



# **Public Financial Management (PFMx)**

## **Module 13**

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### Management and Coordination of Donor Funding

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## Defining Official Development Assistance (ODA)

### Official Development Assistance is ...

... resource flows from donors for:

Economic development

Welfare of recipient countries

## Types of ODA

### Bilateral

For example:

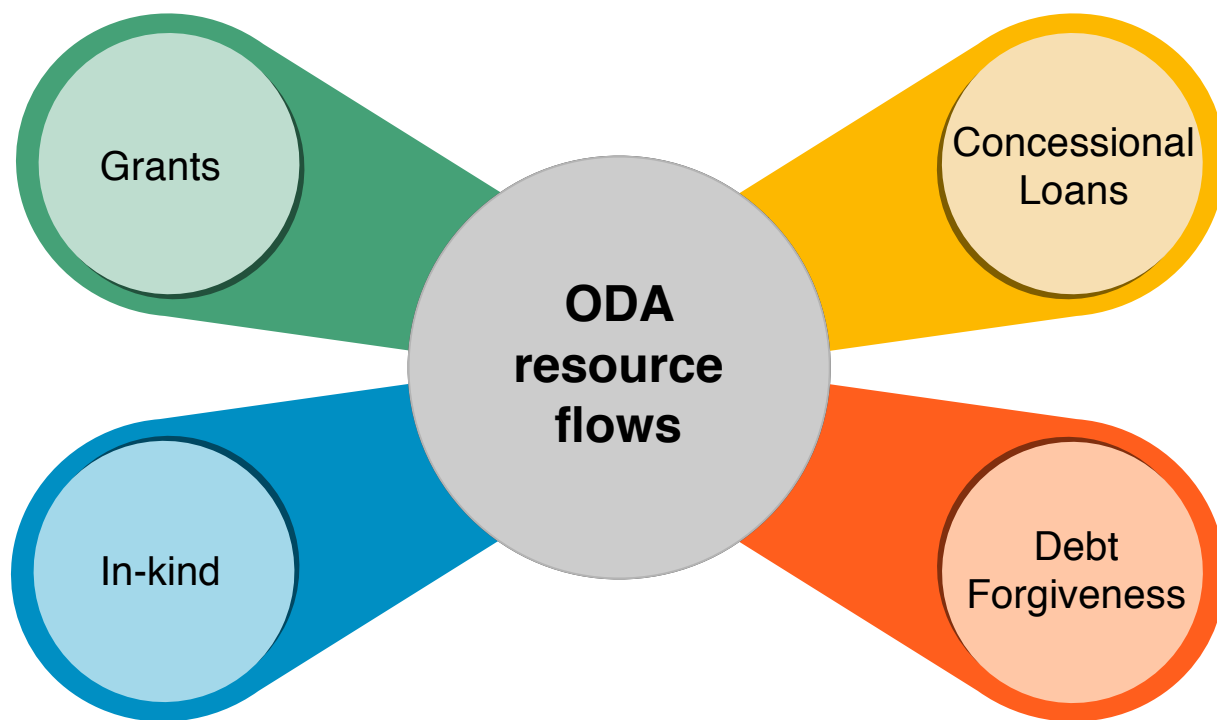


### Multilateral

For example:



