



CROWN AGENTS

ACCELERATING SELF-SUFFICIENCY & PROSPERITY

FINANCIAL MANAGEMENT OF DEVELOPMENT PROJECTS

13 – 24 May 2019



Programme Introduction

Course Aim

- This course provides a detailed look at the financial management components within the project life cycle and provides an overview of the tools available for assessing financial management systems. It covers budgeting, accounting policies, financial management staffing considerations, procurement and contract management, audit and internal controls.



Objectives – by the end of this course, you will be able to:

- Adopt appropriate systems for managing projects and finances
- Assess weaknesses in your own financial systems
- Draw up and maintain financial plans and project financial accounts and reports
- Align financial management of procurement in accordance with international best practice
- Evaluate risks and establish an appropriate financial control environment

Course Time-table – see hand-out

Daily Agenda



Day 1

1. Course overview & delegate introductions
2. Development projects in context
3. Project life-cycle
4. Group discussion



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Financial Management of Development Projects

13 May 2019

DEVELOPMENT PROJECTS IN CONTEXT



Session Introduction

Session Aim

- Introduce project strategic and operational issues and create an understanding of the wider context of financial management of development projects



Session Learning Objectives – by the end of this course, you will be able to:

- Understand the core components of effective financial management
- Grasp the key elements of the project life-cycle
- Recognise the main processes involved in project management
- Appreciate the impact of donor trends on project managers



Session Agenda

Our Learning Journey – how we will achieve our objectives:

1. Development projects in context
2. Local vs. international contexts
3. Aid effectiveness
4. Life cycle of development projects
5. Project management
6. Financial management and control
7. Session close



Wukro-Adigrat-Zalambesa Road Project: Highway 1 Ethiopia



Rehabilitation and upgrading of the approximately 100 km long existing asphalt road from Wukro via Adigrat to Zalambesa ... replacement of 6 bridges and rehabilitation of further 15 bridges and some 300 culverts together with pavement strengthening, safety improvements etc.

Biggest project in Europe



Crossrail is a 118-kilometre railway line that is under construction. It is due to begin full operation in 2018, providing a new east-west route across the city.

It is one of Europe's largest railway and infrastructure construction projects.



Financing for the Crossrail project

- In October 2010, a funding envelope of £14.8bn was agreed to deliver the Crossrail scheme in its entirety (including inflation and contingency)
- Mayor of London £5.2bn
- Department of Transport £4.7bn
- London business £4.1bn
- There are also financial contributions from some key beneficiaries
- On budget (May 2016)
- Estimated to be 600m over budget by opening date of December 2018



What is a Project?

- A project is any set of *inter-related activities*
- established to achieve *specific outputs*
- which together achieve the *project objective*
- all within specified *time* and *budgetary* constraints.



What is a programme?

- A Programme is a collection of Projects and other items of work managed coherently together as a [portfolio](#).



Programmes vs. Projects

“Programme management compares to project management as the owner of a shipping company to the captain on one of the ships. It is a completely different activity. It makes sure right ships go to the right ports and produce a profit. It runs the shipping business not ships. Just so, programme managers make sure that the projects in place are relevant, feasible and sustainable and if not are “sunk” in time.”

Programme managers also stimulate new ideas usually by ensuring collaborating between the projects - creating more diversity among the relevant actors.



What is a development project?

- A specific activity or task settled upon to achieve the economic, political, and social goals of a development programme



What is project management?

- Understanding the needs of stakeholders
- Planning what needs to be done, when, by whom, and to what standards.
- Building and motivating the team.
- Coordinating the work of different people.
- Monitoring work being done.
- Managing any changes to the plan.
- Delivering successful results.



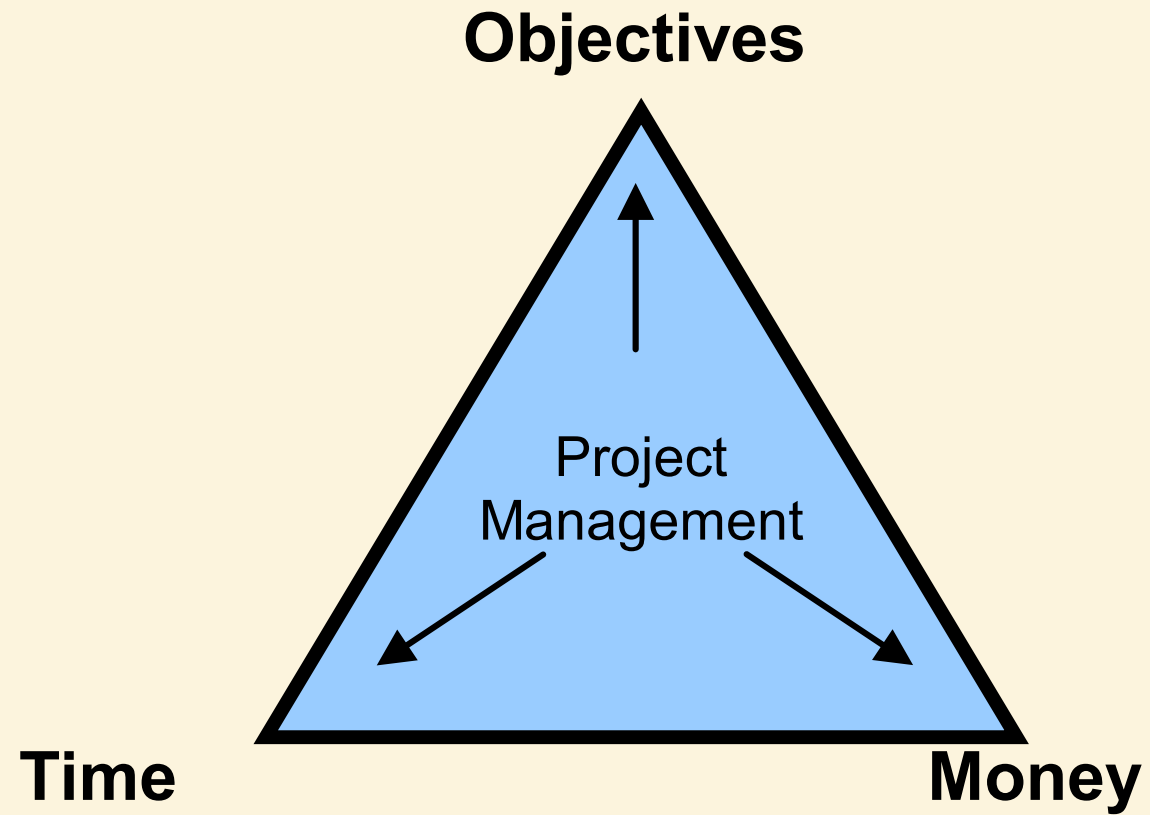
Project management should:

