should strive to reduce the differences and use methods and mechanisms that can satisfy an array of needs and requirements.

As the PFM includes several elements, alignment and harmonization can take place gradually and partially, as and when each element is functioning well. For example, when the budgetary and internal controls are adequate in a country, the DPs may adopt those elements, even though the PFM flow of funds may not yet be as transparent and efficient as the DPs require.

There will often be low hanging fruits. One example is using the same auditors to audit all DP funding. This results in a comprehensive audit report that will not only reduce the burden on the partner country officials, but also enhance transparency and accountability by reducing the fragmentation of audit giving the team of auditors a fuller picture enabling them to better connect the dots. In sum, this reduces waste and the inappropriate use of funding.

6. What are the expected benefits for partner country and DPs?

The expected benefits for countries and DPs overlap; a benefit for the country is also a benefit for a DP and vice-versa.

For the partner country the benefits are:

- Fewer assessments and missions to prepare FM systems
- Fewer accounts and ledgers, less diversity in forms, etc.
- Fewer financial reports to be produced at different times and in different formats
- Fewer auditors and separate audits
- Fewer separate FM rules and requirements
- Fewer FM supervision missions
- Better overview of available funding and the use of funds
- Improved transparency and accountability, including reduction in misuse of funding
- Building lasting capacity rather than spending funds on ring-fenced capacity for specific projects or programmes which often disappears at the end of each project
- Most importantly, more efficient use of funds and more time to focus on health issues, all leading to better results

For the DPs the benefits are:

- Fewer missions and a more mutually beneficial division of labor
- Better cost and risk sharing

- Better fiduciary and risk management
- Development of sustainable capacity
- Most importantly, more efficient use of funds and more time to focus on health issues, all leading to better results.

FM Harmonization → Results
▪ Funders use the same budget and accounting system -> managers have the budget overview needed -> resources allocated against key priorities ▪ One common budgeting and reporting system -> transaction cost reduced -> time freed up to deliver services ▪ Single audit of all donor and government funds -> more efficient audit -> inefficiencies and misuse identified ▪ Joint capacity building also strengthen efficiency and accountability

B. What is the process of FM harmonization for a country?

1. What are the steps for harmonization?

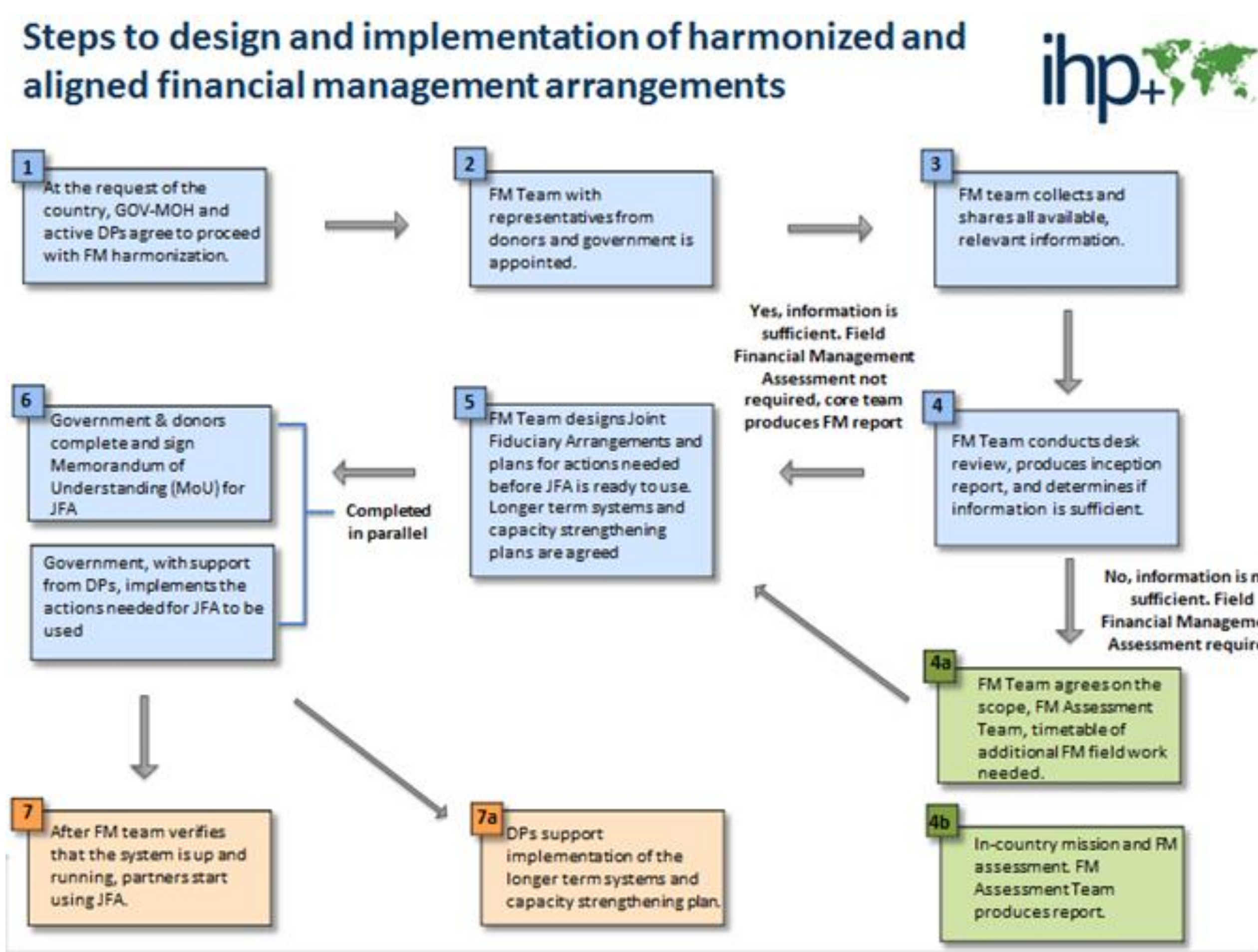
Although no fixed process is prescribed, the generally recognized sequential steps to harmonization include: the collection and analysis of all existing information on the country's FM system; a fiduciary risk assessment; the design of the common fiduciary arrangements; the documentation of these arrangements and how they will be implemented; the fulfillment of pre-conditions, if any; a capacity and systems strengthening plan and its implementation arrangements; and programme implementation and supervision. The following describes a sequenced step by step process that can be modified according to the specific context:

1) Country requests and DPs agree to proceed with FM harmonization.
2) A FM Team is created with representatives from government and DPs, to take forward the process of FM harmonization and/or alignment.
3) A desk review is undertaken by the involved stakeholders led by the FM Team to take stock of and analyze available information; if needed, propose scope of additional work based on this analysis; develop Terms of Reference (ToR) for a Joint FM Assessment and agree on outputs; divide labor regarding the Joint FM assessment among DPs and with the country.
4) Field work (e.g. Joint FM Assessment mission) is undertaken (if needed) for additional data collection; assessment of risk and capacity needs;
5) Consensus around common arrangements that can be implemented is reached, resulting in a Joint FM Assessment report. The desk review, together with the field work, constitutes the **Joint Financial Management Assessment**.
6) Design of the **Joint Fiduciary Arrangements (JFA)** including the different elements of the FM system; agreement on the additional capacity and mitigating measures to reduce and manage risks; and agreement on readiness criteria for the system to operate. An action plan to fulfill

them is agreed upon; as well as a plan for continued capacity and systems strengthening, preferably guided by a high level government task force.

7) Drafting and negotiating the **Memorandum of Understanding (MOU)** for the Joint Fiduciary Arrangements (can also be called Joint Financing Arrangements, Common Fiduciary Arrangements or similar). This clearly documents the Joint Fiduciary Arrangements (JFA), covering governance, planning and budgeting, flow of funds, aspects of procurement, controls, accounting and reporting, audits, supervision and other arrangements.
8) Simultaneously with step 7) the government, supported by the DPs as needed, will implement the actions required for the JFA to be ready for use.
9) Once the readiness criteria are fulfilled and the MOU is signed **disbursement** as well as implementation of the **capacity building and systems strengthening** plan and other agreements start by signatory DPs and the government, this includes **joint FM supervision.**

See also chart below.



2. What is the best time to start work on FM harmonization?

The process of FM harmonization (i.e. doing the Joint FM Assessment, designing the JFA etc) can be initiated at any time. The most common timing is when DPs decide to jointly support a programme or a strategy and this often happens when a government elaborates a new health sector strategy/plan/programme. Since the harmonization may have consequences for the bilateral agreements between individual DPs and the government it is probably less convenient to start the process mid-way during the implementation of a health sector programme but it is not impossible, depending on the funding cycles and flexibility of DPs.

3. Does FM harmonization require a country request or can the DPs agree among themselves to harmonize?

FM harmonization works better when the country partner has an interest in the process and outcome. The more advanced FM harmonization mechanisms include capacity building activities that would require the country's buy-in. More limited harmonization can be elaborated though, focusing on an arrangement between DPs only, rather than a more encompassing mechanism that includes elaborate capacity building activities.

4. What is the role of the Government?

The role of the government can vary from case to case. In the best case scenario it is the government that initiates and guides the process. In less desirable situations the government is merely a recipient of the arrangements.

It is feasible and appropriate for a government to do a self-assessment and propose a system to use and around which to harmonize. However, participation from DPs in elaborating the scope of the assessment and in conducting the assessment will usually increase the confidence of the DPs in the end product. Alternatively, DPs may wish to carry out a parallel assessment and subsequently meet with the government and compare the external assessment with the government's self-assessment.