## Examples of ODA Resource Flow



## Foundations of Modern ODA



## ODA and Fiscal Policy Objectives

**Objective 1:**  
Fiscal Responsibility  
and Flexibility

Macroeconomic  
Stabilization

**Objective 2:**  
Expenditure Efficiency  
and Inclusive Growth

Resource  
Allocation

Redistribution

*Dislocation of  
the economy*

*Lack of  
confidence in  
the local  
currency*

*War effort  
and war  
maintenance*

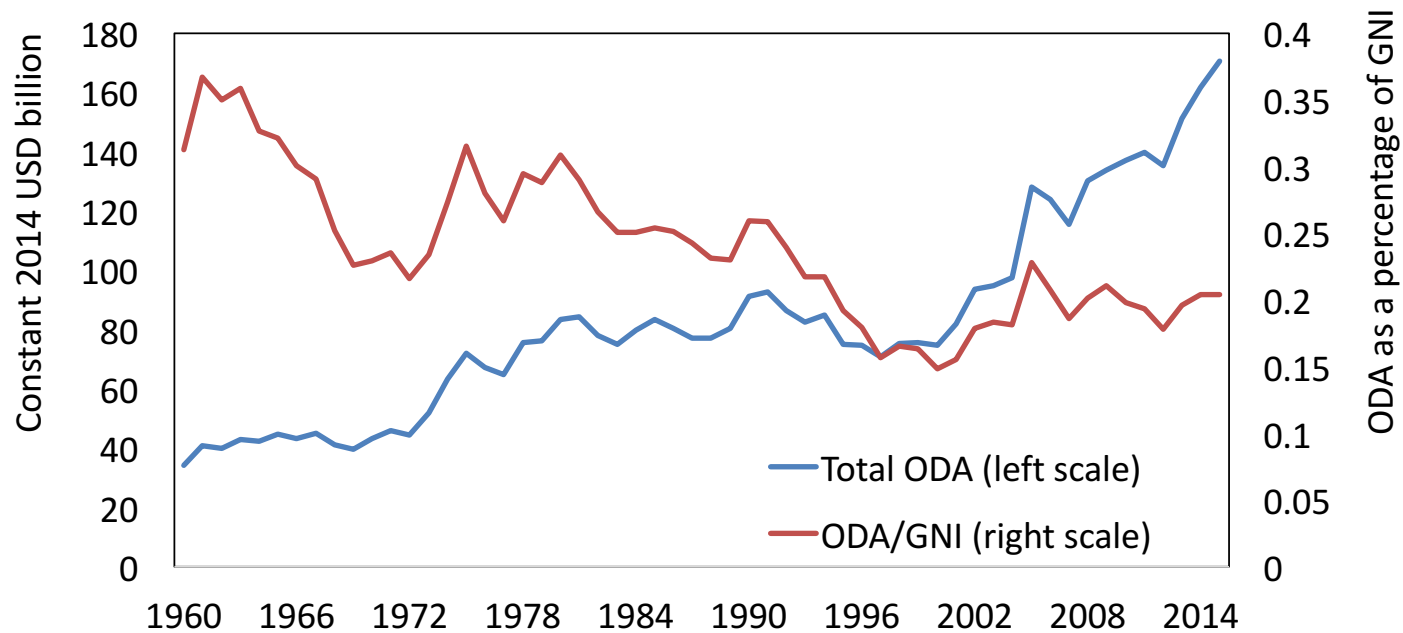
## The Context of ODA Today

# SUSTAINABLE DEVELOPMENT GOALS



## Magnitude of Global Aid-1

### Net official development assistance, 1960-2015

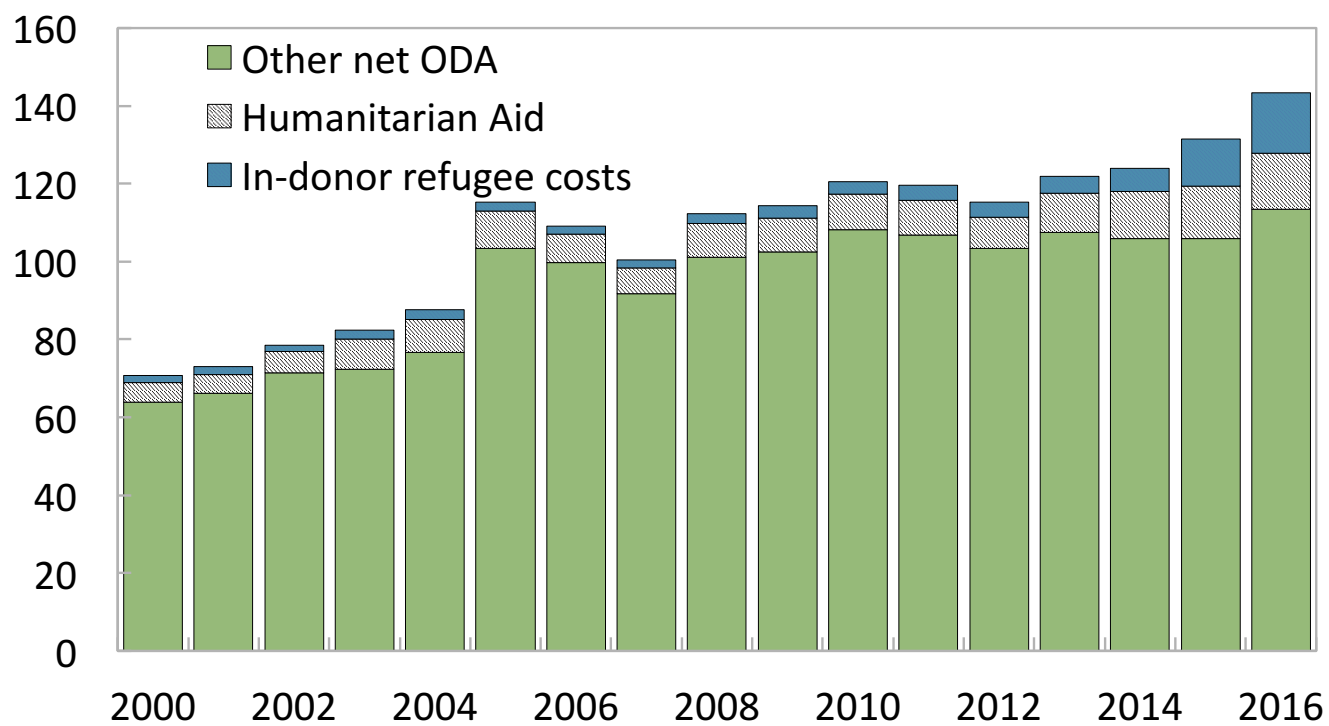


Source: OECD.



## Magnitude of Global Aid-2

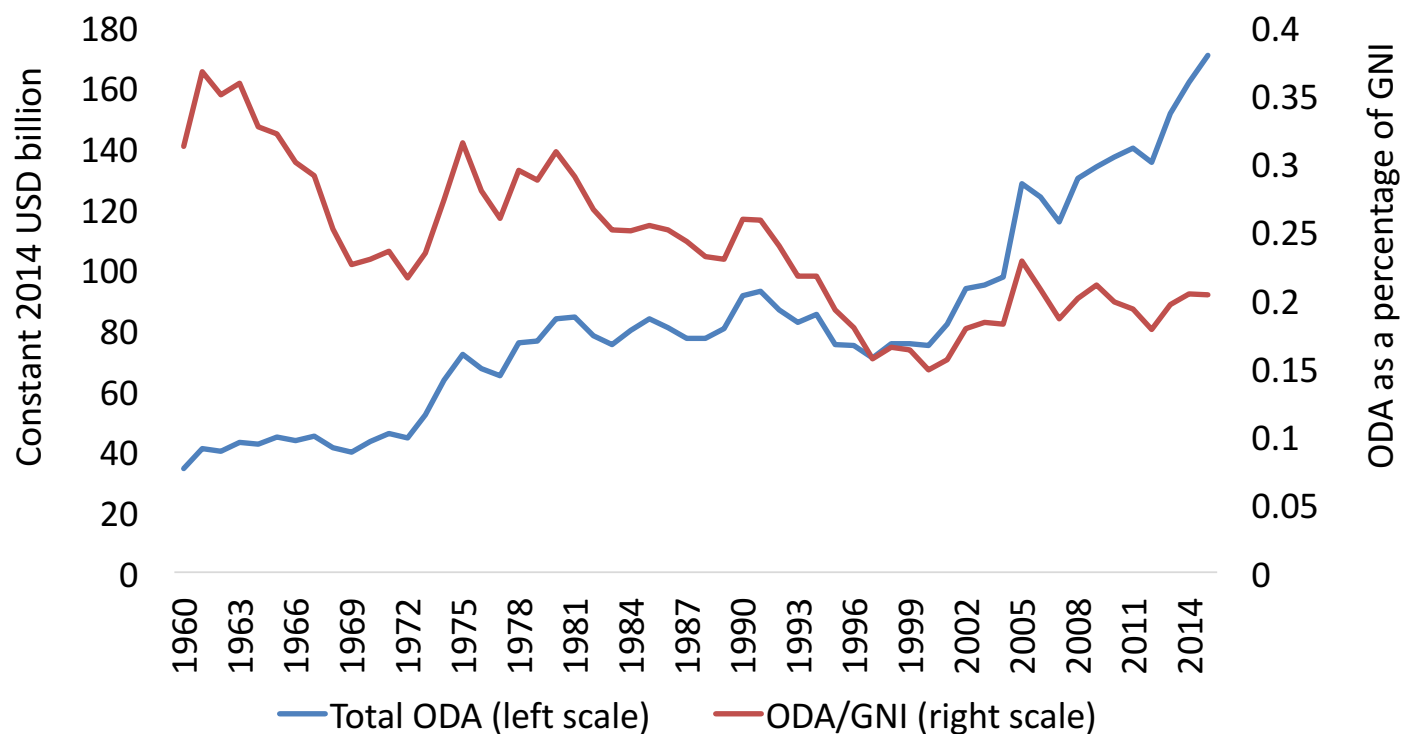
Net ODA, constant 2015 USD billions



Source: OECD.

