FINANCIAL MANAGEMENT

October 2025

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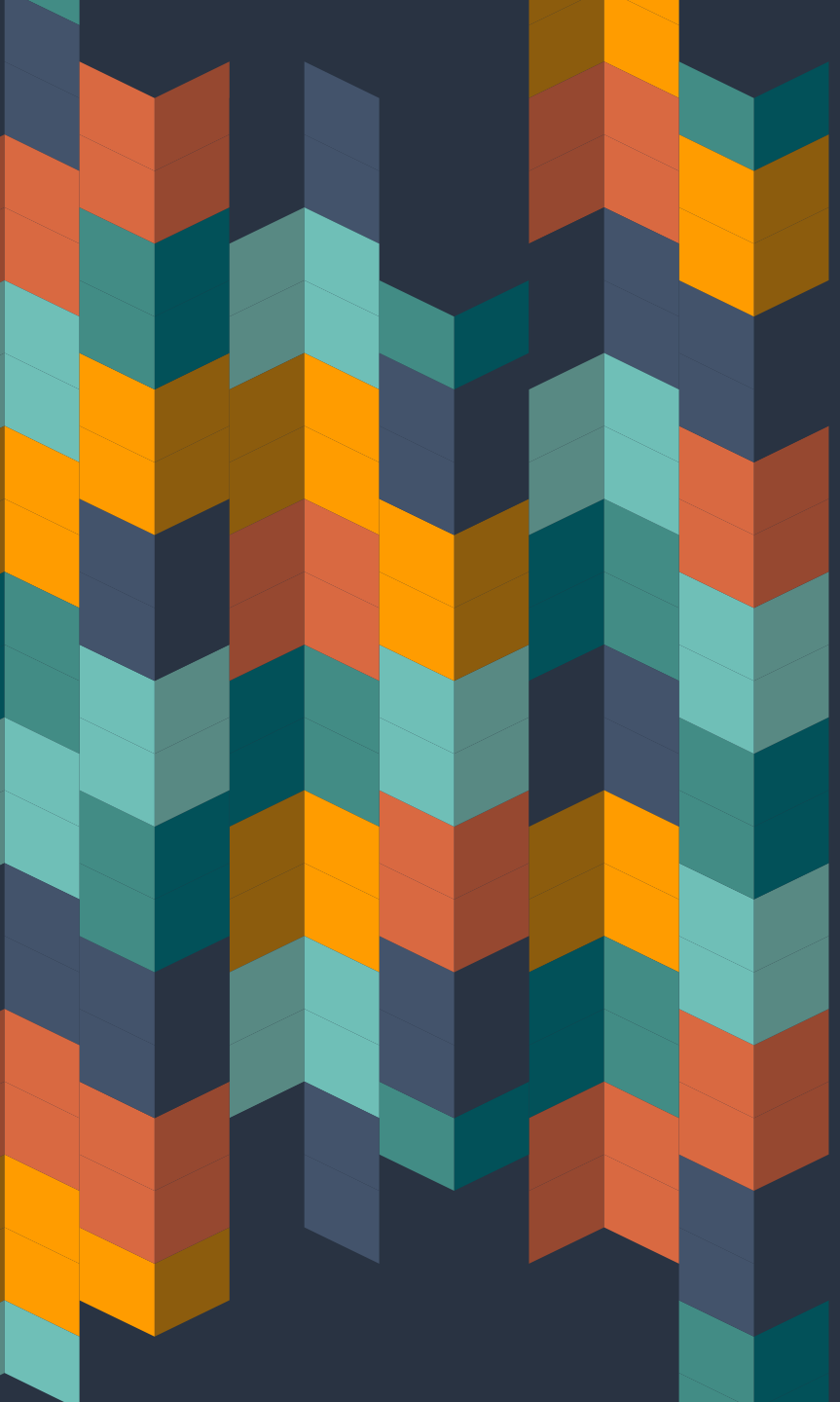
LEARNING OBJECTIVES

After the session, participants will be able to:

- ✓ Describe the importance of financial management (FM) in project implementation and how FM supports the achievement of project development objectives.
- ✓ Summarize the main elements and the adequacy of FM arrangements in Investment Project Financing (IPF) projects.
- ✓ Explain the funds flow and eligibility of expenditures in World Bank projects.
- ✓ List the reporting requirements in IPF operations.
- ✓ Explain the implications of adhering/not adhering to the above.



SESSION OUTLINE

1. Overview of Financial Management (FM) of Investment Project Financing in Operations
2. FM Arrangements and Prudent FM Practices
3. FM Implementation Support by Bank's FM team
4. Funds Flow, Disbursement, and Eligibility of Expenditures
5. Interim Financial Reports and Annual Audits

