



April 2012

# FINANCIAL MANAGEMENT A GENERAL INTRODUCTION

# Project Financial Management International Consensus on Action Required

## The Paris Declaration 2005

Aid effectiveness requires:

- Country ownership
- Development partner coordination
- Better mechanisms for promoting shared goals

## The Accra Agenda for Action 2008 and the Busan meeting 2011

Deepened the commitments

## OECD-DAC Guidelines

*“Harmonizing Donor Practices of effective Aid Delivery”  
endorsed the Strengthened Approach”.*

## Project Financial Management Objective & Scope

- Objective: Support the achievement of development results ensuring that funds provided are used for the intended purposes
- Scope: Facilitate project implementation progress through increased efficiency and effectiveness of financial related arrangements

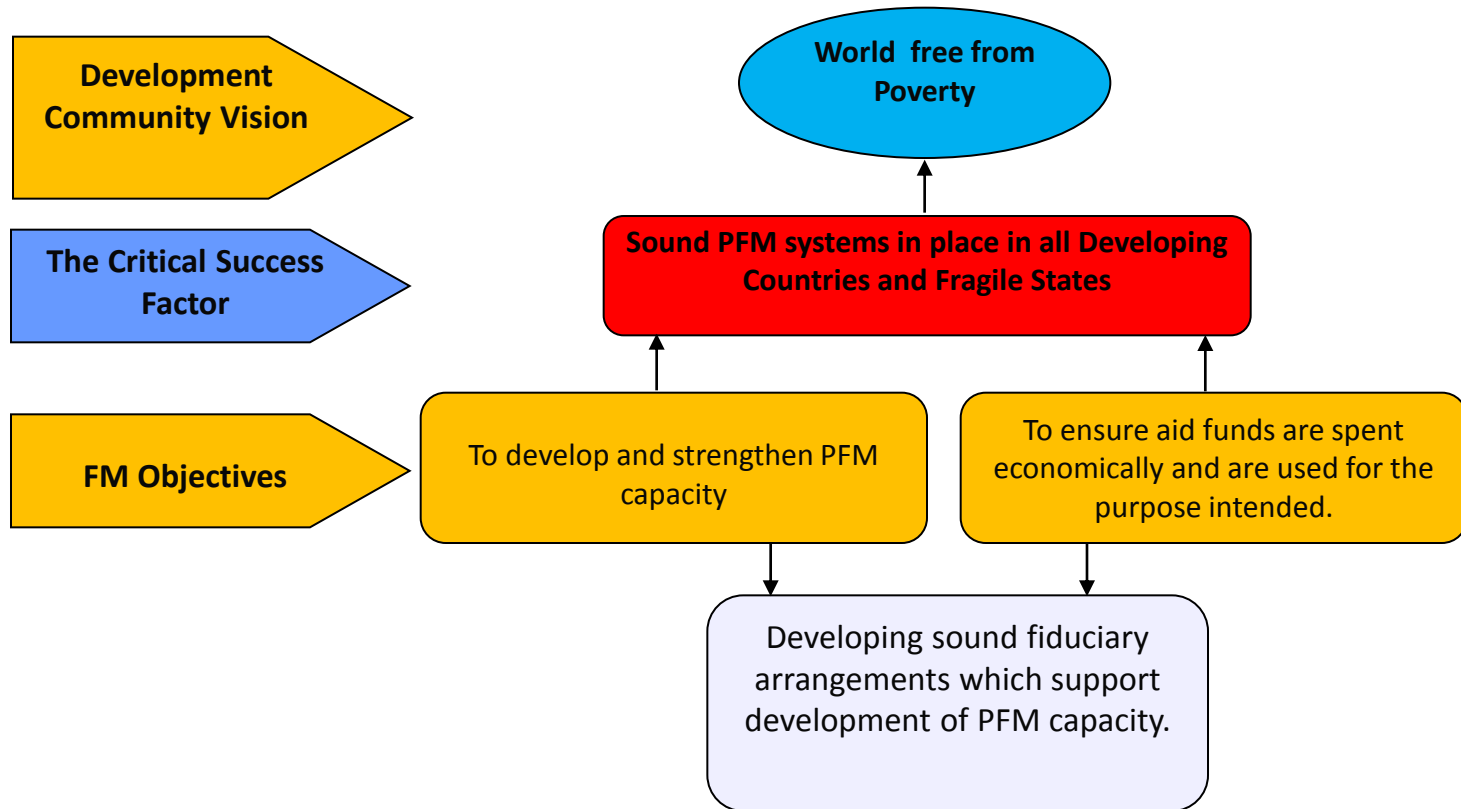
Empirical evidence shows that there is a high correlation between excellent fiduciary standards & practices and success in the overall project implementation progresses & results