## Magnitude of Global Aid

### Net official development assistance, 1960-2015

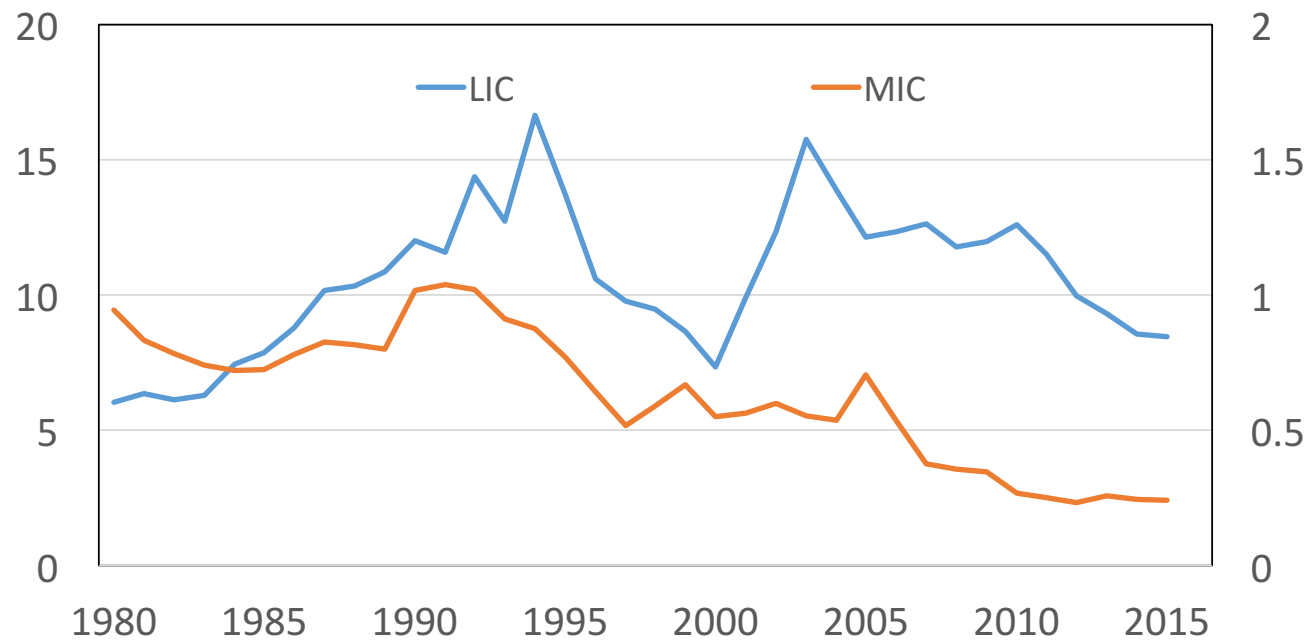


Source: OECD

## ODA in Developing Countries

### ODA in Low and Middle-income economies:

As a percentage of GDP (in current US\$)

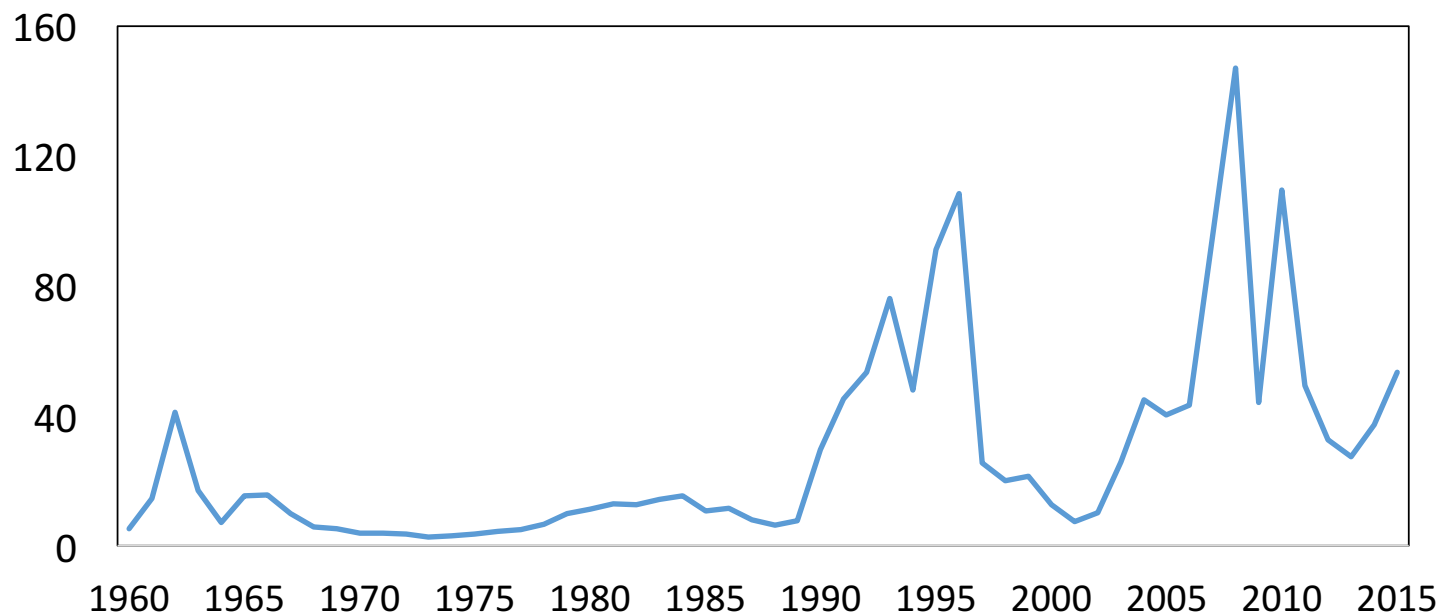


Source: OECD and World Bank

## ODA in Low Income Countries (LICs)

### Liberia: ODA as a percentage of GDP

(in current US\$)

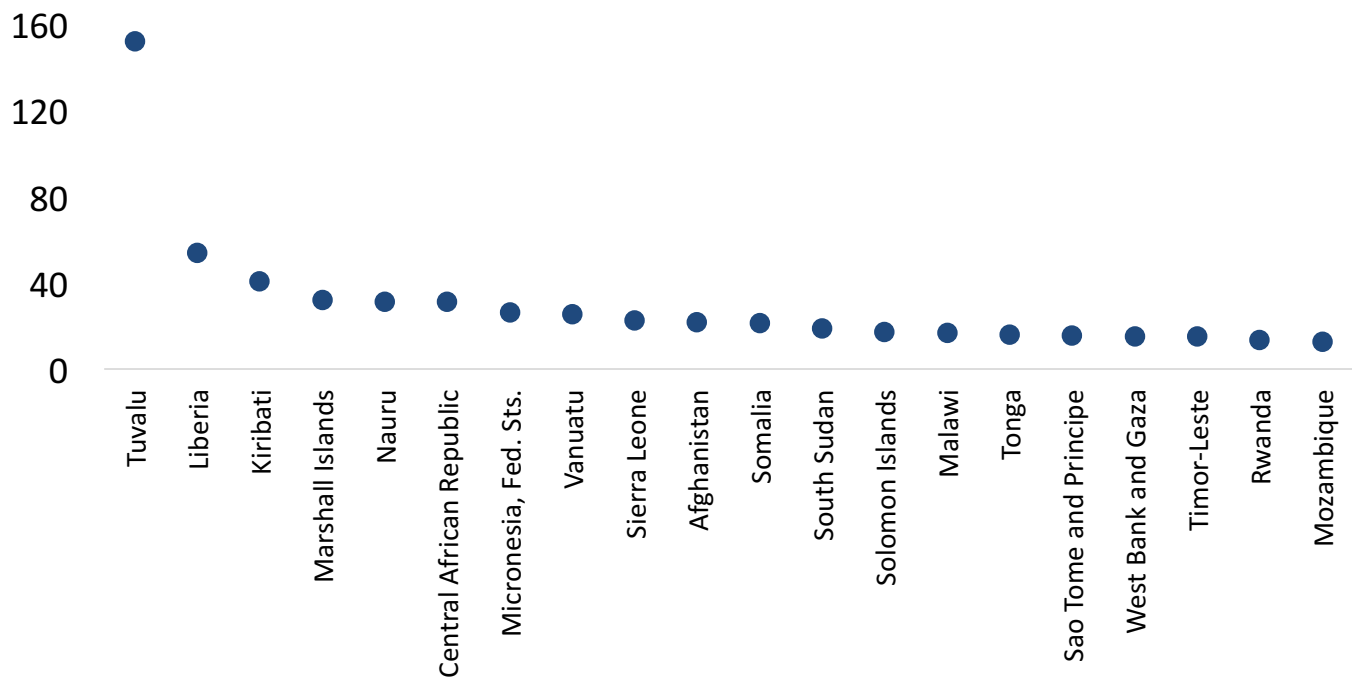


Source: OECD and World Bank.