- Be directed at achievement of project / programme objectives
- Be conducted in the context of local / international systems
 - *Country systems*
 - *Project specific systems*
 - *Donor systems*
- Receive both strategic and operational management
- Be subject to financial management and control
- Have procurement systems and procedures
- Manage human resources

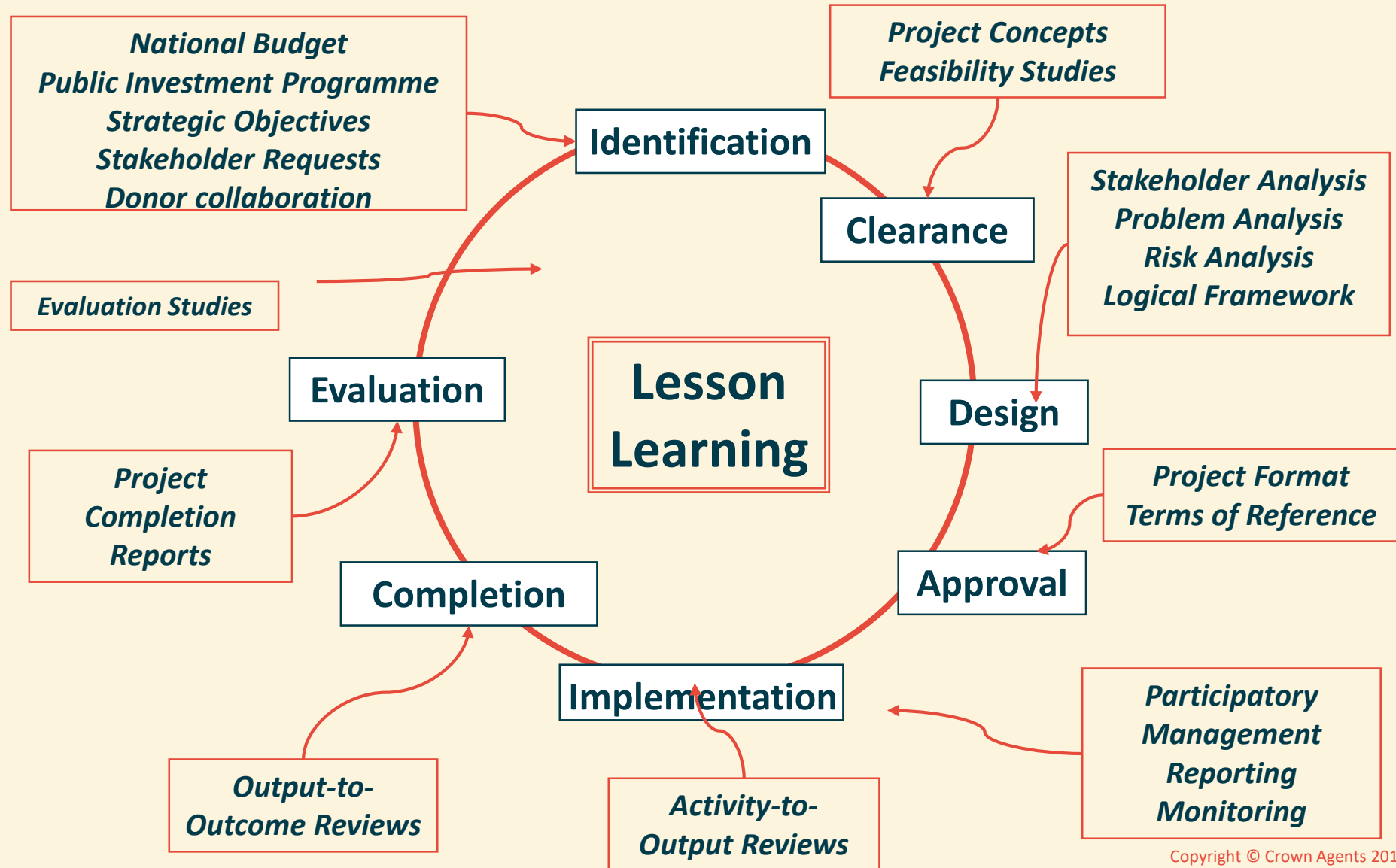


Financial management

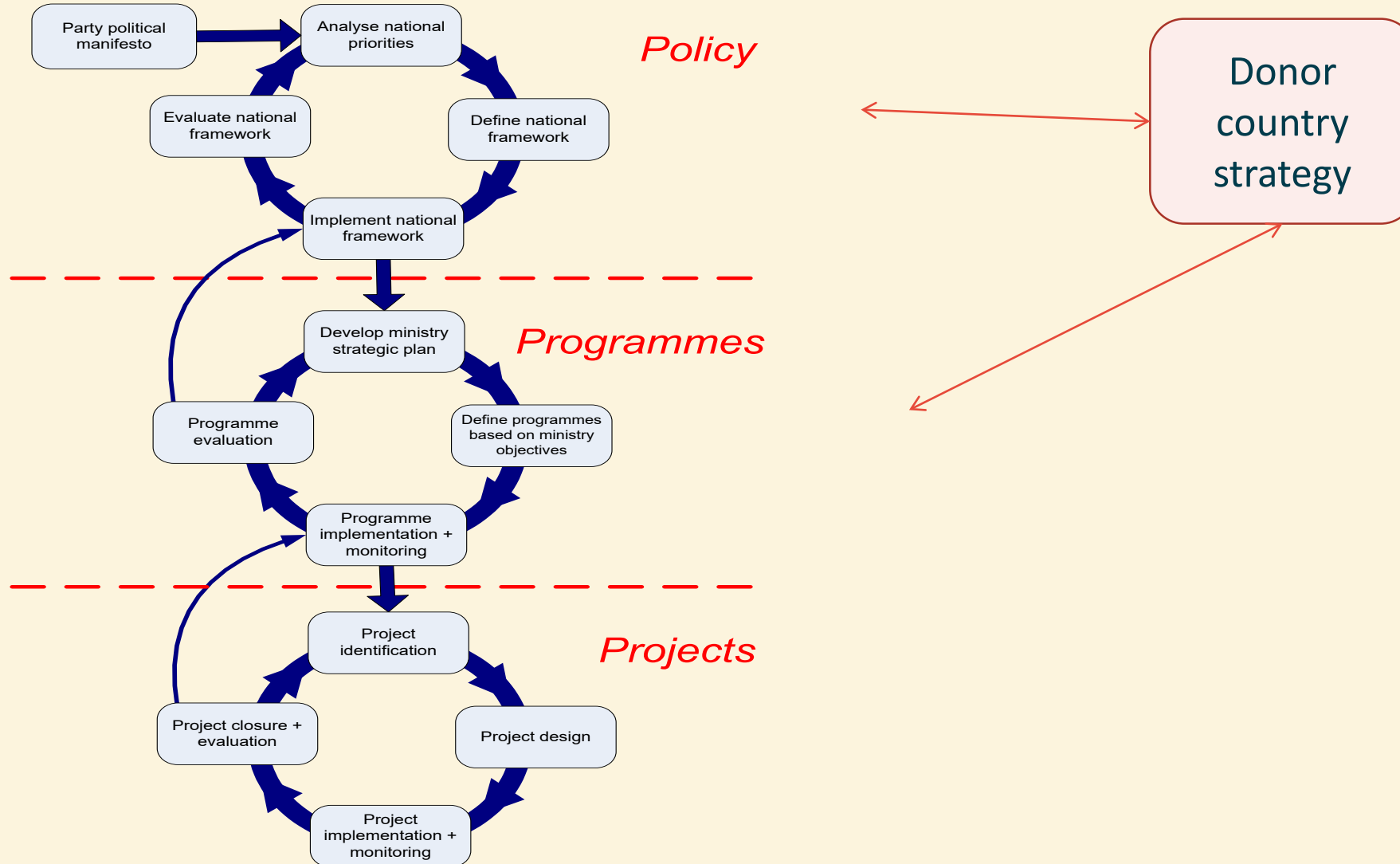
- The efficient and effective management of money (funds)
- To accomplish the objectives of the organisation
- It includes how to raise the capital and how to allocate it
- It is also concerned with the allocation of short term resources like current assets