# Components of Project Financial Management



# Aid Effectiveness and the Use of Country PFM Systems

## IFAD's Remit



## PFM Diagnostics

- Public Expenditure Reviews (PER) WB
- Country Financial & Accountability Assessment (CFAA) WB
- Country Procurement Assessment Report (CPAR) WB
- Report on Observation and Standards and Codes (Fiscal ROSC) IMF
- **Public Expenditure Financial Accountability (PEFA)**

## PEFA – Country level

A tool for making an objective assessment of a government's PFM performance.

*Covers:*

- all government's financial management systems
- primarily intended for central government PFM – but can be applied to sub-national (not sector level or SOEs)
- focused on outcomes not underlying factors
- should be repeated at 3 or 4 yearly intervals.

## **IFAD - Financial Management Assessment at Programme/Project level**

- What is a FMA ?
- Methodology
- Tailoring FMA approach to specific requirements
- Using Financial Management Consultants



# What is an FMA?

A “fiduciary” risk assessment of the environment at implementing agency level

- Organization and Structure
- Financial Management
- Accounting and Financial Reporting
- Budgeting and Planning
- Internal Control Systems

**A Report highlighting weaknesses and proposed mitigation action.**

## Why carry out an FMA?

- To establish whether IFAD has confidence that the implementing agency has sufficient capacity to effectively manage and control the project financial resources.
- To identify any specific financial management weaknesses that should be addressed.
- PFM reviews do not cover the Fiduciary Requirements at Project level

**It is applicable to all IFAD financing operations – no exceptions.**

# Financial Management Assessment Approach

- A FMA is not an audit - but follows a similar “assurance based control based approach”.
- The “inherent risk - control risk” model is best practice in the management of risk.
- FM specialist should initially focus on the status of the PFM systems
- FM specialist should switch focus down to the project level and focus on the unit that will financially administer the project.
- FM specialist needs to know implementation arrangements.

The FMAQ is used as the basis for the data collection and analysis

## Financial Management Assessment – The FMAQ

- Provides a structured basis for analysis
- FMAQ should be tailored – as single framework cannot cover all projects
- Completion has to be reliable
  - Self assessment
  - Consultant review
  - Joint borrower/consultant review
- for each topic the overall assessment is either “strong”, “moderate”, or “weak”

## Financial Management Assessment – Risk Mitigation

- Develop specific measures to Mitigate identified weaknesses.
- Define appropriate project management, implementation and operational arrangements
  - EA or IA manages the project within existing organizational structure
  - PIU established within EA/IA, led by borrower's staff – supported of external specialists
  - PIU “ring fenced” within EA/IA, led by external specialists.

**Aim should be to strengthen/develop institutional FM capacity rather than create one off solutions.**

# Project Implementation: Fiduciary Responsibilities

## Learning Objectives

- ✓ What is the IA/EA Ministry **fiduciary responsibility**?
- ✓ The IA/EA Ministry have the responsibility to make sure the money is used as per Financing Agreement,
  - = used only for the purpose for which loan or grant was provided
  - = with due attention to economy, efficiency and social equity

# Project Implementation: Fiduciary Responsibilities

## PMU Responsibilities Who has fiduciary roles at the PMU?

- ✓ Project Coordinator
- ✓ Project Financial Manager
- ✓ Project Chief Accountant
- ✓ All Staff!!!