## Highest Aid Beneficiaries

### Top 20 Aid Beneficiaries - 2015

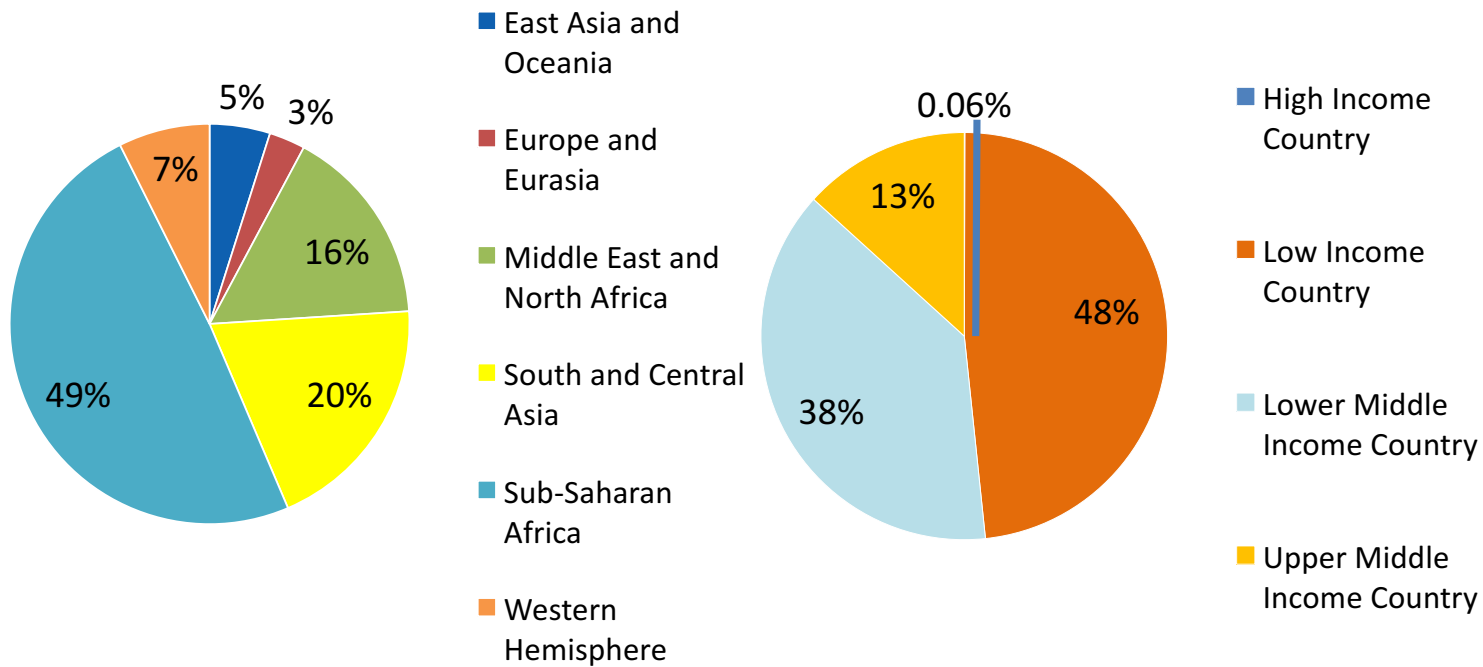
ODA as a percentage of GDP (current US\$)



Source: OECD and World Bank.

# United States Agency for International Development

## Distribution of Aid by Region and Income, 2016



Source: USAID.

## ODA Delivery Modalities

Budget Support

Project-based  
Support

Capacity  
Development

# Budget Support

## Budget Support

Direct transfer to a partner country's budget.

Managed using national PFM systems.

General, or Sectoral



No earmarking

Governed by framework agreements

Related 'milestones'



## Project-based Support

### Project-based Support

For specific development projects

Sometimes disbursed through the treasury – with well-functioning TSA

Mostly disbursed through project accounts

## Arguments FOR and AGAINST Different Modalities of ODA

### Budget Support



Promotes improvements in country systems

Fosters domestic accountability

More predictable



High risk of misuse when budgetary institutions are weak

### Project-based Support

Easy tracking of outcomes

Does not allow to redirect aid to emerging priority needs

Slow disbursements

Often involves parallel administrative structures

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## Traditional Aid Modalities and PFM Systems

### Interactions:

#### Budget Support

**If poor governance:**  
potential abuse of donor  
funds

**If no strategy:**  
uncertainty about results

#### Project-based Support

Can be more effective in  
low capacity  
environments

A secure flow of  
resources in fragile  
states

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## PFM assessment tools



Improving public financial management.  
Supporting sustainable development.

