GFA CONSULTING GROUP

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COMPLIANCE AND ACCOUNTABILITY AS CORNERSTONES OF PUBLIC FINANCE MANAGEMENT

EDITORIAL

Ever since the UN General Assembly adopted the Agenda 2030 in 2015, its 17 Sustainable Development Goals (SDGs) have become part of our reference guide as professionals working in development assistance. We at GFA regularly check our conceptual approaches and working methods to make sure our technical advisory services are aligned to the SDGs. The 2015 Addis Financing for Development Agenda recognizes the relevance of sound public financial management (PFM) as a transversal element underpinning the achievement of the SDGs. SDG 16 asks for substantially reducing corruption and bribery in all their forms. SDG 17 on Partnership for the Goals depicts most PFM-related targets such as strengthening domestic resource mobilization, fostering debt financing, and relief and restructuring. SDG 17 also pushes for multi-stakeholder partnerships mobilizing and sharing expertise, technology and financial resources.

In this newsletter, colleagues from our Public Finance Management Team offer an overview of how they contribute to the SDGs. We refined our toolbox and technical expertise to serve multilateral institutions and multi-donor funds for infrastructure or other public goods with their financial pledges for the fight against Covid-19 geared towards the SDGs. Our Fiscal Agent services ensure transparency, accountability and efficiency in the use of external funds. Due to the pandemic, we see how public actors worldwide are struggling to ensure cash transfers for small businesses, IT based tracking of infections, and funding flows to relevant players. Fiscal Agents working hand-in-hand with GFAs technical experts in other fields are the backbone of these actions.

Anja Desai
Managing Director

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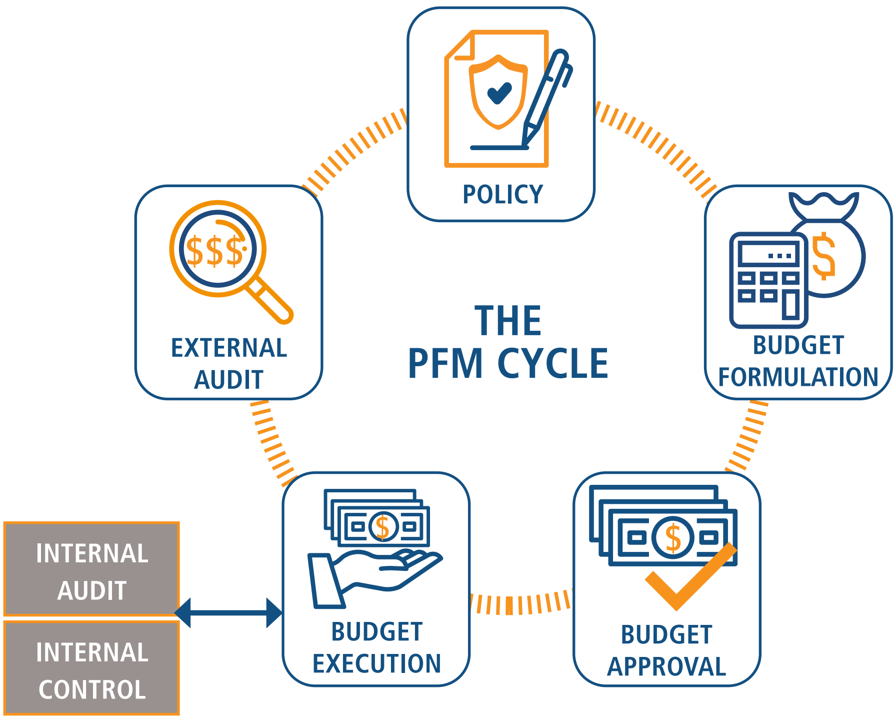
Public Finance Management (PFM) comprises an array of legislation, procedures, schemes, and rules applied mostly by national and sub-national polities to generate and mobilize public funds, and to allocate and spend them according to pre-established policy objectives, strategies and action plans. It encompasses a broader set of functions than financial management and is commonly conceived as a cycle of phases, to ensure it operates effectively and transparently, while preserving accountability.

Two essential elements of the PFM cycle within the budget execution phase are internal audit & internal control and external audit. These elements are crucial for the achievement of accountability, transparency and efficiency in the use of public funds.

The International Handbook of Public Financial Management of 2016 describes internal audit and internal control as performed by internal government entities in order to "ensure their compliance with laws and regulations; second, to ensure the reliability of its financial data and reports; and third, to facilitate the efficiency and effectiveness of the entity's operations". The external audit function is performed by Supreme Audit Institutions (SAI), an organ "generally separated legally from the executive to provide an independent opinion on a government institution's financial statements and operational effectiveness in meeting its policy objectives".

