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 2

1. Project implementation modalities
2. Evaluating PFM - PEFA
3. Budgeting & Cash-flow Forecasting
4. Group Exercise – Cash-flow Forecasting

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Financial Management of Development Projects
14 May 2019

PROJECT IMPLEMENTATION MODALITIES

Session Introduction

Session Aim

- Consider the design of project financial management systems and examine common types of project systems

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

- Identify key project control risks and related risk mitigation measures
- Understand factors underlining use of country system project financial management

Session Agenda

Our Learning Journey – how we will achieve our objectives:

1. Examine general project implementation modalities
- Country systems
- Project-specific systems
- Development partner systems

2. Look at specific project scenarios
- Goods
- Works
- Services
- Grants
- Revolving funds (sub-lending)
- Community driven- and based- development (CDD and CBD)

3. Session close

A quick reminder: Project

- Project: a series of activities aimed at bringing about clearly specified objectives within a defined time period and with a defined budget which is specific to the project (EC)
- A project should have:
    - Clearly identified stakeholders, including the primary target group and the final beneficiaries
    - Clearly defined coordination, management and financing arrangements
    - A monitoring system to oversee and follow implementation and to support project management
- Programme: In development terms, means a series of projects whose objectives together contribute to a common Overall Objective, at sector, country or even multi-country level

A quick reminder: Project Cycle

- The Project Cycle Management (PCM): represents whole of management activities and decision-making procedures used during life cycle of project
- PCM helps to ensure that projects are:
- relevant to an agreed strategy and to the real problems of target groups/beneficiaries
- feasible, meaning that objectives can be realistically achieved within the constraints of the operating environment and capabilities of the implementing agencies
- generating sustainable benefits

- Logframe Approach: most Donor funded projects:
- A methodology for planning, managing and evaluating programmes and projects, using tools to enhance participation and transparency and to improve orientation towards objectives

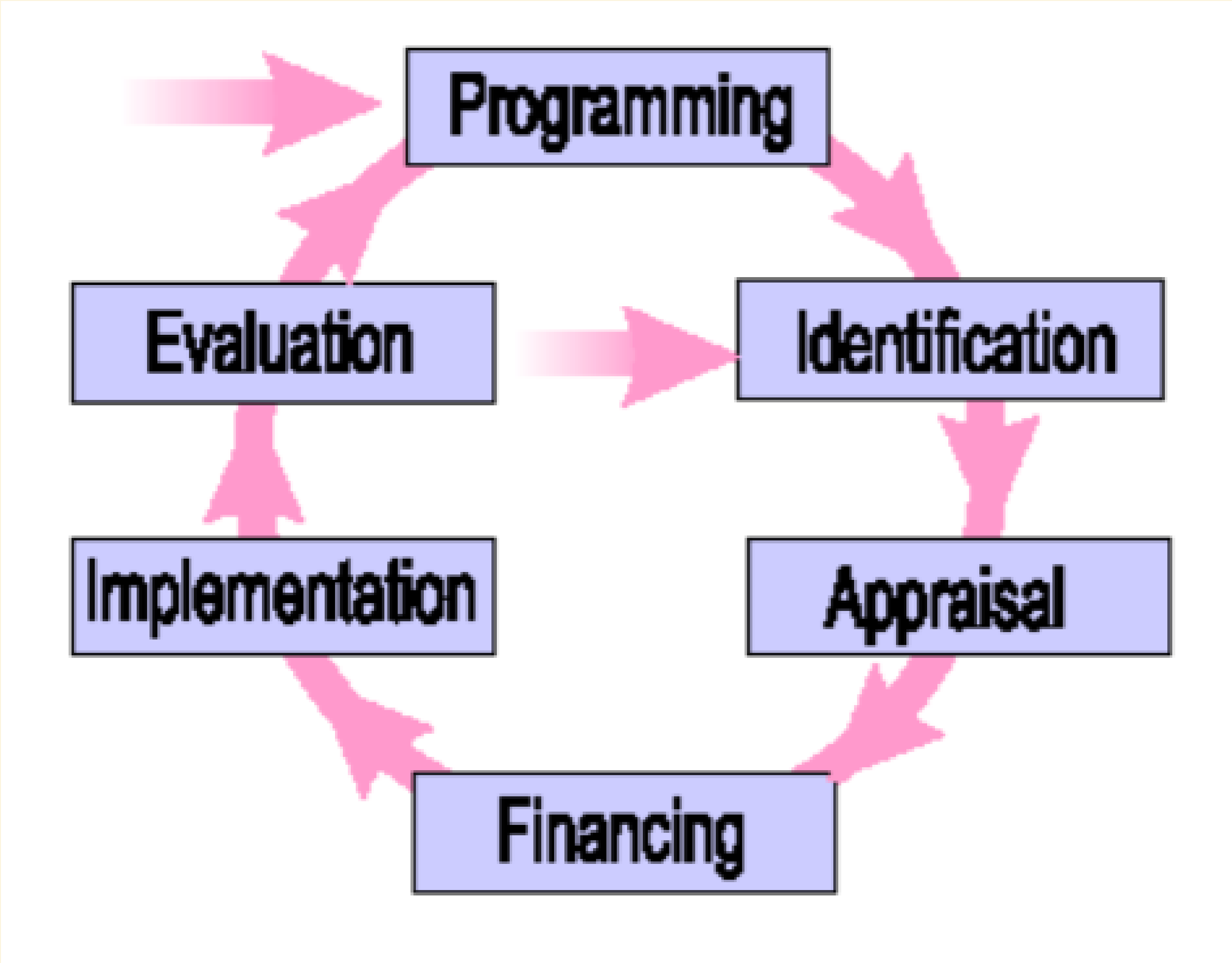
A quick reminder : Project Cycle (2)