Active leadership and participation in the capacity building plans by the government obviously will greatly increase the chances of achieving a sustainable systems strengthening.

The ideal process, described elsewhere in these Q&A, is joint with all partners but led by the government.

5. What is an FM Assessment (FMA), and what is the benefit of doing it jointly?

What is an FMA?

The FM assessment is part of the due diligence obligation that the DPs have vis a vis their authorizing environment before they provide funding to a third party, e.g. a country government. It assesses the strengths and weaknesses of the national Public Financial Management (including budgetary control system) and its performance from the angles described above, including assessing parts that perform well and could be accepted. It is also the tool to design the common arrangements; and capacity development action plan for parts of the national PFM system that cannot be used.

The FMA will have two elements:

- A desk review of existing documentation and assessments of the country PFM.
- Based on this the need for further assessment is jointly decided, and any field work/mission needed is carried out.

What is the benefit of doing it jointly?
Done jointly, it is the tool which can bring all DPs and the country together with the same understanding of issues and help reach consensus around a single set of arrangements. This helps strengthening the country system and capacity development, and satisfies the needs of different stakeholders.

What will be in the Joint FMA Report?
As a minimum the report should include:

- Proposed action plan for systems and capacity building
- Proposed single accounting system and Chart of Accounts
- Content for single set of financial reports
- Draft ToR for single independent comprehensive audits
- Salient features of the Joint Fiduciary Arrangements (see details under 6 below)

6. What are the different documents?

Joint FMA: The Joint Financial Management Assessment report describes the assessment by stakeholders (e.g. a number of DPs and often the government) of the strengths and weaknesses of the national Public Financial Management (including budgetary control system). It forms the basis for the design of Joint Fiduciary Arrangements (JFA). See more details above.

JFA: Joint Fiduciary Arrangements (other terms are used such as Joint Financing Arrangements and Common Fiduciary Arrangements): Description of jointly developed and agreed fiduciary arrangements, including governance, planning and budgeting, flow of funds, procurement, internal controls including internal audit, accounting and reporting, audits, and supervision. It may include an action plan for systems and capacity strengthening, or this may be separate.

MoU: The signed agreement between partner country government and DPs on the JFA.

C. What are the linkages with other processes?

1. What are the differences/linkages between the JANS and Joint FMA?

The Joint Assessment of the National Strategy & Plans (JANS) is an exercise through which stakeholders review the strengths and weaknesses of the health sector strategy and plans. FM and budgeting processes strengths and weaknesses are assessed in terms of overall Public Financial Management (PFM) issues, including the quality of the health systems planning, budgeting and accountability functions. The JANS assessment of the fiduciary systems (FM and procurement) is aimed at assessing overall systems linkages, and is not intended to be a proper and detailed FM assessment, which would therefore have to be conducted as a separate exercise. The JANS can lead to a common understanding and agreement on the way forward also for the area of health sector PFM. More about the JANS can be found at *http://www.internationalhealthpartnership.net/en/tools/jans-tool-and-guidelines/*

2. Are there differences between a SWAp, pooling of funds and FM harmonization?

The SWAp (Sector Wide Approach) is a very broad concept that primarily refers to all DPs supporting the national strategy through a joint programme of work. In doing so, they apply a number of harmonized and joint processes. As such a SWAp could – and often does – include harmonized FM, and in some cases alignment to the national PFM system, but this is not always the case and is often only for a sub-set of development partners.

Often the term SWAp is misunderstood or misused to mean pooled funding. While pooled funding is a feature of a number of SWAps, it is not always the case; and thus far, it has never been the case for all DPs working under SWAp arrangements. The FM harmonization described in this FAQ allows pooling as well as non-pooling partners to harmonize the FM of their support to the government's strategy and plans

D. Is FM harmonization feasible and what are the challenges and obstacles?

1. Is it feasible?

As demonstrated in a number of countries since the mid 1990s, it is quite feasible to achieve FM harmonization and even establish more comprehensive Joint Fiduciary Arrangements. Nevertheless, while feasible, creating JFAs is not an easy task, as demonstrated by the slow progress since this approach was given renewed focus through IHP+.

2. Challenges and obstacles?

One of the key difficulties to harmonization is that while subscribing to internationally accepted practices, DPs still have varying interpretations and, most importantly, differing rules and regulations sometimes more due to tradition than objective requirements based on international standards.

Compounding this are very different views on risk and risk management as well as widely different levels of risk tolerance.

When it comes to the ultimate form of harmonization, alignment with national systems, weaknesses in country systems and capacity, and lack of compliance, are sometimes major obstacles in addition to the factors on the side of the development partners.

However, as there seems to be a will from DPs and a strong demand from countries, as for example expressed during the IHP+ Country Health Teams Meeting (Nairobi 2012), the situation is expected to improve.