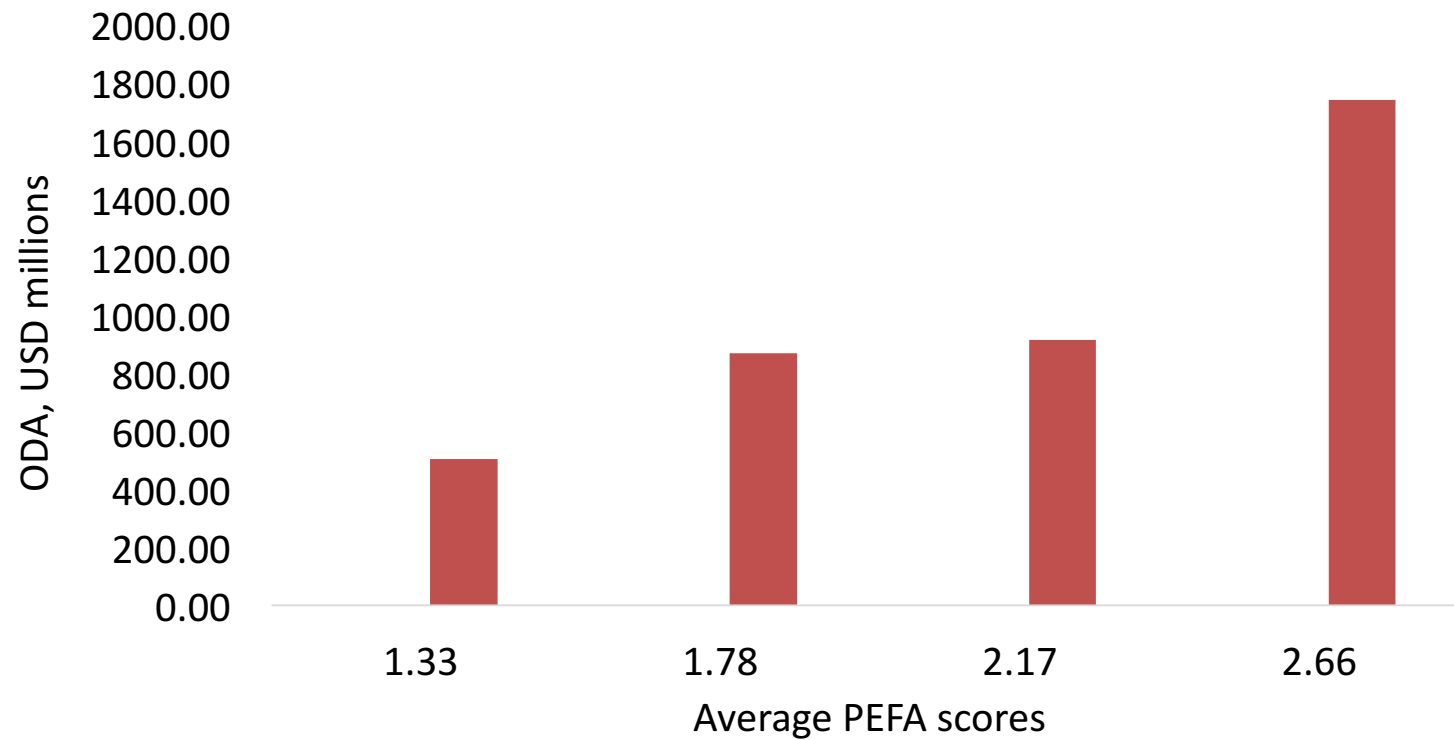


**USAID**  
FROM THE AMERICAN PEOPLE

PFMRAF

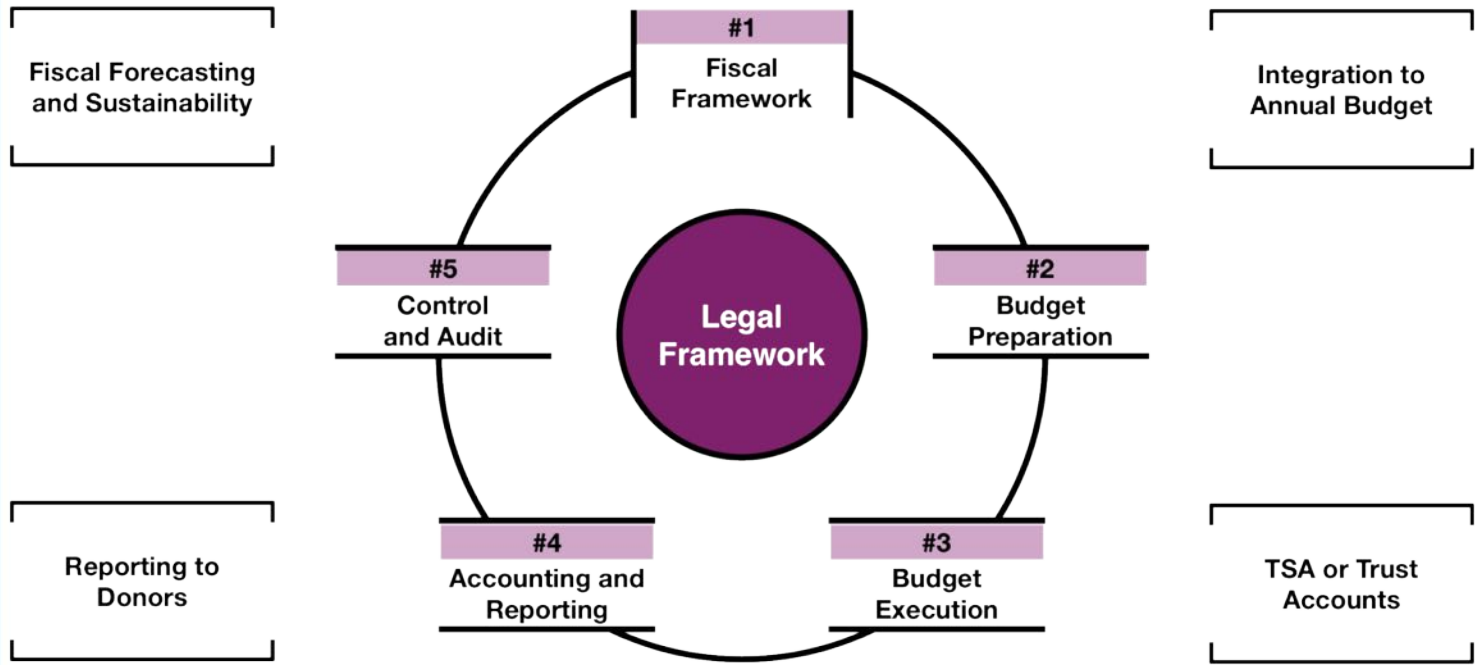
## ODA and PFM systems

### ODA vs PEFA Scores



Source: OECD and World Bank

# Donor Funding and the Budget Cycle





## Donor Funding and PFM Legislation



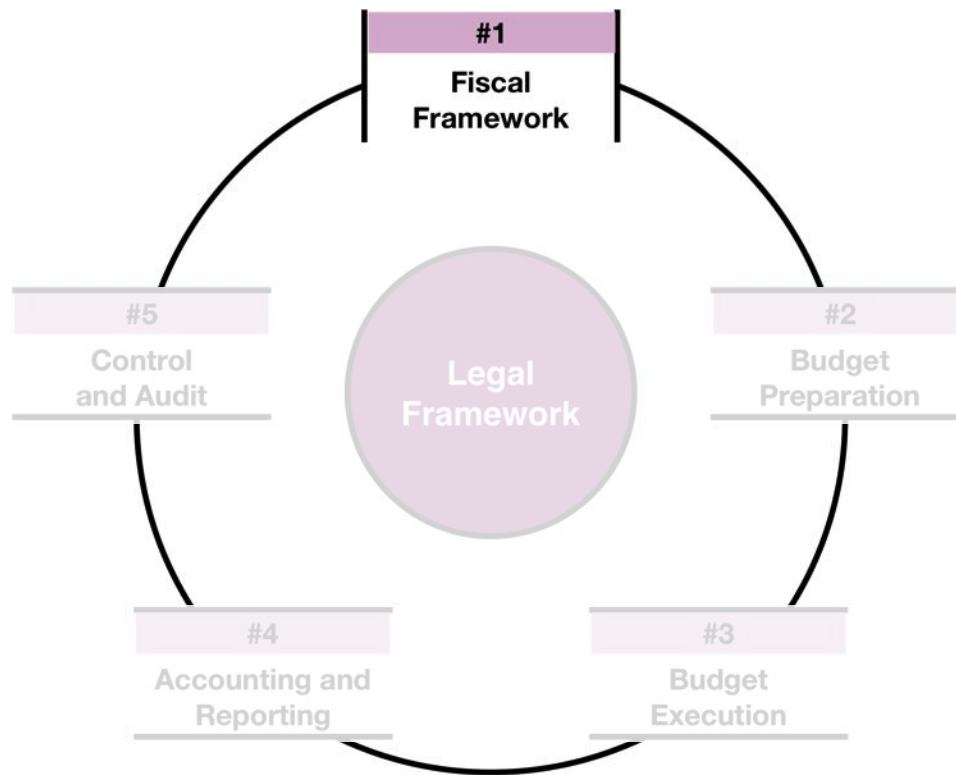
### Legal Framework

Approval of loan and grant agreements

Requirements for data collection on aid resources

Arrangements for the management of pooled funds

## Donor Funding and Fiscal Framework



Capture in fiscal forecasts, and debt sustainability

Aid volatility is challenging

Budget to include debt servicing

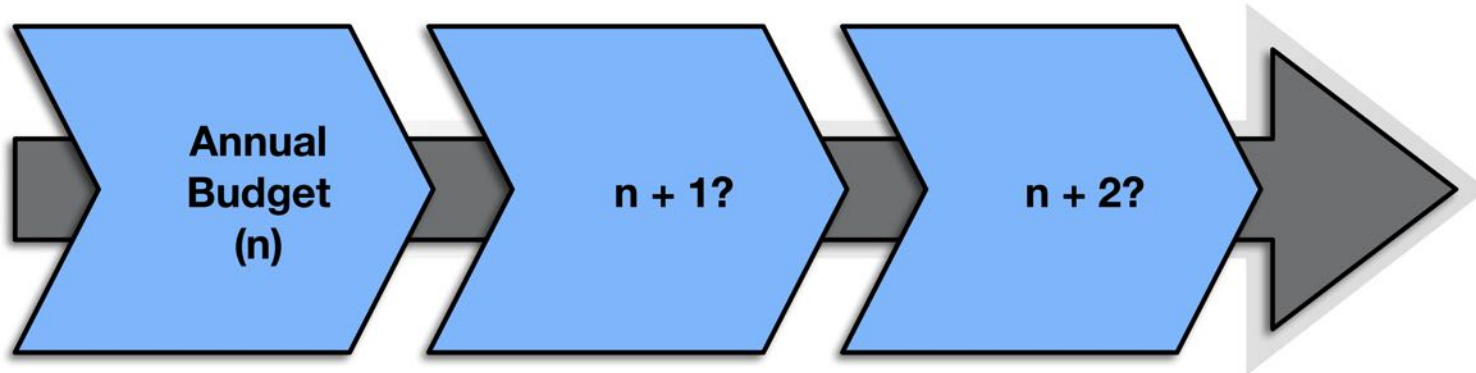
## Donor Funding and Budget Preparation



Integration into  
annual and multi-year  
budgets

Avoid “Dual budgeting”

## Challenges with forecasting aid flows



## Donor Funding and Budget Execution



Flow through TSA and government's systems

Robust IFMIS can help

Need strong procurement systems

## Donor Funding and Accounting and Reporting



Record in  
government's  
accounting system

Adequate expenditure  
classification

Link government  
systems with aid  
implementation units'

## Donor Funding and Control and Audit



Audit by country's SAI

Many donors have to conduct separate audits

## Principles of Aid Effectiveness

### Common Feature

increasing use of country systems, including PFM

1. Ownership

2. Alignment