Accountable PFM organizations and systems are essential for the achievement of the SDGs. The Public Expenditure and Financial Accountability (PEFA) assessments carried out 2006-2016 showed the least satisfactory average performance in the external audit/control chapter of the 27 states used as a representative sample. This outcome and many other deficiencies in internal audit and control have led international donors to launch numerous technical assistance projects trying to help beneficiary countries make progress. In this context, the UN created a High-level Panel on International Financial Account-



ability, Transparency and Integrity, which has recently published its findings.

The deficiencies in PFM systems have also been noticed by organizations such as the Global Fund to fight Aids Tuberculosis and Malaria (GF), GAVI the Vaccine Alliance and the Millennium Challenge Corporation (MCC) when rolling out their grants or compacts in many high-risk environments. These organizations, which integrate state and non-state actors, constituted multi-stakeholder alliances in line with SDG 17 on Partnership for the Goals. In an effort to substantially reduce, inter alia, corruption and bribery in all their forms, and develop effective, accountable and transparent institutions at all levels as stated in the SDG 16 targets. The mentioned donors created the Fiscal Agent (FA) as a mechanism to mitigate the risk of fraud and corruption in the use of their funds.

FISCAL AGENT SAFEGUARDING FUNDS

The GF defines the FA as an "independent agency contracted directly by funding agencies to mitigate financial risks arising from weak financial management capabilities of implementers of subventions in recipient countries".

In this capacity, the FA plays a role comparable to that of internal audit and internal control organizations in a national state, as shown in the PFM Cycle above. The difference is that the FA is designed to perform temporarily and to transfer knowledge through thoroughly planned capacity building activities in the beneficiary countries. This is intended to develop ownership in the institutions in charge of using the granted funds.

The FA supports the internal audit and control functions within fund recipient institutions in the following matters:

- preparing an internal audit charter, code of conduct etc.,
- supporting the development and monitoring of the implementation of annual internal audit, budget and resources plans covering the grant activities,
- ensuring that a timetable, objective, scope and procedure for the internal audit assignment are established, and that these are adhered to or modified to ensure effective and efficient use of internal audit resources,
- supporting the conduction of financial, compliance, technical and internal audit management of grant activities in accordance with established work guidelines, evaluating the adequacy and effectiveness of internal controls, and performing specific audit procedures and preparing working papers that document the audit procedures performed,
- ensuring that audit findings are evaluated, results of audit work and recommendations are presented to respective committees and management boards, and comprehensive written audit reports are drafted on the basis of the work implemented.

GFA AS PARTNER OF CHOICE FOR GF, GAVI AND MCC

In recent years, GFA has become the partner of choice for donors in one of the company's core service areas, namely PFM (see map). Through its successful performance as FA, GFA has proven to be capable of managing smaller and larger FA teams with a slim, target-oriented and professional team of finance experts in countries worldwide, even under challenging conditions regarding the operating environment and the complexity of partner structures. As cases in point, two exemplary projects outlined below may illustrate the GFA success story.