Project cycle: comprises following phases:

1. Identification
2. Formulation
3. Appraisal and Approval
4. Implementation and Monitoring
5. Evaluation
6. Closure

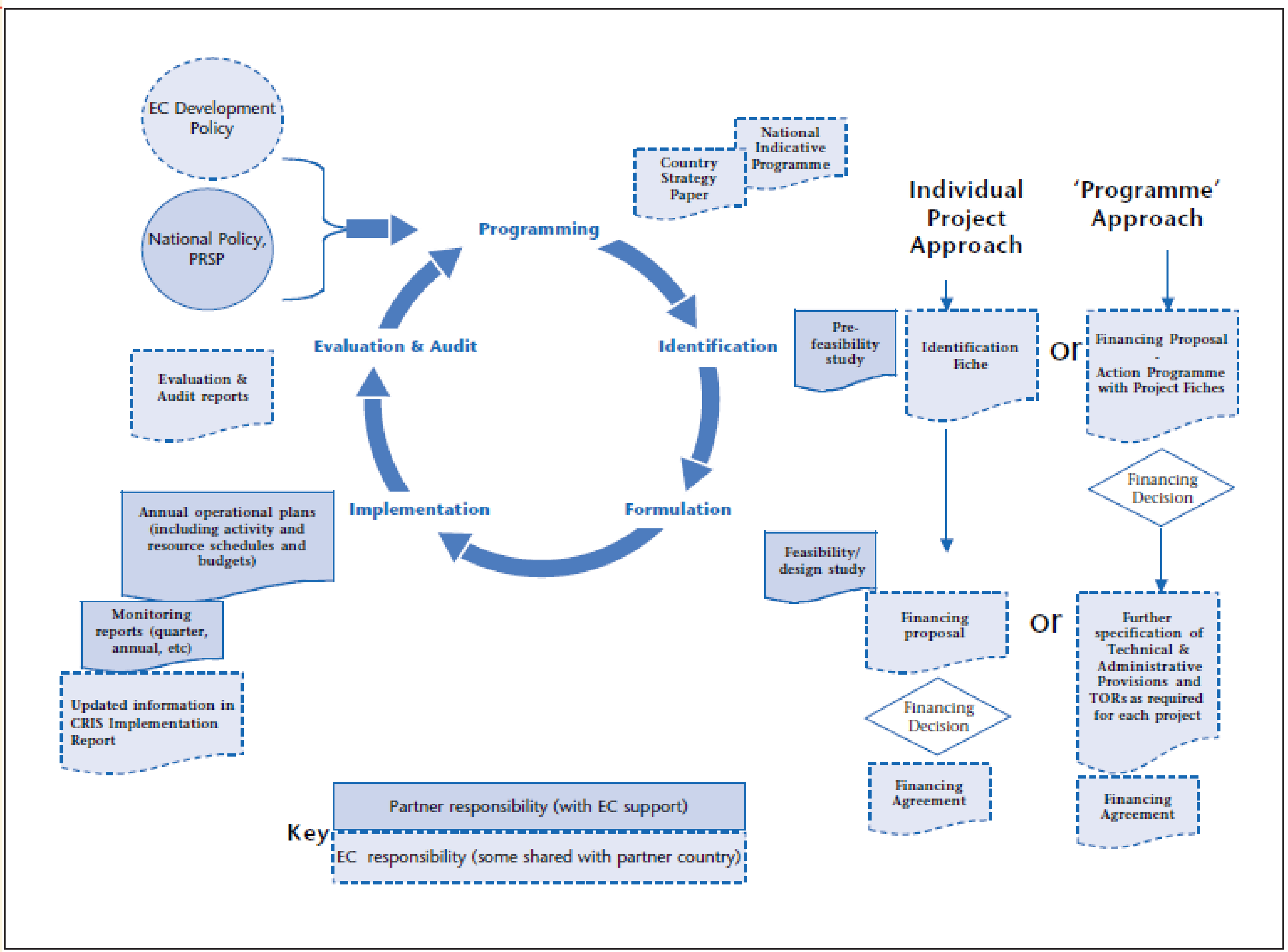
- Note: Development Projects funded by own funding but, mostly, through development partners