3. Harmonization

4. Results

5. Mutual Accountability



## Principles of Aid Effectiveness

1.

**Ownership –**  
strategies for poverty reduction, improve institutions and tackle corruption

2.

**Alignment –**  
country strategies for poverty reduction and use local systems

3.

**Harmonization –**  
coordination, simplification of procedures, and sharing of information to avoid duplication

4.

**Results –**  
focus on development results; results are measured

5.

**Mutual Accountability –**  
shared responsibility for results

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shared responsibility for results

## Recipient Countries' PFM Performance



Quality of PFM systems

Marginal increase in  
use of PFM systems



Unpredictable aid flows

Inability to link strategic  
priorities with budgeting  
process

Diverging accountability  
objectives

## Aid Coordination

Aid complements efforts by recipient country

Coordination between recipient and donor

Coordination among donors

Recipients take the lead

Focus on donors' expertise



## Forms of Aid Coordination Modalities

### Donor side

Delegate a lead donor

Co-financing arrangements

Pooling of resources

### Recipient side

Donor coordination units

External finance  
management units

## Examples of Aid Coordination Modalities

**Basic:** aid coordination committee

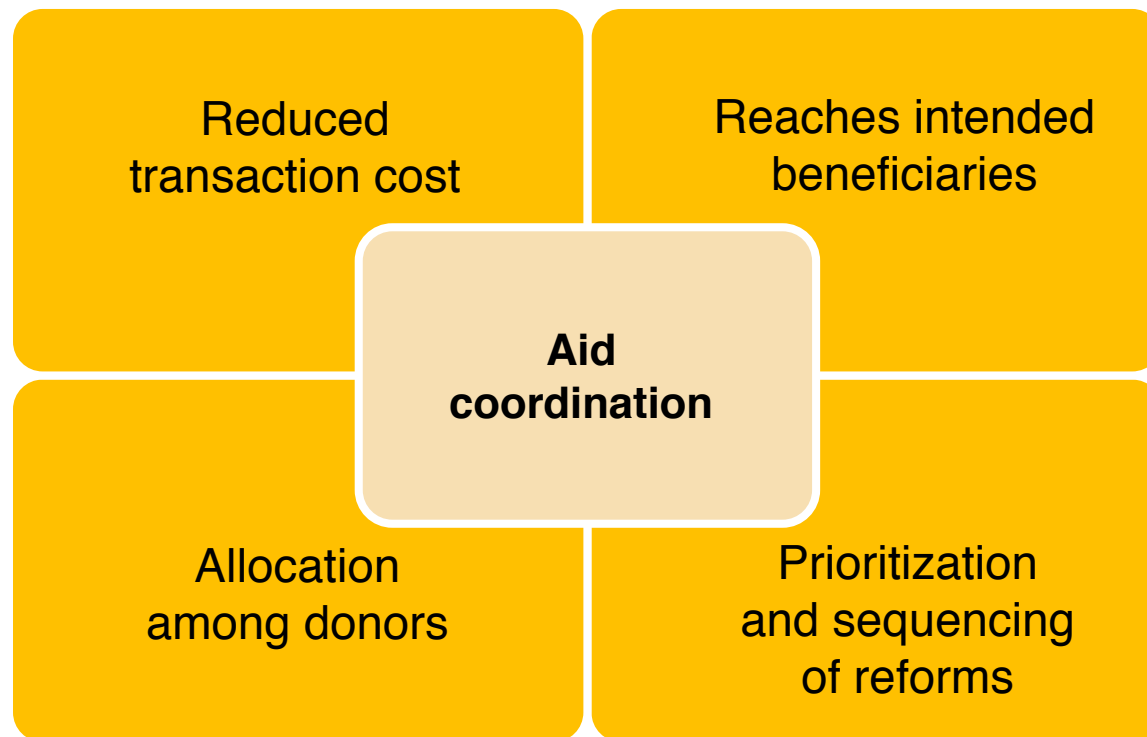
**Advanced:** joint country assistance strategy