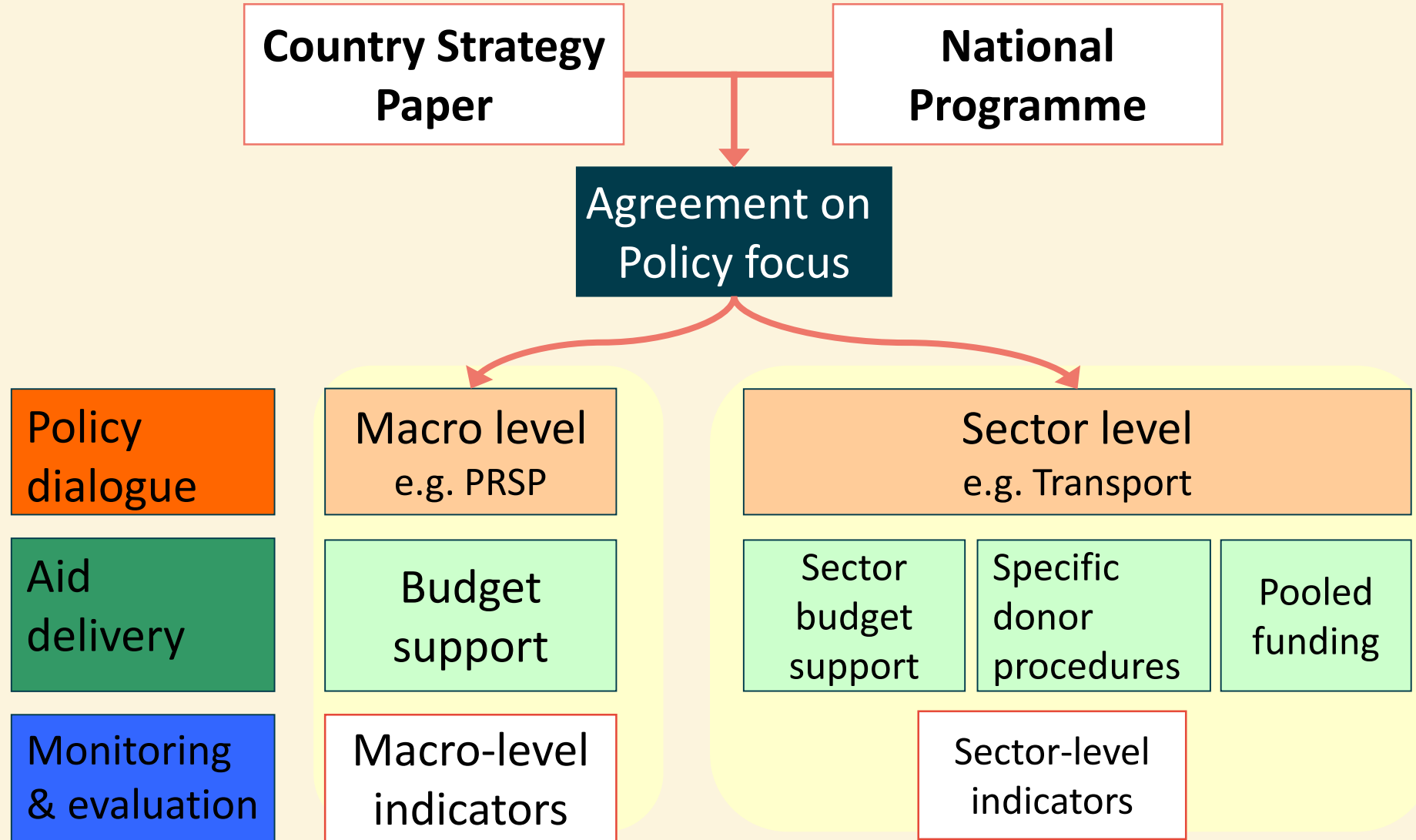
Project cycle



The wider context



Programme context



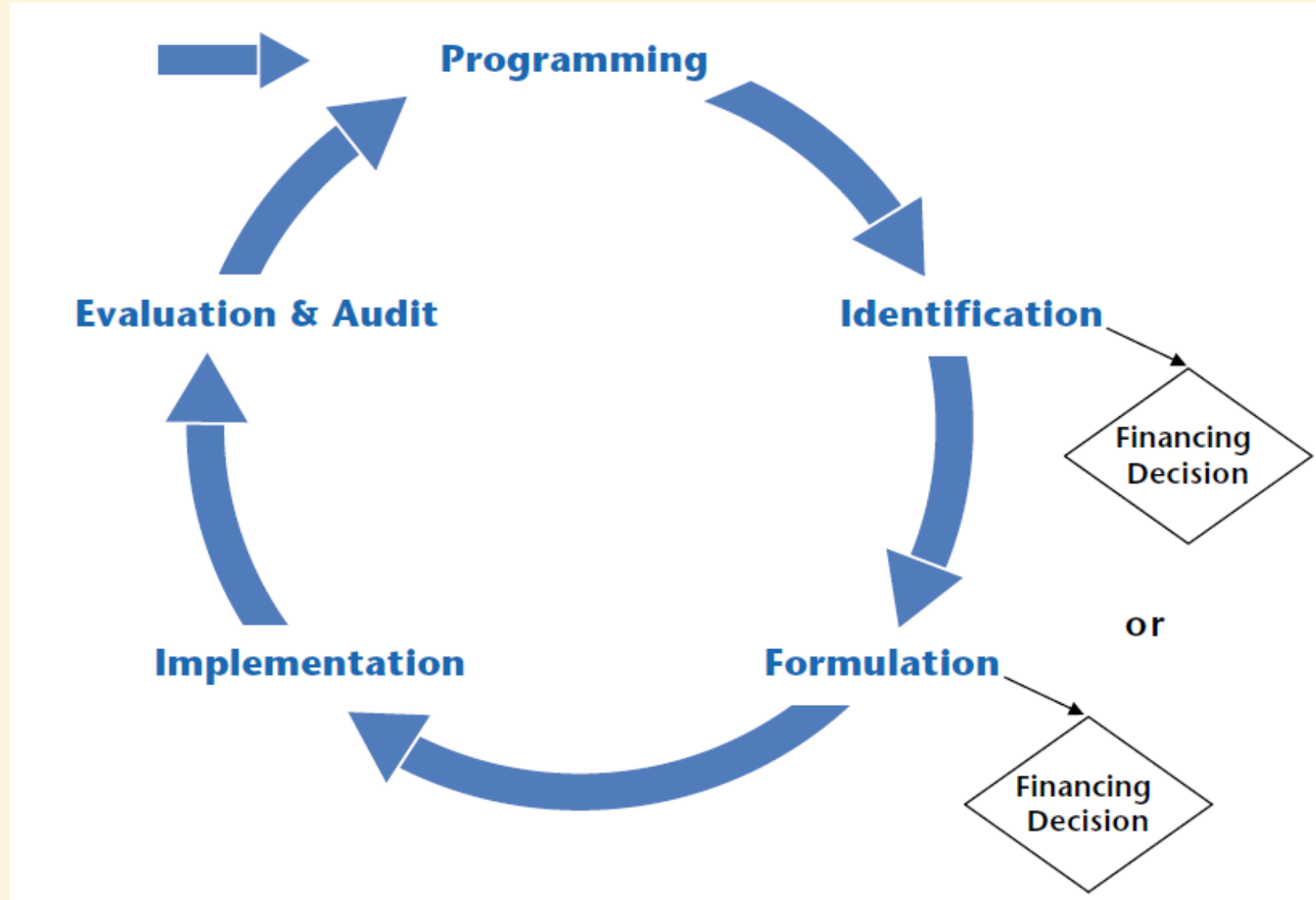


The budget: a definition

- *The budget should be a financial mirror of society's economic and social choices.* In order to perform the roles assigned to it by its people, the state needs, among other things, to:
 - collect resources from the economy, in sufficient and appropriate manner;
 - allocate and use those resources responsively, efficiently and effectively

Source: Managing Government Expenditure Asian Development Bank 1999

Timing of the financing decision (EU)





Donors, development partners and creditors

- Trends and innovation
- Performance
- Conditions and documentation



Trends in development

- Millennium Development Goals
 - *Developed in 2000, they are a framework for measuring the progress of development with targets set for 2015*
- Focus on poverty eradication
 - *Poverty reduction strategies, poverty reduction support credit, poverty reduction budget support*
- Volume of aid flows
 - *Donor pledges indicate that the global volume of ODA will continue to rise significantly, although the impact of the financial crisis has yet to be seen fully*



Sustainable Development Goals post 2015

The Open Working Group on Sustainable Development Goals defined the priorities for the future as:

- Poverty eradication, promoting sustainable patterns of consumption and production and protecting and managing the natural resource base of economic and social development.

*“Defining concept of our time”
