

FINANCIAL MANAGEMENT

IN WORLD BANK OPERATIONS

PROJECT PREPARATION

FM and the Development Agenda

Financial
Management
is an integral
part of the
development
process

Public sector - FM ensures accountability and efficiency in the management of country resources

Private sector - FM promotes investment and growth

Financial Management Objectives

The Bank's FM work has two main objectives

Support borrowing countries in improving their financial management performance and enhancing their capacity

Contribute to providing reasonable assurance on the use of Bank loan proceeds

The Institutional Mandate of FM

The Bank shall make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations

Articles of Agreement

Operational Policy for FM

“The borrower maintains, or causes to be maintained... financial management arrangements that are acceptable to the Bank... as part of the overall arrangements... provide reasonable assurance that the proceeds of the Investment Project Financing are used for the purposes for which they are granted.”

“Financial management arrangements are the planning, budgeting, accounting, internal control, funds flow, financial reporting, and auditing arrangements of the borrower and entity or entities responsible for Project implementation.”

“The financial management arrangements rely on the borrower’s existing institutions and systems, with due consideration of the capacity of those institutions.”

OP 10.00 Investment Project Financing

Bank Procedures for FM

During Appraisal the FM assessment considers the degree to which:

- budgeted expenditures are realistic, prepared with due regard to relevant policies, and executed in an orderly and predictable manner
- reasonable records are maintained and financial reports produced and disseminated for decision-making, management, and reporting
- adequate funds are available to finance the Project
- there are reasonable controls over Project funds
- independent and competent audit arrangements are in place

Bank Procedures for FM

During Implementation, as part of implementing, monitoring progress, evaluating results and complying with legal covenants the Borrower:

- “...unless otherwise agreed by the Bank, ...furnishes annual audited Project financial statements six months after the close of the borrower’s financial year and unaudited interim financial reports periodically. Audits are carried out by auditors with independence and capacity acceptable to the Bank, under terms of reference acceptable to the Bank.”

Bank Procedures for FM

During Implementation, as part of supporting and monitoring performance and legal compliance the Bank:

- “...monitors the timeliness of the receipt of the annual audited financial statements and audit reports and reviews their content and quality.”

BP 10.00 Investment Project Financing

Terms of Financing Agreements

maintain a financial management system in accordance with the provisions of Section 4.09 of the General Conditions

present interim un-audited financial reports

prepare and present audited annual financial statements in accordance with the provisions of Section 4.09 (b) of the General Conditions

Financing Agreements

FM Responsibilities



TTL (Sector) - Responsible for overall quality of project and compliance with Bank policies

FMS (OPCS) - Responsible for assessing the quality of FM arrangements and contributing to preparation and implementation support



Borrower - Establish and maintain acceptable FM arrangements

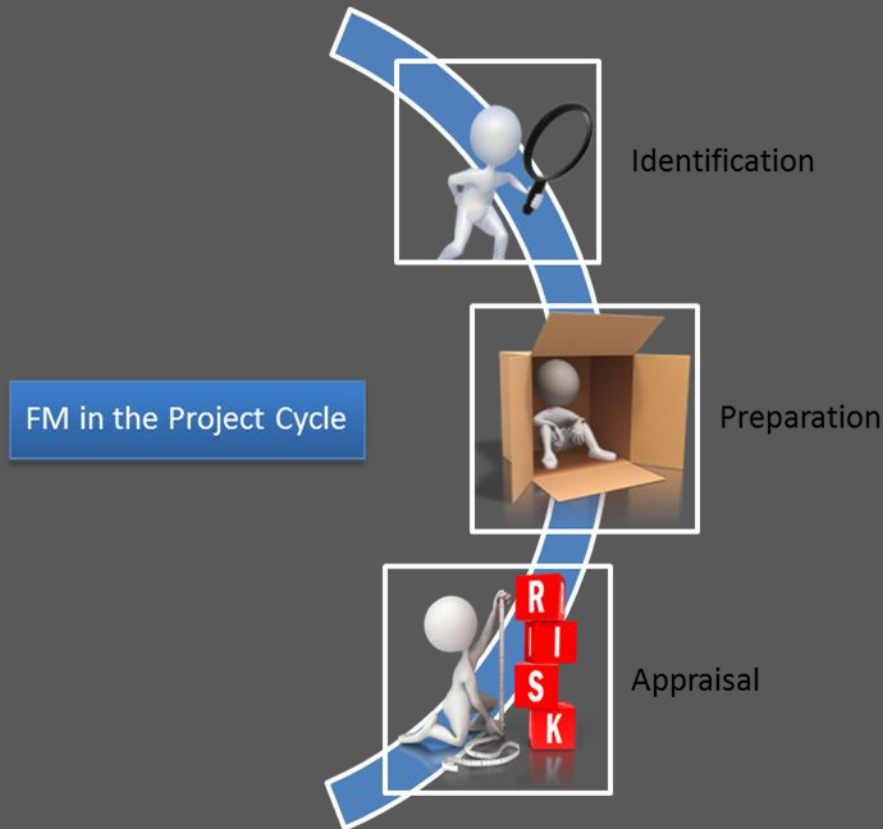


Lawyer (LEG) - Ensuring compliance with policies, procedures and legal provisions

Finance Officer (CTR) - Advising on disbursement issues, processing disbursements and maintaining Loan Account