EU Project Cycle



- Programming: situation at national and sectoral level is analysed to identify problems, constraints and opportunities which co-operation could address
- Identification: Sectoral, thematic or “pre-feasibility” studies to help identify, select or investigate project ideas
- Appraisal: Use preparatory studies to turn relevant project ideas into project plans
- Financing: draw up formal financing proposal and provide funding for the project
- Implementation: The agreed resources are used to achieve the Project Purpose and to contribute to the wider, Overall Objectives
- Evaluation: Progress is assessed (“monitoring”) to enable adjustment to changing circumstances.

Example: Project cycle, Individual project approach, Programme approach



Generic Project Implementation pointers

- Project implementation (or project execution): phase where visions and plans become reality
  - is the logical conclusion, after evaluating, deciding, visioning, planning, applying for funds and finding the financial resources of a project
- Implementation simply means carrying out the activities described in your work plan
- Implementation would vary on a case by case / project by project basis
- Basic elements for starting the implementation process is to have the work plan ready and understood by all parties involved
- Work plan is needed as it indicates the pursued objectives, the expected results, the activities to be developed
  - Plus the budget available and timeframe given
  - Each activity is assigned to a particular individual, department or organisation that should have proven experience and the capacity to achieve the goals
- Technical/non-technical requirements must be well defined
  - Financial, technical and institutional frameworks of the specific project must have been prepared taking into account local context