(Jeffrey Sachs)*



17 Goals have now been developed

1. No Poverty (MDG 1)
2. Zero hunger (MDG 1)
3. Good health and well-being (MDG 5 Maternal)
4. Quality education (MDG 2)
5. Gender equality (MDG 3)
6. Clean water and sanitation
7. Affordable and clean energy
8. Decent work and economic growth
9. Industry, innovation and infrastructure



17 Goals have now been developed

10. Reduced inequalities

11. Sustainable cities and communities

12. Responsible production and consumption

13. Climate action (MDG 7)

14. Life below water (MDG 7)

15. Life on land (MDG 7)

16. Peace justice and strong institutions



Goal 17 (the last): Partnerships for the goals (MDG 8)

FINANCE:

1. Strengthen domestic resource mobilization, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection
2. Developed countries to implement fully their official development assistance commitments, including the commitment by many developed countries to achieve the target of 0.7 per cent of ODA/GNI to developing countries
3. Mobilize additional financial resources for developing countries from multiple sources
4. Assist developing countries in attaining long-term debt sustainability through coordinated policies aimed at fostering debt financing, debt relief and debt restructuring, as appropriate, and address the external debt of highly indebted poor countries to reduce debt distress
5. Adopt and implement investment promotion regimes for least developed countries

PLUS: Technology, Capacity-building, Trade and Systemic issues



Discussion

- Question 1**

Which MDGs have not been in achieved?