FM in Project Preparation



- Advise on all FM aspects of the project
- Work closely with CTR, Legal and Procurement
- Advise on specific GAC risks and mitigation
- Design funds flow and payment processes
- Seek acceptable accounting and auditing
- Prepare FM assessment report and input to PAD
- Monitor resolution of FM issues

FM in Small Grants

1. The principles are the same;
2. The application differs based on the size, risk, complexity, capacity of the implementing entity; etc.
 - Clarity in the authority of /segregation of duties in, the approval and execution of payments;
 - Acceptable banking arrangements;
 - Clear, yet simple written procedures;
 - A clear work program and budget (preferably annually) of the financed activities;
 - some basic accounting record keeping;
 - Regular reporting on the implementation of the activities including deliverables and expenditures and fund balances;
 - Independent verification and/or alternative arrangements;
3. TTLs, FM, and PR staff undertake reviews regularly and discuss/follow-up with recipient as needed to ensure arrangements are satisfactory at all times.
4. Bank triggers remedies when needed.

FM issues in small grants

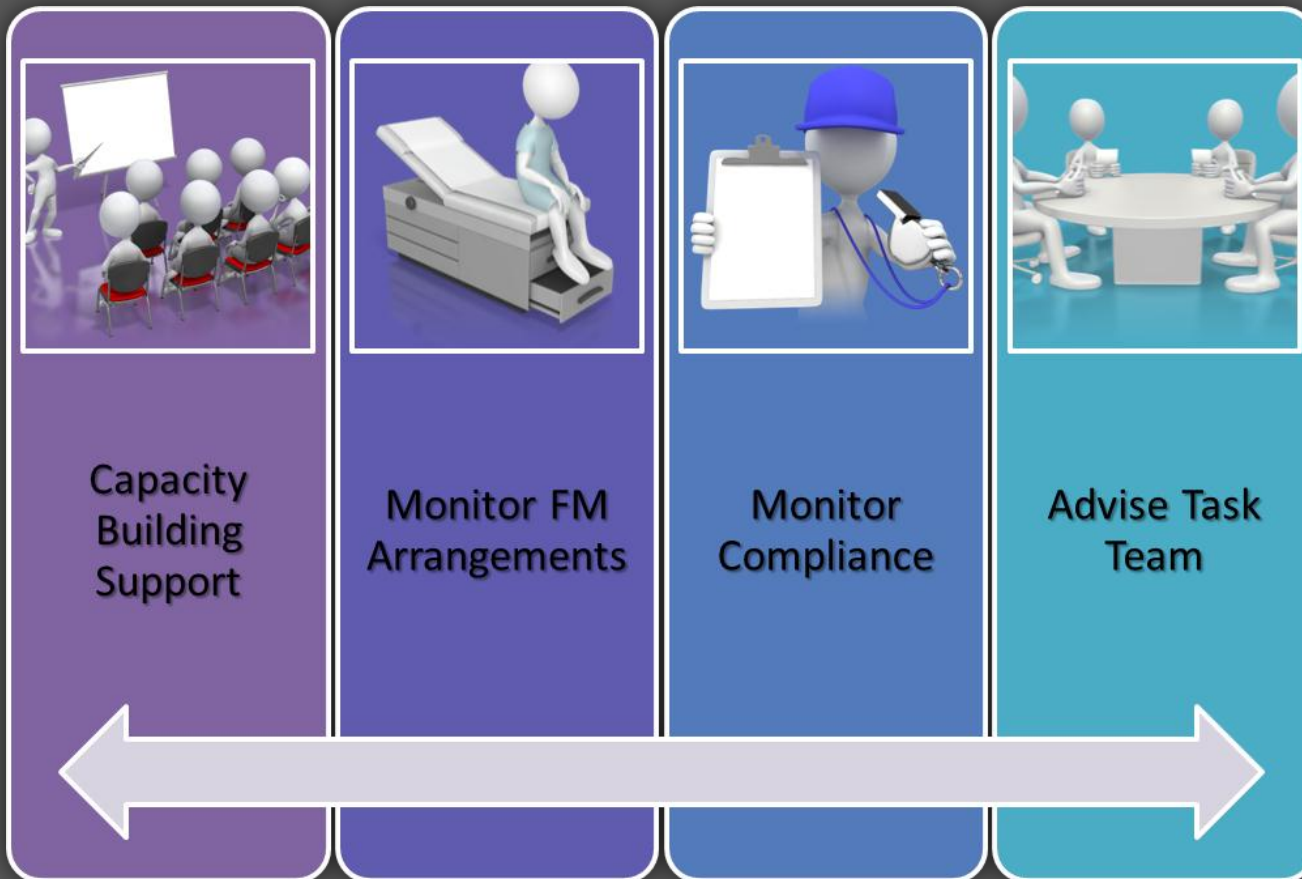
1- Issues arise when the grants are too small in case:

- Implementing entity is newly formed;
- Has no good track record; no legal standing;
- has a limited capacity;
- One small activity no other follow-up activities to warrant capacity strengthening;
- IE operating in high risk environment ; etc.

2- possible Options include:

- Work through existing entities/well known organizations;
- Direct payment arrangements;
- Greater oversight/supervision by Bank staff and/or intermediary institution,
- Etc.

FM in Project Implementation



Discussion