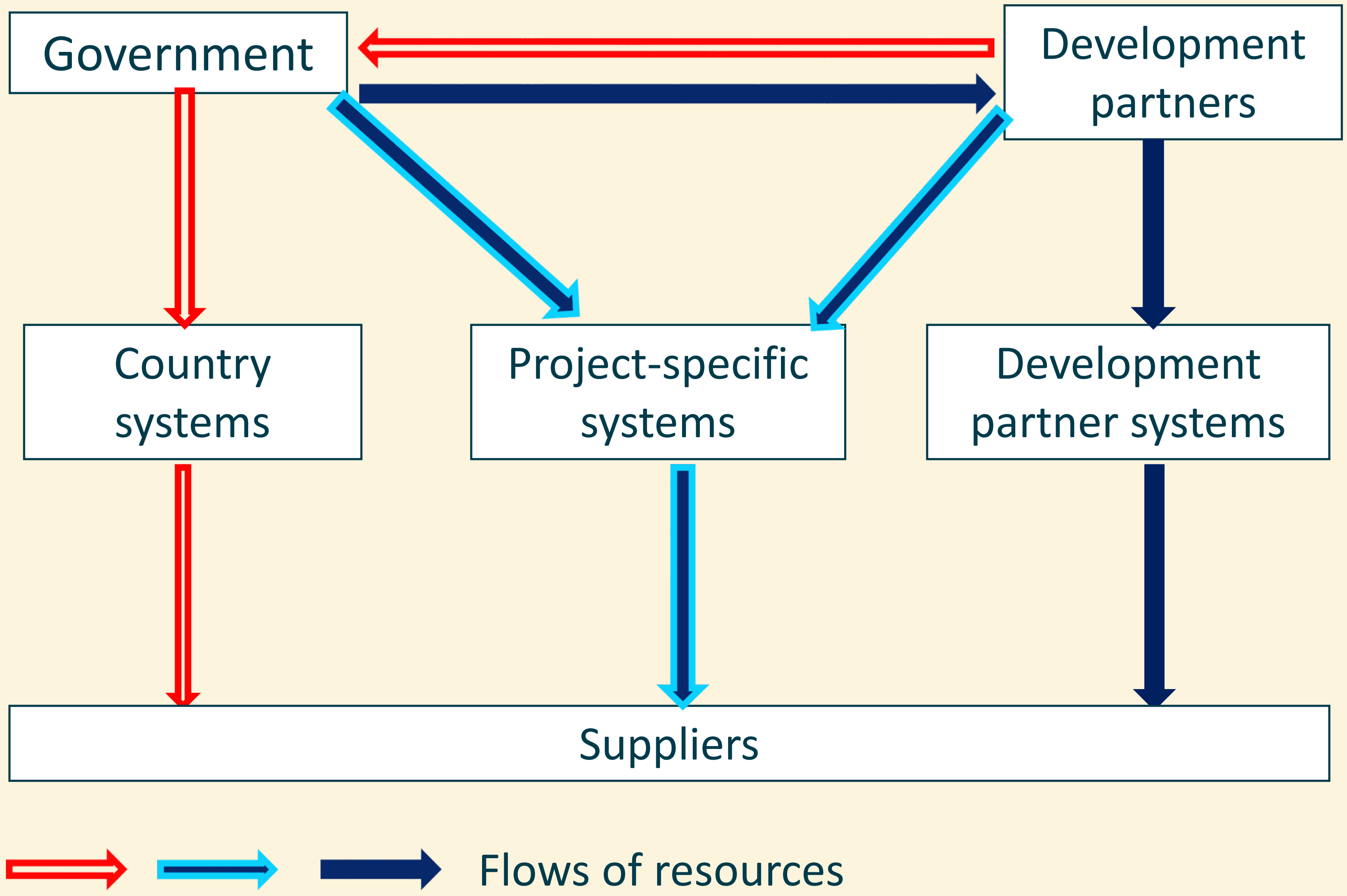
Generic Project Implementation pointers (2)

- For projects where construction is involved: detailed design, tendering, and construction of the project will take place during this phase
- Construction and installation activities must be carried out under the supervision of experts and engineers

Other elements involved:

- Not only about scheduling activities but also identifying potential bottlenecks
- Communicating with members of team and ensuring all roles and responsibilities are distributed and understood
- Provide for project management tools to coordinate the process
- Ensuring that financial resources are available and distributed accordingly

