

# Assessing Risks Associated with Funding Development Initiatives Through Host Country Systems:

The USAID Public Financial Management Risk  
Assessment Framework (PFMRAF)  
and the Case of Honduras

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# Context: Paris Declaration on Aid Effectiveness (2005) and Accra Agenda for Transformation (2008)

- Ownership
- Alignment
- Harmonisation
- Managing for Results
- Mutual Accountability

# Context: USAID “Local Solutions”

- Objective 1: Strengthen partner country capacity to improve aid effectiveness and sustainability
- Aim is to avoid creating parallel service delivery structures and instead focus on improving those that exist.
- Direct funding conditional on PFMRAF (see ADS 220)

# PFMRAF

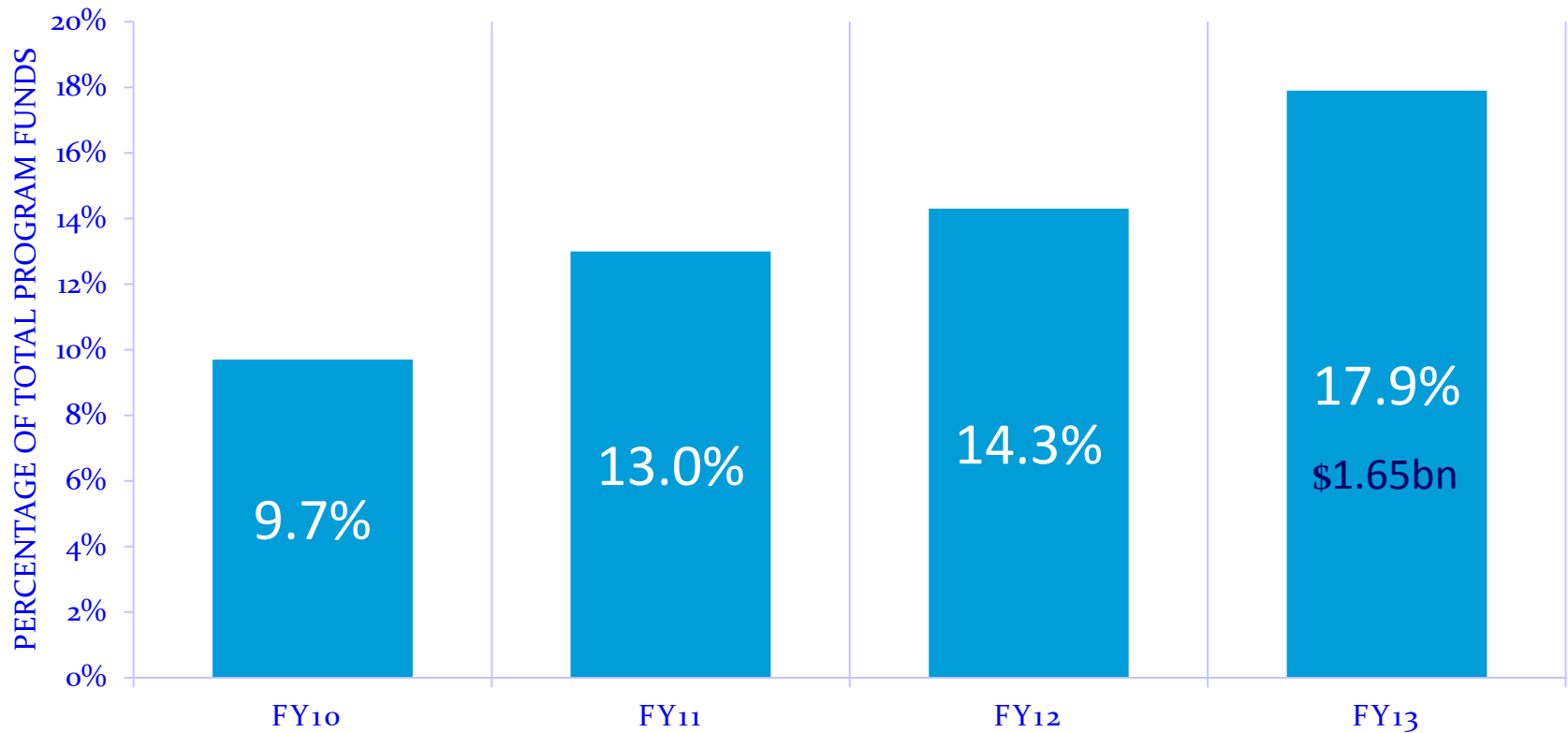
- Stage 1: Rapid Appraisal (country level)
- **Stage 2:** Risk Assessment (institution level), Analysis, Mitigation, and the Approval for Use of Partner Country Systems
- Stage 3: Project Design, Approval, Designation of Responsibilities and Selection of the Funding Mechanism
- Stage 4: Negotiating and Preparing the Bilateral Project Agreement with the Partner Country Government
- Stage 5: Implementation, Monitoring, and Evaluation

# PFMRAF (cont'd)

Current Status (as of Oct. 2013):

- 36 Stage 1 country-level assessments completed.
- 80 Stage 2 institution-level assessments at some stage of activity

## USAID OVERSEAS MISSION FUNDING TO LOCAL GOVERNMENTS/INSTITUTIONS



Source: USAID Forward Progress Report 2013 and USAID Website Data Tables

# Stage 2 Risk Assessments

Objective: identify fiduciary risks at the institutional level and develop mitigation measures

Usually done with a program design already in mind.