- Question 2**

Which MDGs have been achieved?



Overview of development trends

Increase in the number of:

- Vertical initiatives
 - Global Fund
 - PEPFAR
 - Millennium Challenge Corporation
- Political initiatives
 - NEPAD
 - Africa Commission
- New donors
 - Brazil, Russia, India and China (“BRICs”)
 - Private funding such as Bill and Melinda Gates Foundation
 - Warren Buffet



Development trends

- Shift away from project aid towards programmatic aid modalities (direct budget support and sector support)
- New emphasis on donor harmonisation and alignment
- Expectations of better financial management, accountability and transparency
- Greater user of results-based performance measurement
 - Targeted at outcomes and impacts



Development trends

- Shift towards programmatic aid
- Trend from project aid to programme aid modalities
 - General Budget Support
 - Sector Budget Support



General Budget Support

Supports overall macro-economic & budgetary framework

Sector Budget Support

Provides additional funding to a specific sector, supporting a stated policy & spending framework



Programme aid objectives

- Broaden ownership by partner governments of decision-making on policy, strategy and spending
- Increase coherence between policy, spending and actual results
- Use / support government systems, harmonize donor systems (reduce transaction costs)



Sector Budget Support

Advantages

Government leads

Focus on results

Emphasis on policies

Potential for better
coordination

Transparency and predictability
in funding

May reduce transaction costs

Builds capacity

Issues to be aware of

- May undermine macro process - parallel structures/duplicating dialogue
- Cannot address the “big issues” – public sector reform, financial management etc.
- Breaks the accountability link between line Ministries and the centre of government (Finance, Cabinet)



General Budget Support

Advantages

Government manages public spending

Focus on capacity building

Reduce transactions costs

Key cross cutting issues can be addressed in a more systematic way

Better accountability

Clear incentive structure

Greater predictability, quick disbursing

Issues to be aware of

- More invasive conditionality
- Line ministries marginalised
- Inability to attribute impact
- High costs of negotiating and maintaining policy agreements
- Extremely strong leadership and capacity required for “success”
- High risk for donors
- Loss of sector influence



Forms of budget support

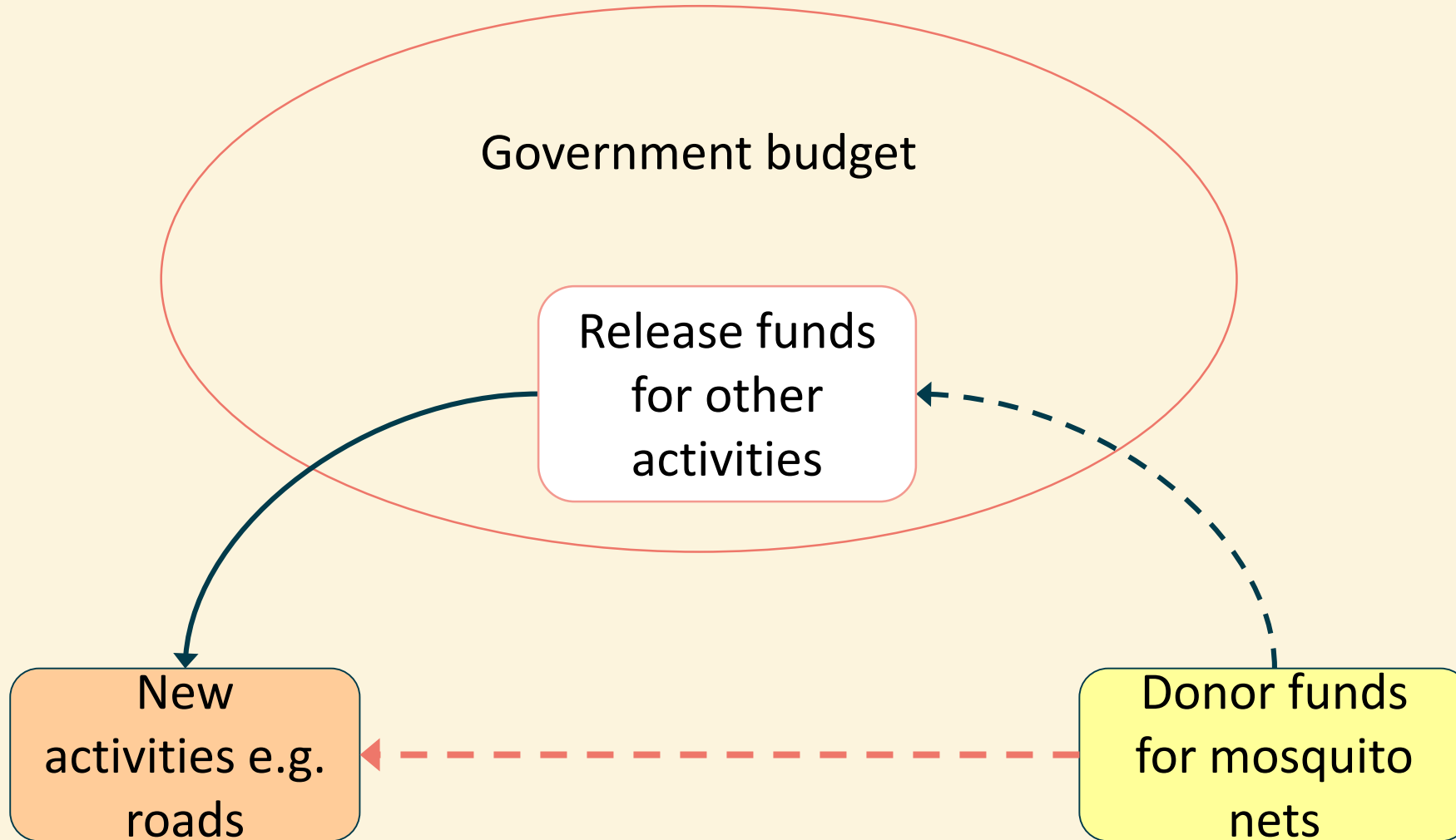
- Grants (DFID, EC, Japan, etc.)
- Loans