No single mechanism for every situation

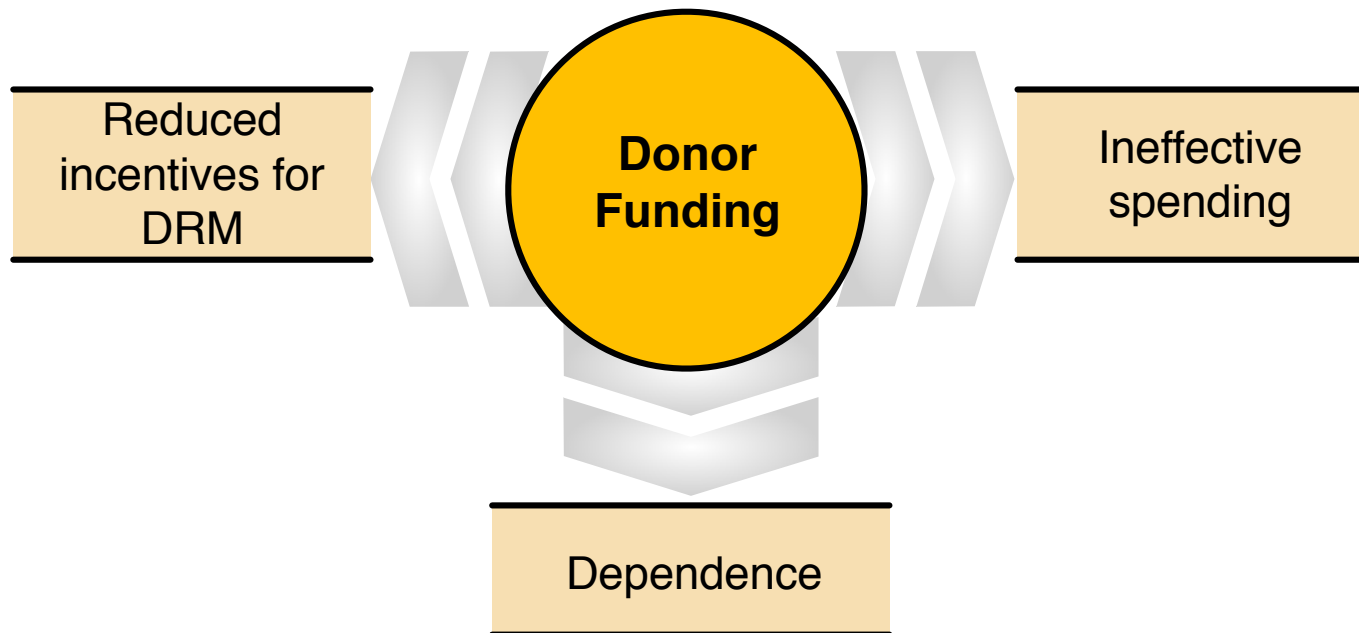
Country context and donors requirements important

Address divergences that may arise

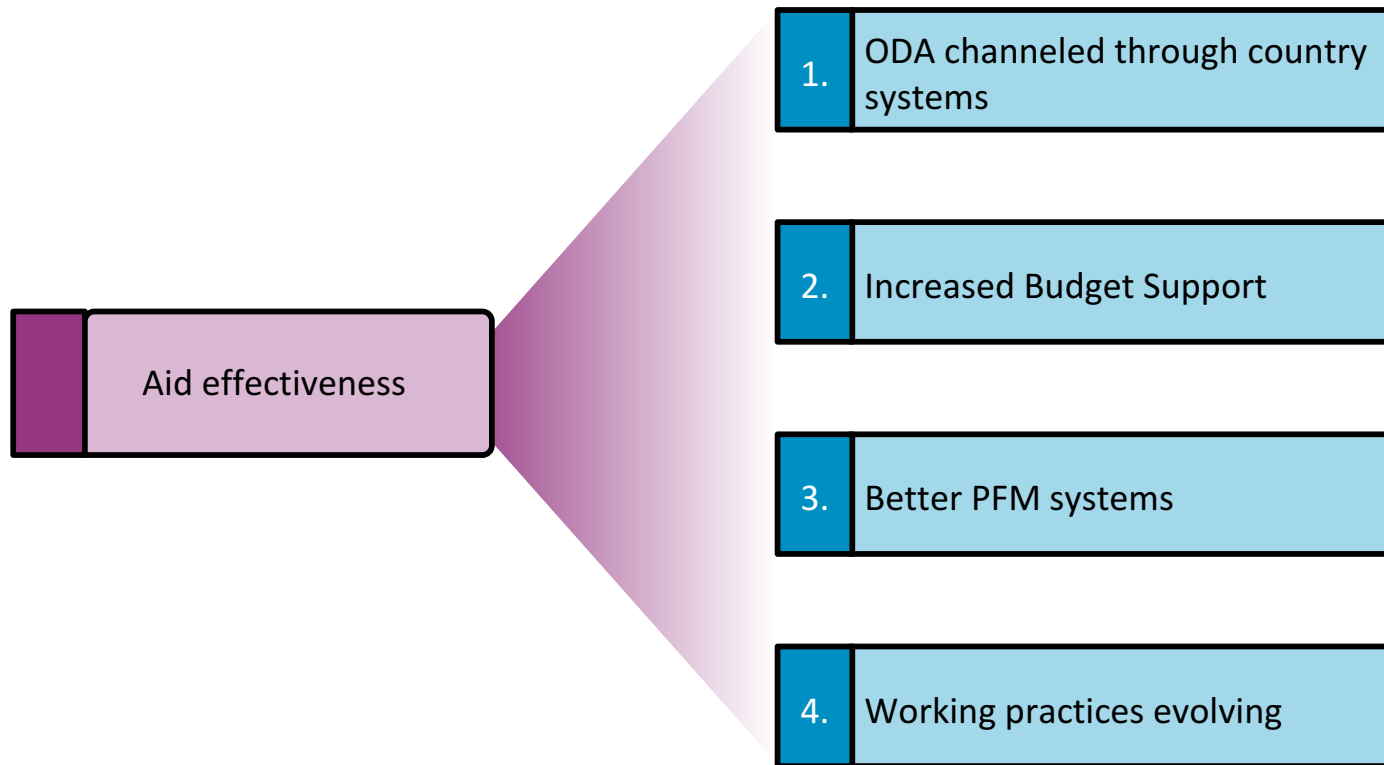
## Benefits of Effective Aid Coordination



