



# MCC and the Use of Public Financial Management Systems

The Paris Declaration on Aid Effectiveness commits donors to strengthening the public financial management (PFM) capacity of partner countries in a number of ways. First, it asks that they provide reliable, indicative commitments of aid over a multi-year framework and disburse aid in a timely and predictable fashion according to agreed schedules (Paris Declaration Indicator 7). Second, it urges reliance on transparent partner government budget and accounting mechanisms (Paris Declaration Indicator 5). Finally, it commits donors and partner countries, to implementing harmonized diagnostic reviews and performance assessment frameworks in PFM.

MCC takes each of these commitments seriously, as reflected in its work with partner countries. MCC compact assistance is committed in full when the compact is signed, which enables the host country's accountable entity, the partner government team that actually manages and implements the compact, to communicate projected medium-term budget information into the national finance system. To improve the short-term predictability of its aid, MCC has established a quarterly rolling annual disbursement forecast that is developed by and agreed with the accountable entity.

In several countries, MCC is strengthening PFM systems by using partner countries' Ministries of Finance to perform fiscal agent functions.<sup>1</sup> This is the case in Honduras, Cape Verde, Tanzania, and Vanuatu. MCC requests financial reporting and independent auditing in addition to what these partner countries require, so it does not meet the Paris Declaration's Indicator 5A criteria for national financial reporting and auditing procedures. However, MCC is generally using national budget execution procedures in these countries -- disbursements are included in national financial accounts, funds are subject to established budget execution procedures, and funds are processed through the established country treasury system. In El Salvador, the Millennium Challenge Account accountable entity FOMILENIO is utilizing the country's national financial management system to provide all compact-related financial management. MCC is supporting additional PFM capacity development in El Salvador, as well as in Honduras, by funding a special fiscal oversight advisor. Finally, MCC offers capacity building assistance to address PFM weaknesses to partner countries upon request, even if countries choose to manage their compact using an external fiscal agent.

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<sup>1</sup> Fiscal agent responsibilities include cash management, budgeting, financial management system accounting, financial management systems reconciliations, approvals and authorizations, payment requests, taxes, and reporting.

Towards the implementation of harmonized PFM diagnostics and performance assessment frameworks, MCC and its United States Government development community colleagues have identified in a new Inter-Agency Aid Effectiveness Action Plan the need to take an active role in ensuring tools like PEFA (the Public Expenditure and Financial Accountability framework) are transparent, of high-quality, and implemented consistently. MCC has also been contributing to the Development Assistance Committee's Joint Venture on PFM, whose mandate includes the establishment of a mutually agreed PFM assessment framework.