Domestic: Treasury Bills, Bonds

External: multilateral, bilateral, commercial

- May be earmarked for specific uses, and tracked (reimbursement of eligible expenditure)
- May be non-targeted and bridging the gap between Government expenditures and revenues
- Reflects recognition of “fungibility”

Fungibility of aid





TASK

In groups, discuss what prerequisites you think a donor would look for before deciding to provide budget support



General conditions – credit agreements

- Typically include:
 - Credit account
 - Currency provisions
 - Withdrawal of proceeds
 - Cancellation and suspension
 - Acceleration of maturity
 - Taxes
 - Cooperation and Information
 - Enforceability
 - Effective date; termination



Financing agreements

Financing

- Amount, currency
- Permitted withdrawal of proceeds
- Commitment charge
- Payment dates



Financial Management, financial reports and audits

- Recipient to maintain a financial management system
- Recipient to prepare and furnish not later than 45 days after the end of each calendar quarter, interim un-audited financial reports
- Recipient to prepare Financial Statements in accordance with General conditions



THE WORLD BANK

DISBURSEMENT GUIDELINES FOR PROJECTS



Disbursement guidelines cover:

Purpose

Disbursement Methods

Withdrawal of Loan Proceeds

Supporting Documentation Requirements

Designated Accounts

Terms and Conditions Applicable to Advances

Ineligible Expenditures

Refunds



Disbursement methods

- a) *Reimbursement*:** The Bank may reimburse the borrower for expenditures eligible for financing pursuant to the Loan Agreement (“eligible expenditures”) that the borrower has prefunded from its own resources.
- b) *Advance*:** The Bank may advance loan proceeds into a designated account of the borrower to finance eligible expenditures as they are incurred and for which supporting documents will be provided at a later date (see section 5, “Designated Accounts”).
- c) *Direct Payment*:** The Bank may make payments, at the borrower’s request, directly to a third party (e.g., supplier, contractor, consultant) for eligible expenditures.
- d) *Special Commitment*:** The Bank may pay amounts to a third party for eligible expenditures under special commitments entered into, in writing, at the borrower’s request and on terms and conditions agreed between the Bank and the borrower.



Extract from Disbursement Handbook

- “Throughout project preparation and implementation, the World Bank
- Assesses and monitors the adequacy of the borrower’s financial management arrangements: budgeting, accounting, internal control, funds flow, financial reporting, and auditing practices
 - Relies on such arrangements to provide assurance that loan proceeds are used for the purposes intended.
 - In cases where it has identified weaknesses, it requires the borrower to undertake appropriate measures to mitigate the risks posed by the weaknesses.
 - The disbursement arrangements for an operation maybe designed or modified to help mitigate identified weaknesses.”



New Concepts for disbursements

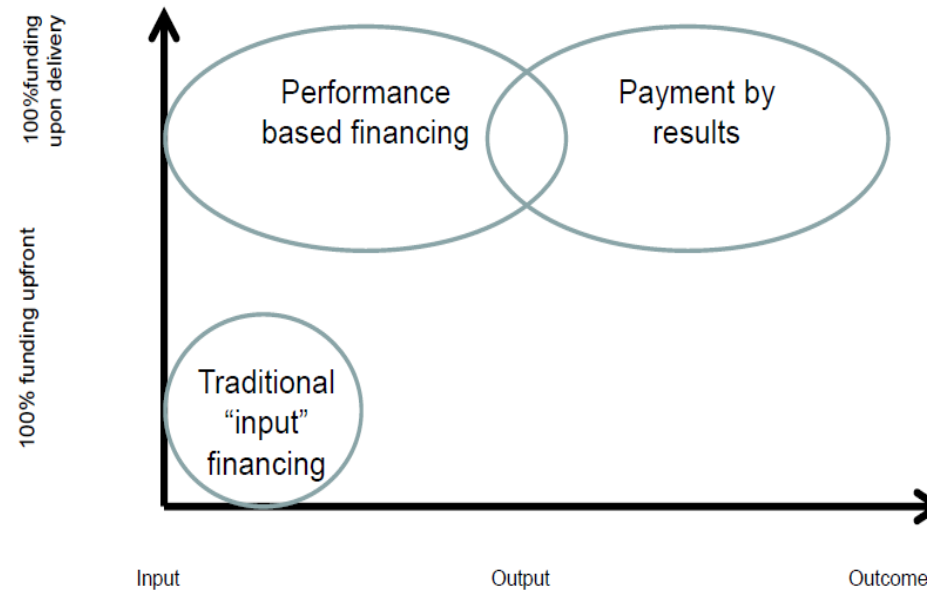
- Cash on delivery
- Results based financing
- Performance financing

Initial funding, then funds released upon demonstrable results against performance targets



Context: Linking payments to performance

DFID is increasingly moving away from upfront input financing and linking payments to results and performance.



e.g.s.