## Aid and Revenue Mobilization



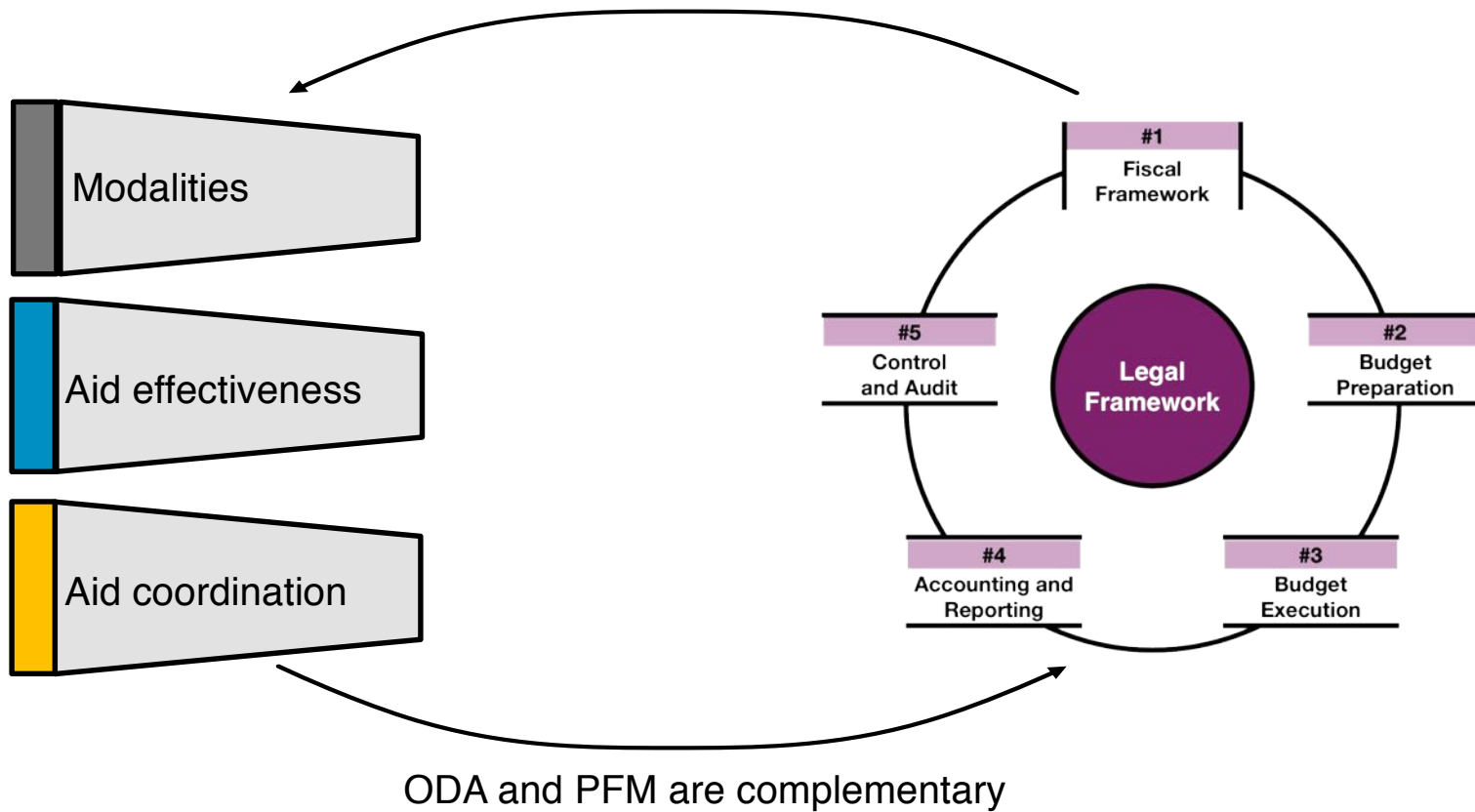
## Some Improvements in Aid Effectiveness



## Emerging Issues

- Medium-term fiscal and budget frameworks
- Computerization of financial management systems
- Accounting and reporting reforms
- Diagnostic tools to inform design of PFM strategies
- Increase in technical assistance
- Results frameworks for programmatic approaches

## Donor Funding and PFM





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### **Fragile States – Sequencing the reforms**

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## Defining Fragile States

- Experience of conflict in most recent three-year period
- Countries with weak institutional capacity according to World Bank Country Policy and Institutional Assessment

## Fragile States according to IMF definition



■ Fragile States, 2016

## Characteristics of Fragile States

### A diverse group

Common  
features

1. Low economic development

2. Macroeconomic imbalances

3. Lack of public service delivery

4. Affected by conflict

## Challenges in Fragile States

### Fragile States

**High levels of budget support**

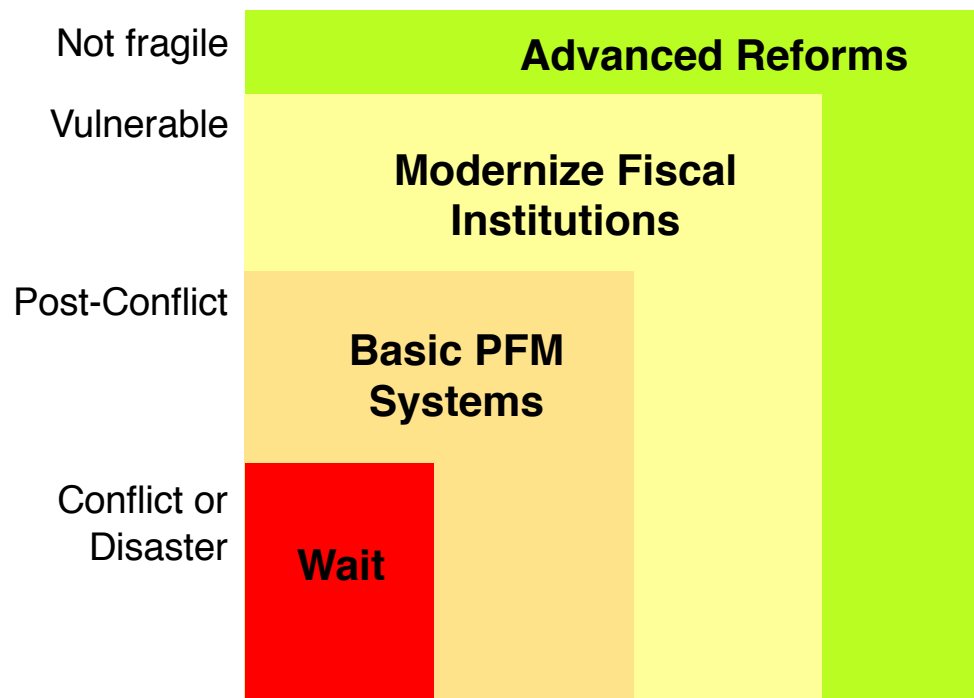
**Weak fiscal institutions**

**Financial mismanagement**

**Aid coordination**

**Low public expenditure level**

## Pace of reforms in Fragile States



## PFM reforms in Fragile States

Not fragile	<b>Advanced Reforms</b>
Vulnerable	<ul style="list-style-type: none"><li>• Medium-term budgeting</li><li>• Internal Controls</li><li>• Accounting standards and reporting</li><li>• Cash and Debt Management</li></ul>
Post-Conflict	<ul style="list-style-type: none"><li>• Annual Budget</li><li>• Payment Systems and Controls</li><li>• Consolidation of Cash</li></ul>
Conflict or Disaster	<b>Wait</b>