Positive Outcome = Approval of Use of Partner Country Systems

# Stage 2 Case Study: MCA-Honduras

## Context:

- Unique situation of an institution already set up for purpose of receiving, programming, accounting for USG funds. MCC Compact was for \$215m.
- CABEI and IADB also using MCA-H as implementing agency.
- Total funding from inception through 2012 was \$389m.
- PEFA report on overall PFM system completed in early 2013.



# Risk Assessment

- IBI approach extended well beyond the application of the PFMRAF questionnaire to encompass a validation of the 2013 PEFA Report on the GoH PFM, and a capacity assessment of the MCA-H.
- Work performed included extensive testing of governance, control environment, transaction cycles, internal control, procurement and operational procedures of the MCA-H.
- Key point: institutions can't be assessed in isolation. They exist within a system.

# Analysis of six dimensions related to GoH PFM environment:

1. Budget Credibility
2. Budget Comprehensiveness and Transparency
3. Policy-Based Budgeting
4. Predictability and Control in Budget Execution
5. Accounting, Recording and Reporting
6. External Scrutiny and Audit

# Analysis of 10 components related specifically to MCA-H

1. Governance, control environment, and organizational structure
2. Budgetary Systems
3. Budget Execution
4. External/Internal Audit Function
5. Internal Controls
6. Procurement
7. Human Resources
8. Revenues, Accounts Payable, and Expenses
9. Information Technology
10. Donor Relations

# Risk Assessment

	Component
1	Credibility of the budget
2	Comprehensiveness and transparency
3	Policy-based budgeting
4	Predictability and control in execution
5	Accounting, recording, reporting
6	External scrutiny and auditing
7	Governance, control env., structure
8	Budgetary systems
9	Budget execution
10	External/internal audit
11	Internal controls
12	Procurement
13	Human resources
14	Revenues, A/P, and expenses
15	Information technology
16	Donor relations

GoH

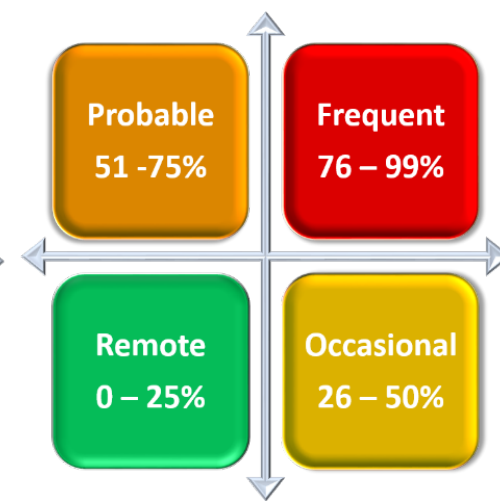
MCA-H

GoH/MCA-H

## Impact Scale



## Likelihood Scale



# Illustrative Findings Matrix

<b>Impact</b>	<i>Catastrophic</i>	High	Critical	Critical	Critical <sup>9</sup>
	<i>Serious</i>	High	High <sup>1 8 16 18 20 21 27</sup>	Critical <sup>2 13 26</sup>	Critical <sup>6 24</sup>
	<i>Marginal</i>	Medium	Medium <sup>11 17 19 25 29</sup>	High <sup>3 7 12 22 23 28</sup>	High <sup>5 10</sup>
	<i>Negligible</i>	Low	Low <sup>4 14 15</sup>	Medium	Medium
		<i>Remote</i>	<i>Occasional</i>	<i>Probable</i>	<i>Frequent</i>
		<b>Probability</b>			

# Assessment Results

- Included an assessment of the MCA-H “residual risk” - i.e. risk remaining after mitigation measures are in place — e.g. audited semiannual progress reports, annual or project-end financial audits, etc.
- Our conclusion is that MCA-H relatively strong capacity effectively reduces risks posed by the larger PFM system in which MCA-H operates to a resultant level of risk ranging from medium to low

# Discussion Topics

- Is the MCA-Honduras a genuine host country institution, or is it a “parallel service delivery structure?”
- If this model succeeds in Honduras, should USAID seek to replicate the approach in other MCC countries?