Generalised project implementation modalities



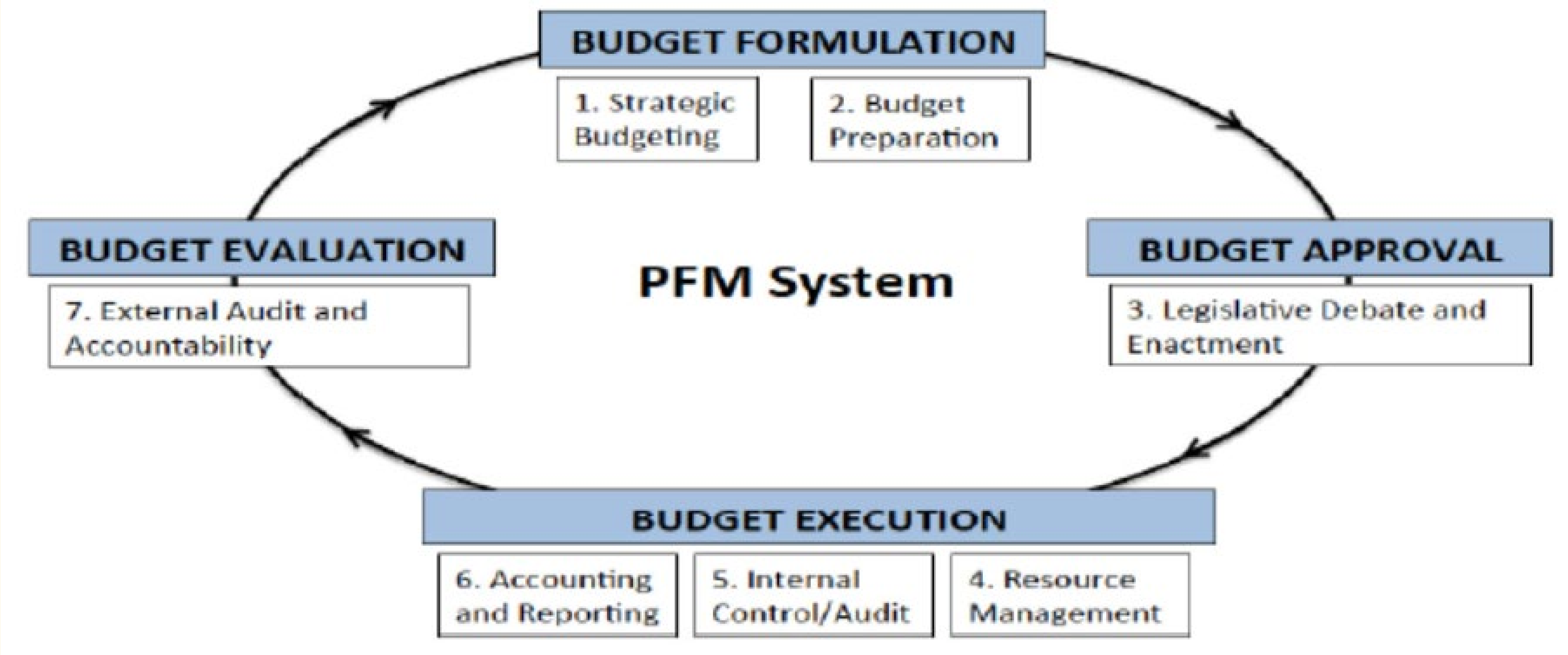
Country systems

In the Paris Declaration and the Accra Agenda for Action, ‘country systems’ are defined as national arrangements and procedures for public financial management, procurement, audit, monitoring and evaluation and social and environmental procedures.

Anything else is not a country system

Reminder of what we mean by country systems

- Country systems' is typically used as a shorthand for 'country public financial management (PFM) systems'
- These are the systems used to manage public resources (revenues and expenditures)
- See diagram below



The case for supporting country systems

- Using countries' own systems is key to building sustainable and effective institutions
- Should not bypass country systems and use donors' separate systems. Why?
  - Can impose transaction costs on government
  - Divert attention from managing their own funds
  - Undermines development of countries' own systems in favour of servicing a donor-constructed system
- Risk of creating a 'dual public sector' – run in parallel and in competition with, national state structures'
- Evidence shows that using country systems can
  - reinforce accountability of the state, rather than this being diffused between the state and fragmented donors
  - strengthen rather than fragment planning policy and planning processes
  - reinforce 'learning by doing' so that state structures can develop over time

Why use country systems ?

- When donors consistently bypass country systems and policies, the sustainability of their efforts are undermined as well as the ability of the countries receiving aid to manage their own future
- When donors and developing countries endorsed the Paris Declaration on Aid Effectiveness in 2005, they were united with a common objective: to build stronger, more effective partnerships for development.
- As part of these key commitments, countries receiving aid agreed to strengthen their national systems and donors to using them to the maximum extent possible.