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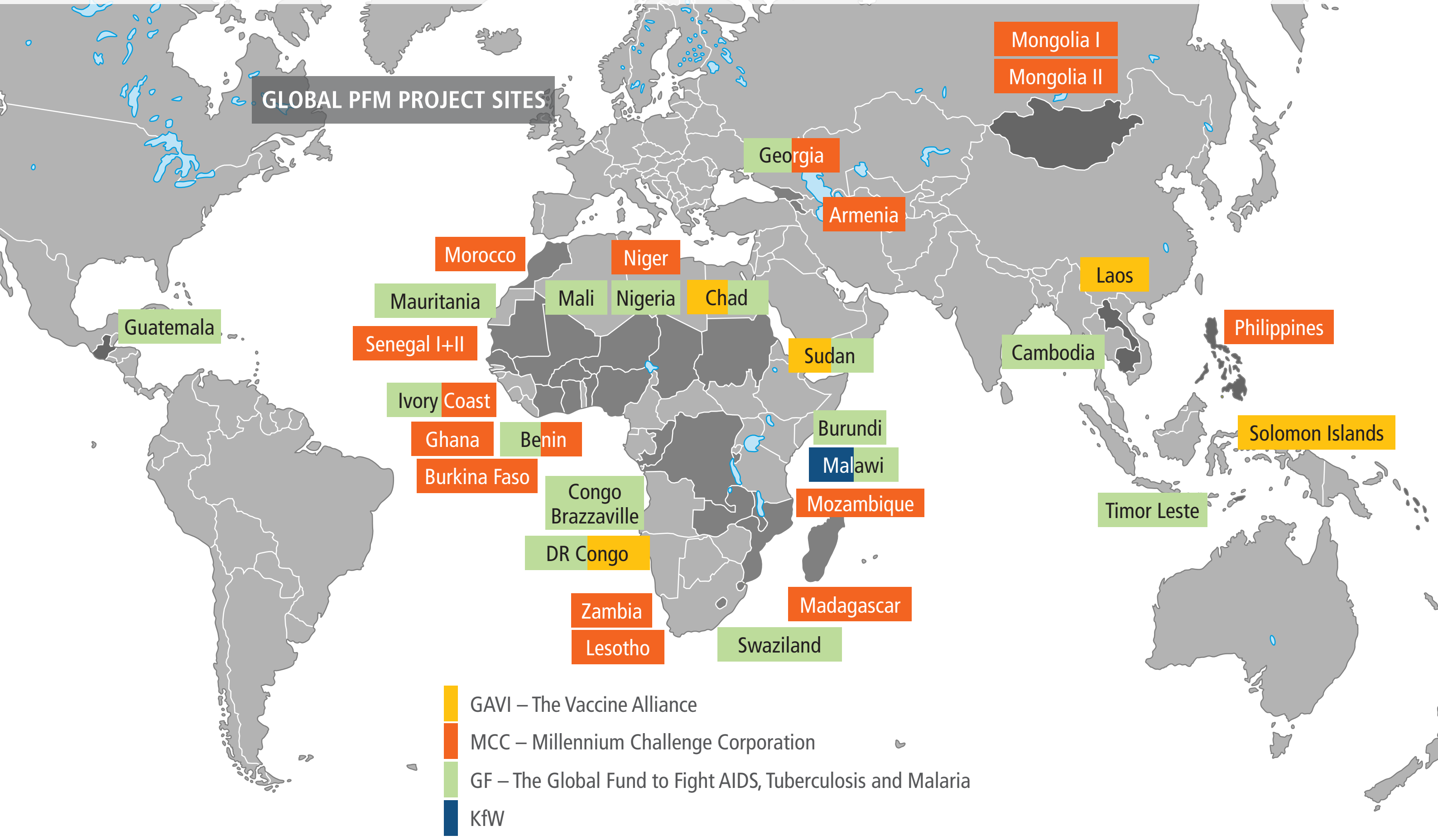

GFA FISCAL AGENT SERVICES IN NIGERIA AND IN THE DEMOCRATIC REPUBLIC OF CONGO

While Nigeria and the Democratic Republic of Congo (DRC) share structural similarities, GFA projects there portray contextual differences that render related interventions unique. The DRC and Nigeria have 1960 in common as their date of independence, and 17.5 as the average age of their populations. They are part of the biggest portfolio of the GF and GAVI, and are both considered high-risk environments. GFA started the Nigeria project in 2015, but assumed the FA responsibility in the DRC not before early 2020, when COVID 19 started affecting people's lives and the world of business. While GFA solely operates for GF in Nigeria, the company shares financial risk mitigation for both GAVI and the GF in the DRC. The GFA presence in Nigeria is limited to Lagos and Abuja, while 18 provinces and Kinshasa are covered in the DRC. In both cases, GFA applies a wide-ranging and effective professional approach, combining German rigor in PFM with the open-minded and flexible approach so typical of its cosmopolitan home city Hamburg . The team leaders of these projects provide a close look at their vivid experiences in the field.

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INTERVIEW WITH FOLKARD WOHLGEMUTH, TEAM LEADER IN NIGERIA

Folkard Wohlgemuth is a German national, who has been working with GFA for 14 years, managing MCC-funded FA projects at GFA headquarters and working in the field as FA manager in Madagascar, Morocco and Zambia, among other countries, before assuming the position in Nigeria.

Why is it special to work in Nigeria as GFA team leader of an FA project funded by GF?
Nigeria is the largest of GF's portfolios worldwide, and is characterized by a high volume and wide variety of implementing entities and partners such as national and local governmental bodies, national as well as international NGOs, universities, and enterprises. At the same time, the country has an equally diverse landscape when it comes to reliable systems, human resources and capacities as well as financial approaches, which can range from very professional to rather poor. This results in the need to react flexibly to such settings while upholding best practices and donors' requirements, as well as the design and implementation of a variety of innovative tools such as web-based work plans or new approaches to documenting expenses.