- Performance financing (performance tranche)
- Procurement reform



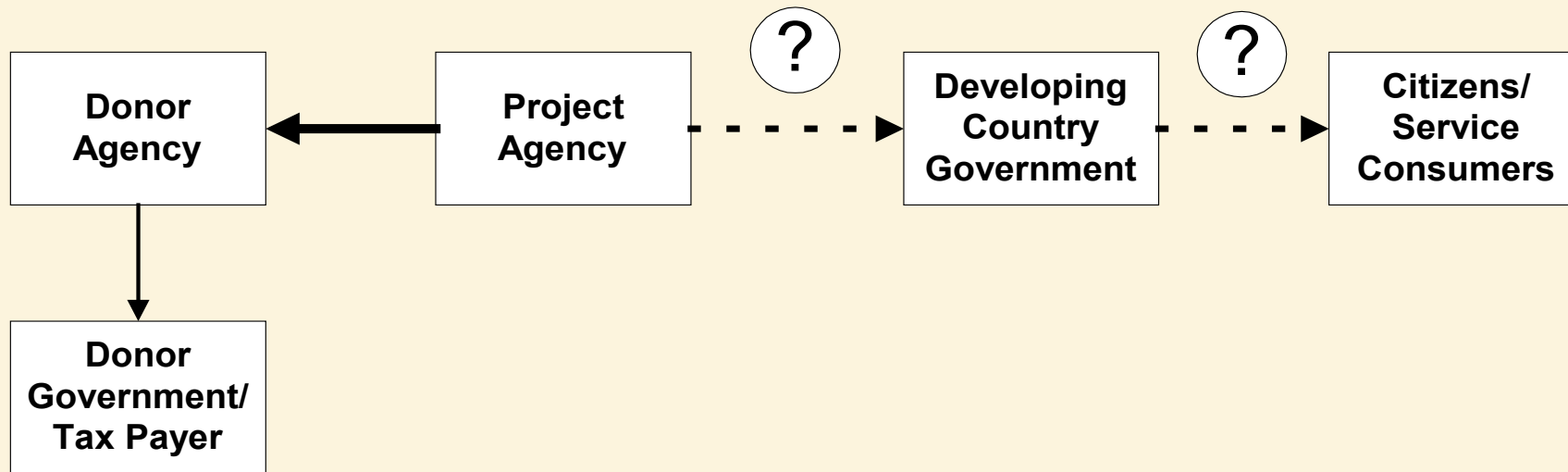
World Bank Program for Results (P4R)

KEY FEATURES:

- Finances and supports borrowers' programs
- Disburses upon achievement of results
- Focuses on strengthening institutional capacity
- Provides assurance that Bank financing is used appropriately and that the environmental and social impacts of the program are adequately addressed



Traditional Aid Accountability Requirements:

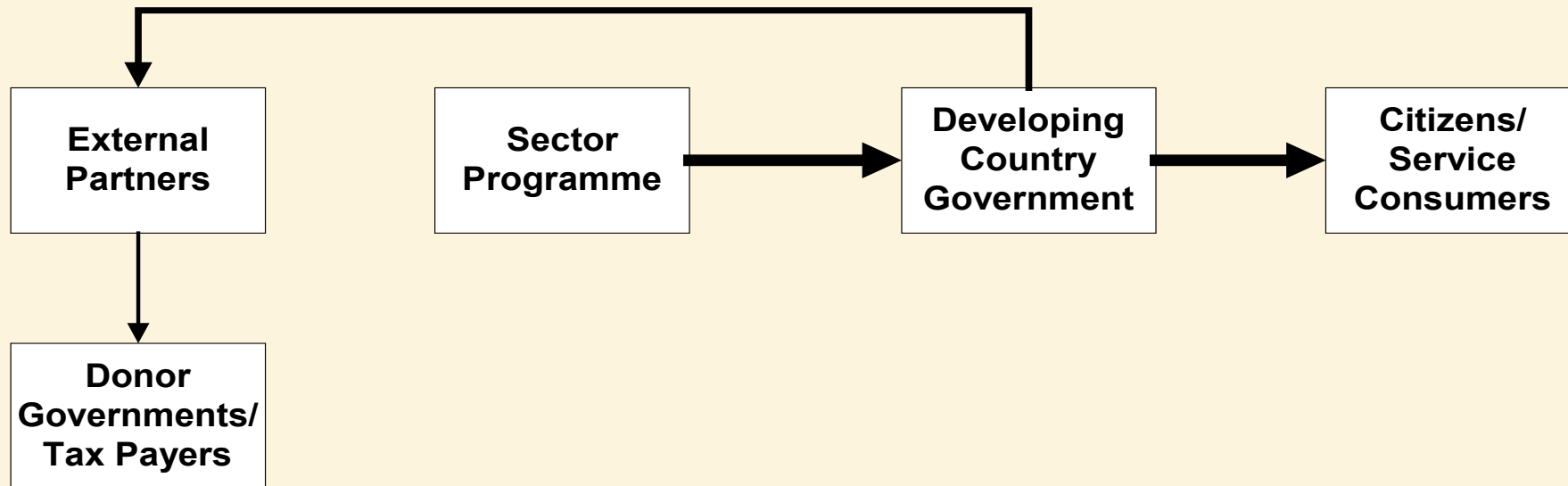


Project implementing agency reports to donor with little reporting requirement to central government or wider accountability



Changes in Accountability

Preferred Aid Accountability Requirements



Project implementing agency reports to central government who in turn reports to citizens with a secondary responsibility to the donors.



Key requirements: budget support and SWAps

- A sound macro-economic framework such as sustainable budget deficit, convertible currency, money supply under control
- Good financial management – clear accountability, proper audit processes; clear procurement processes
- Effective sectoral priorities (generally anchored in a PRSP or equivalent)
- Effective monitoring systems



Donor harmonisation and alignment

- Rome (2003) and Paris (2005) Declarations on Harmonisation - purpose:
“To improve the effectiveness of development assistance and thereby contribute to meeting the MDGs”
- Accra Agenda for Action (2008)
- Busan Partnership Document (2012)
- OECD-DAC role:
 - Coordinate development of good practice papers;
 - Monitor progress through surveys
- Harmonisation or alignment?