The purpose of a country PFM System

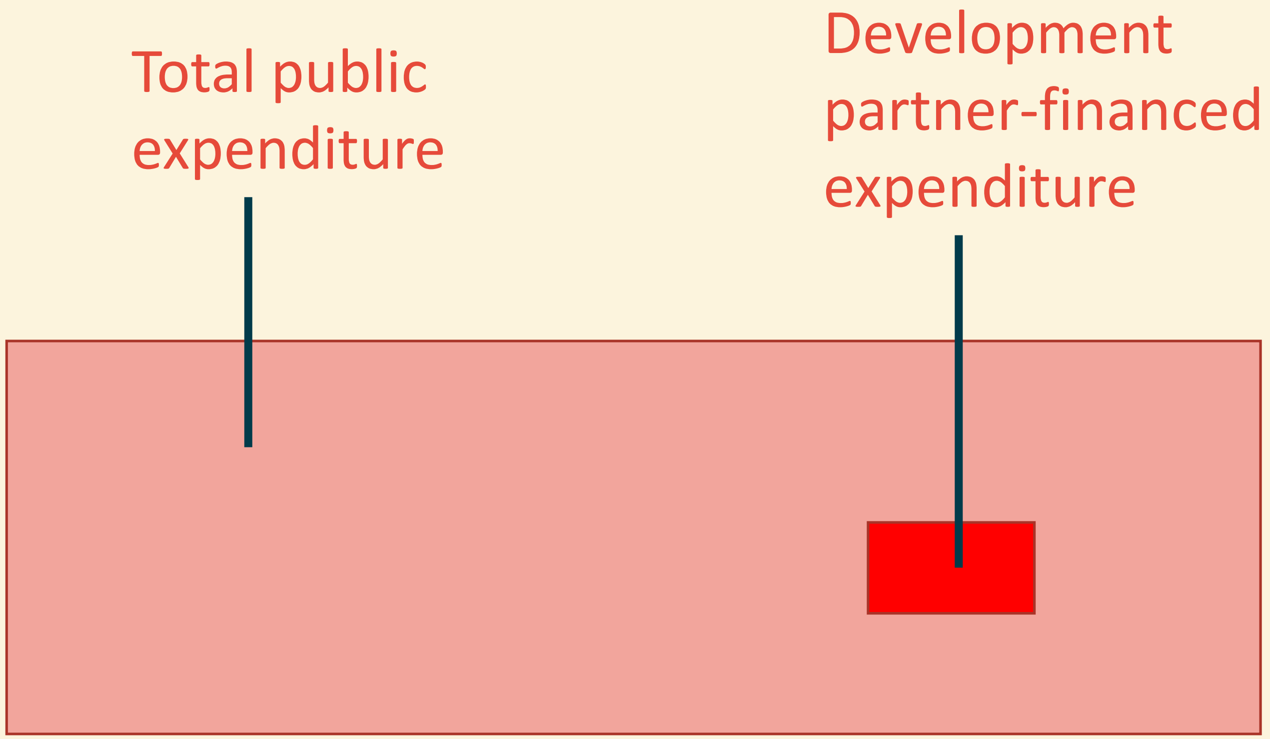
- What is the purpose of any FM system

- An open and orderly PFM system supports*:
  - Aggregate fiscal discipline
  - Strategic allocation of resources
  - Efficient service delivery

- Hence rationale to improve country PFM systems

* refer to page 2 of PEFA 2016 Handbook

Effort v payback v fiduciary assurance



Tiny islands of excellence in huge oceans of trouble

Accra Agenda for Action

Commitments on country systems (1 of 2)

a) "Donors agree to use country systems as the first option

b) Should donors choose to use another option, they will transparently state the rationale for this. Where use of country systems is not feasible, donors will establish additional safeguards in ways that strengthen rather than undermine country systems and procedures.

c) Developing countries and donors will jointly assess the quality of country systems in a country-led process. Developing countries will lead in defining reform programmes and priorities. Donors will support these reforms and provide capacity development assistance.