How do you see GFA specifics fitting into the Nigerian FA context, i.e. German PFM rigor with an open-minded international approach towards activities in the development sector?
The way you characterize the approach, it generally works well in Nigeria. While we are occasionally presented by grant recipients or vendors with solutions outside accepted frameworks, the well-crafted regulation implemented over the last years helps our staff to diplomatically push back. This obviously works better if the FA staff has a track-record of trying to find together with the counterparts innovative solutions within the rules, or is able to support requests to the donor seeking exceptions if appropriate. Another aspect is the training we are providing based on an extensive Capacity Building Plan. GFA specializes in a highly interactive adult training methodology that we have been employing for more than 1,000 counterpart staff with very positive feedback and long-lasting effects both for staff capabilities as well as relationships. Last but not least, we gain leverage from the experiences GFA has been gathering in its FA projects worldwide by disseminating reviews and audit results from other countries and donors in order to find mitigation measures for potentially similar issues before they occur in Nigeria.

What are the biggest challenges the GFA FA project has tackled so far in Nigeria?
Developing a generally good rapport that we currently have with different counterparts is probably the biggest achievement given that the introduction of an FA, who has to play 'good cop - bad cop' within one team, is initially rarely welcomed by the counterpart. Our team with its, at times, 30 resident international and national experts has established a reliable reputation with the staff of the fund recipients in a very difficult environment. In the beginning, the project had to deal with unfavorable audit reports for prior periods, which led to the suspension of two recipients, and consequently to the need for building the capacities of their staff. By now, based on a recently developed review methodology resulting in an entity-specific Transition Plan, the FA has not only graduated some entities out of its tutelage. It has also moved beyond the mere review of financial documents in a multi-faceted support providing advice and review also in procurement, fraud-prevention, IT, and, to some degree, program development. In combination with the effects of the pandemic, security issues, and changing donor needs, there is rarely a business-as-usual day at work.

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INTERVIEW WITH ALAIN-BORIS NKURUNZIZA, TEAM LEADER IN THE DRC

Alain-Boris Nkurunziza is a national of Burundi, who joined the GFA PFM team in 2014 and has served mostly in Burundi, Mauretania, East Timor, Mali, Ivory Coast and Germany in his capacities as finance specialist, project director and team leader.

Alain-Boris, could you please introduce yourself?

I have been working at GFA as a Fiscal Agent consultant in the PFM Department since September 2014. With GFA, I am on a roller-coaster of interesting assignments: I have already worked for GFA/AF-Global Fund in Burundi as governance specialist, in Mauritania as senior finance specialist and team leader, in East Timor as senior finance specialist, and at GFA Headquarters in Hamburg as project manager for Mali and Ivory Coast. I also did technical cooperation missions on behalf of GFA, notably the mission to set up financial and accounting procedures within the Coordination Unit for Externally Financed Programs (UCP-FE) in the Republic of Côte d'Ivoire. These different missions in different countries in different parts of the world have strengthened my professional experience and I have learned about the specificities of the internal organization of states, and the different management of GF or GAVI grants from one country to another. In fact, despite the fact that the rules and procedures of donors are the same, I have been able to see that each country has its own styles linked to its cultures and the organization of its national structures. From my home in Burundi with a tropical climate, I went to Mauritania, where I found a desert country with a very hot climate, with a performance report (PR) that had difficulties implementing grant activities with very low absorption rates as I had not seen elsewhere. Afterwards, I went to East Timor in Southeast Asia, where I found a tropical climate again with a PR that had benefited from GFA's presence several years before the GF ended its services. Then, I returned to GFA Headquarters in Hamburg, where I gained a lot of experience and benefited from training related to work management that enabled me to strengthen my professional capacities. For my current post, I arrived in Kinshasa in the DRC in March 2020.

Why is it specially challenging to work in the DRC as GFA team leader of an FA project funded by GF and GAVI?

Because of the immensity of the country, which also means the immensity of the challenges. There is a large team of 40 members to manage. The number and amounts of payments made are often high when compared to other countries. This means that the FA must be meticulous in validating payment claims to ensure that they are complete in terms of documentation, and to mitigate the potential risks that could result from the sheer size of the amounts.

How do you see the added value of GFA to implement the project in DRC, i.e. German rigor with an open-minded international approach towards activities in the development sector?

Huge support from the HQ team has rendered the project well done, well planned and well executed. The introduction of a new work methodology based on rigor has surprisingly contributed to developing a collaborative approach between our team and the beneficiaries of the project based on mutual respect and discipline.

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