Aid effectiveness: Paris Declaration

Ownership by countries

Alignment with country strategies

Harmonisation of donors' actions

Managing for results

Mutual accountability



Paris Declaration: Progress indicators

Ownership

Partners have operational development strategies

Alignment

- Reliable public financial management/ procurement systems
- Aid flows aligned on national priorities
- Strengthened capacity by co-ordinated support
- Use of country public financial management and procurement systems
- Avoiding parallel PIUs
- Aid is more predictable
- Aid is untied

Harmonisation

- Use of common arrangements and procedures
- Missions to the field and country analytic work
- Managing for Results
- Results-oriented frameworks
- Mutual Accountability
- Mutual assessments



Financial Management and Control

- What financial management is
- What is needed
- Financial planning and control
- What is needed for evaluation and audit



“Process of planning and controlling financial resources to achieve optimum economic and financial benefits from an Investment”



Effective financial management

Prescribed and supported by several World Bank articles, policies, procedures and guidelines, including:

- *Article Iii, Sec.5(B)*
- *Operational Policy 10.02 (OP 10.02)*
- *Bank Procedures 10.02 (BP 10.02)*
- *FARAH*
- *LACI Implementation Handbook*
- *The Project Financial Management Manual*
- *Guidelines on Assessment of Financial Management Arrangement in Bank projects*
- *Guidelines on Assessing and Designing accounting system and Accounting software.*
- *Financial Monitoring Reports-Guidelines to Borrowers*



Elements of financial management

- Planning and budgeting
- Internal control
- Accounting system
- Financial reporting
- Auditing
- Monitoring & evaluation



Need for effective financial management

- Provide comfort and re-assurance to donors and borrowing country
- Provide information to enable effective management and to monitor progress of projects
- Reduce and eliminate fraud and corruption



Financial Planning and budgeting

- Realistic plan / budget
- Should harmonise planning and reporting
- Close link between plan and relevant processes of project
- Project unit should monitor timeliness and costs including procedures for remedial actions



Internal control

- Control environment
- Risk assessment process
- Information systems
- Control activities
- Monitoring of controls



What is a chart of accounts?

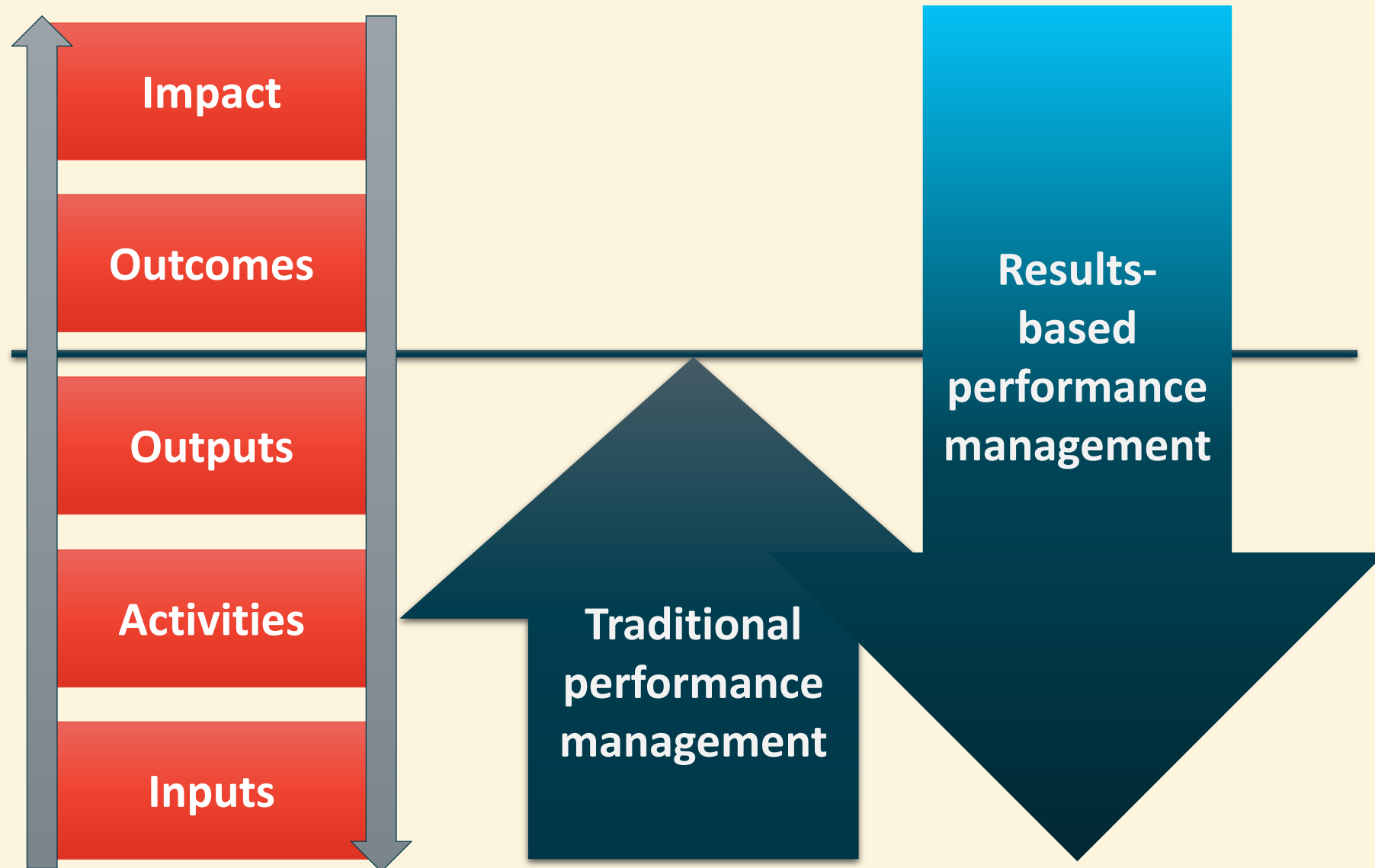
- A Chart of Accounts (COA) is a way of showing a business's financial information in such a way that it is possible to make good financial decisions based on the information that it shows.
- The COA will be made up of all the individual accounts that combined provide the overall accounts of a business. These individual accounts are the Nominal Codes



Financial reporting

- Financial reporting for donors
- Management & statutory reporting
- Audited project financial statement
- Financial reporting by implementing entities
- Financial monitoring and variance analysis
- In accordance with international accounting standards
- International auditing standards
- International Financial Reporting Standards
- International Public Standard Accounting Standards

Monitoring & evaluation





Auditing

- Selection process of auditor
- Scope of audit work
- Statutory
- Evaluation / reviews
- Audit finding and report
- Follow-up of audit findings



Session close

Let's wrap up the session:

- Recap of key learning
- Final questions?
- Revisit session objectives – achieved?
- Application of learning – update your action plans
- What's next?



THANK YOU /



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