Accra Agenda for Action

Commitments on country systems (2 of 2)

d) Donors will immediately start working on and sharing transparent plans for undertaking their Paris commitments on using country systems.

e) Donors recollect and reaffirm their Paris Declaration commitment to provide 66% of aid as programme-based approaches. In addition, donors will aim to channel 50% or more of government-to-government assistance through country fiduciary systems.”

Why donors still like their own systems?

- Essentially because of lack of faith in country systems, especially at early stages of PFM reform
- Concerned by misuse of donor funds – **fiduciary risks**
- DFID defines fiduciary risk: as risk that funds
  - are not used for intended purposes
  - do not achieve value for money
  - are not properly accounted for
- Fiduciary risk can be due to many factors, including
  - lack of capacity, competency or knowledge; bureaucratic inefficiency; and/or active corruption.
- DFID's approach to managing fiduciary risk is based on three mutually reinforcing principles:
  - Understanding the fiduciary risk environment
  - Mitigating risks to the proper use of funds
  - Monitoring performance on an on-going basis.

Generalised characteristics of main implementation modalities

	Country systems	Project-specific systems	Development partner systems
Use national systems ?	Yes	Only if acceptable to development partners	No
Use national institutions ?	Yes	Only if acceptable to development partners	No
Use national rules ?	Yes	Only if acceptable to development partners	No
Use national staff ?	Yes	Only if acceptable to development partners	Only if acceptable to development partners
Build local capacity ?	Yes	Yes or No?	No (impairs local capacity)
Challenging ?	Very	Can be	No

Discussion points

- If donors agree to use country systems as the first option, why don’t they always use country systems?
- What is your experience of using country systems?
- What systems are you implementing?

What is using country systems about?

- Helping build capacity
- Driven by the needs of the country
- Managing, not avoiding risks
- Valuing countries and their capacities

Specific implementation schema

Specific cases

- Goods
- Works
- Services
- Grants
- Revolving funds (sub-lending)
- Community driven- and based- development (CDD and CBD)

➢ As we work through each case, and building on our own experiences, let's consider the fiduciary risks and design appropriate risk mitigation measures (i.e. design appropriate controls)

Goods (e.g. drugs, text books, computers, equipment, vehicles)

Planning and procurement

Identify goods

↓

"Package" goods

↓

Issue TORs / RFPs / Adverts
Receive and evaluate bids

↓

Award contracts

Implementation

Suppliers deliver goods

↓

Beneficiary confirms conformity with specification & contract

↓

Implementing agency makes payment (less retention)

↓

Implementing agency issues progress reports

Works (e.g. roads, buildings and other construction)

Planning and procurement

Identify construction projects

"Package" construction projects
"Package" supervision process

Issue TORs / RFPs / Adverts
Receive and evaluate bids

Award contracts

Implementation

Constructors construct

Supervisors value progress and issue progress certificates

Implementing agency makes payment (less retention)

Implementing agency issues progress reports

Services (e.g. Technical Assistance)

Planning and procurement

Identify services

↓

"Package" services

↓

Issue TORs / RFPs / Adverts
Receive and evaluate bids

↓

Award contracts

Implementation

Suppliers deliver services (and progress reports)

↓

Beneficiary confirms conformity with specification & contract

↓

Implementing agency pays

↓

Implementing agency issues progress reports

Grants (e.g. to communities or other beneficiaries)

Planning

Identify group of beneficiaries

Advertise and call for applications

Receive and evaluate applications

Award grants

Implementation

Beneficiary satisfies conditions

[Supervisor confirms conditions satisfied]

Implementing agency makes payment (less retention)

Implementing agency issues progress reports

Revolving funds (e.g. sub-lending)

Planning

Identify group of beneficiaries

↓

Advertise and call for applications

↓

Receive and evaluate applications

↓

Award loan

Implementation

Beneficiary satisfies conditions

↓

Implementing agency makes payment

↓

Beneficiary makes repayments

↓

Implementing agency issues progress reports

Community driven- and based- development (CDD and CBD)

Planning

Identify group of beneficiaries

↓

Advertise and call for applications

↓

Receive and evaluate applications

↓

Award loan

Implementation

Beneficiary satisfies conditions

↓

Implementing agency makes payment

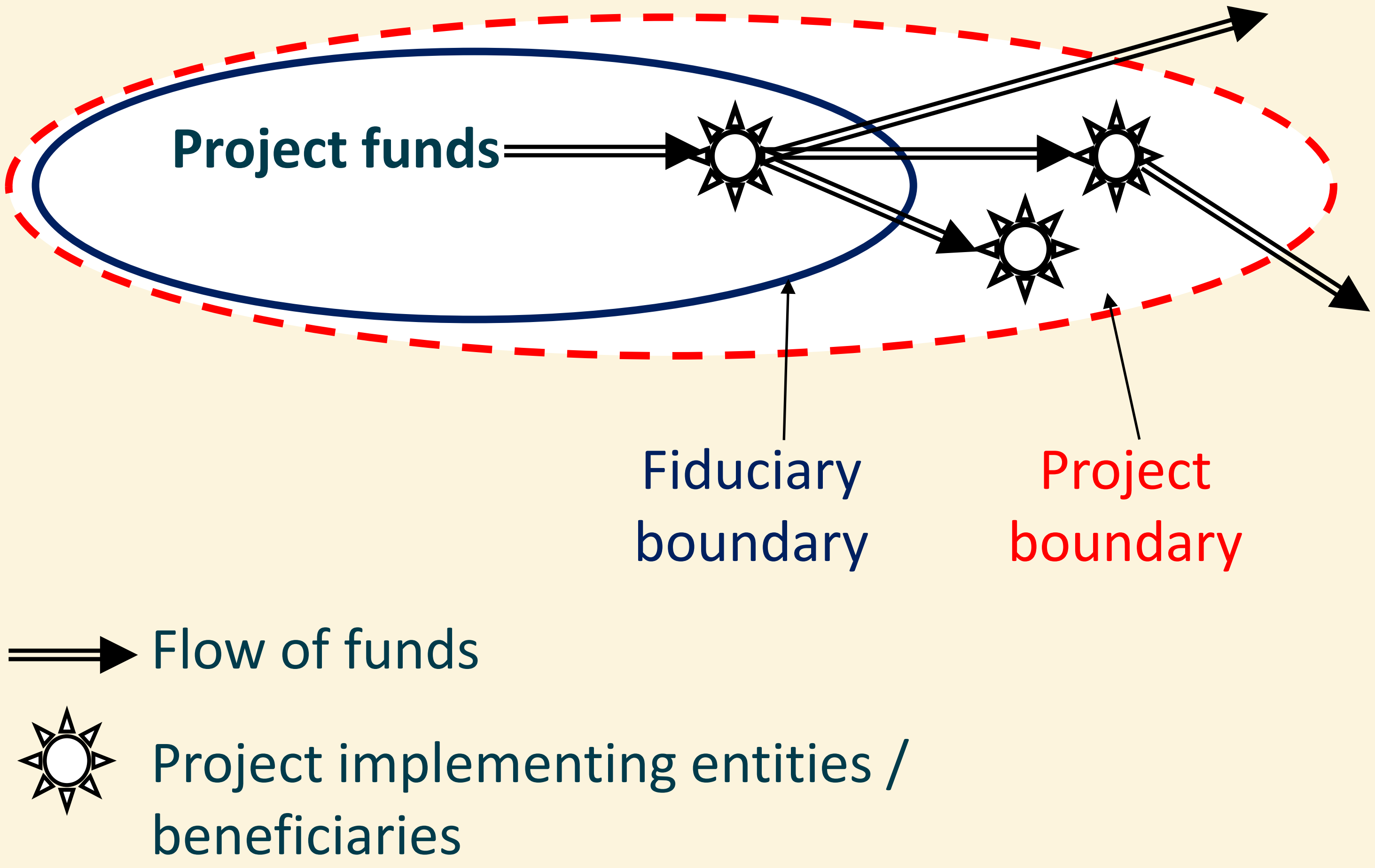
↓

Beneficiary makes repayments

↓

Implementing agency issues progress reports

Fiduciary v project boundary



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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