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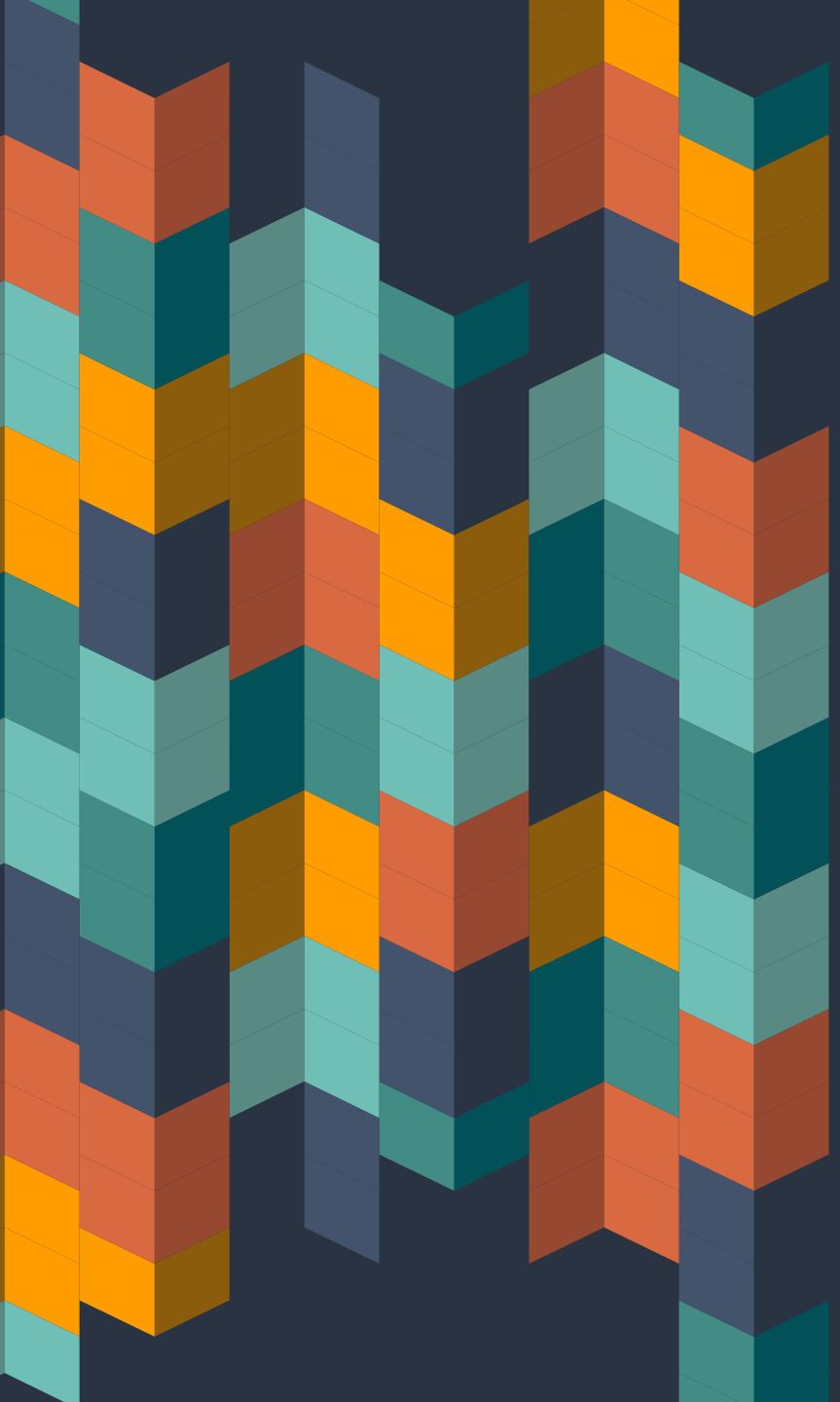

In one word, what does financial management mean to you?

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CONTRIBUTION TO ECONOMIC GROWTH

Budgeting- Proper budgeting and budget monitoring
Accounting and reporting-Accurate, relevant and timely information to enable users make/monitor decisions
Fund flows/Treasury- position resources as/when and where needed
Internal controls and internal Audit – procedures/protocols address efficiency/accountability/effectiveness
Oversight/External audit -Independent assurance of the integrity of government operations

Strong Public Financial Mgt

Public sector managers are held accountable for the use and management of public resources

Good Governance

Means through which economic, political and administrative authority to manage public goods and services is exercised

Economic Growth

Increased capacity of the economy to satisfy the wants of goods and services of the citizens

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IMPORTANCE OF FINANCIAL MANAGEMENT

Financial Management (FM) is an integral part of the development process:

Effective FM drives PDO success

Poor FM results in funding freezes and prevents sustainable development gains

Unacceptable FM arrangements compromise our ability to ensure financial accountability and transparency

Supports and improves good governance, accountability practices and standards

Improves and strengthens government systems

Demonstrates a strong positive correlation with effective project management

WORLD BANK IPF POLICY

The Borrower or Implementing Entity maintains or causes to be maintained financial management arrangements that are acceptable to the Bank and that, as part of the overall arrangements in place for implementing the project, **provide reasonable assurance that the proceeds of the Bank Loan/Credit/Grant are used for the intended purposes**.

PILLARS OF FINANCIAL MANAGEMENT

The key areas or pillars for FM arrangements in Bank financed Operations:

Budgeting

Budget preparation and budget control/monitoring

Accounting

Involves on accounting procedures, staffing, systems, recording of transactions, etc.

Internal Control

Includes internal control procedures, internal audit and Fraud & Anti corruption

Fund Flow

Fund flow and disbursement methods is about positioning resources to the Project and controls around that

Financial Reporting

Reporting about the financial activities or performance of the Project

External Audit

Oversight or Assurance by an independent auditor about the Project

WORLD BANK FM REQUIREMENTS

The Bank assesses the adequacy of FM arrangements to provide reasonable assurance that funds will be used for intended purposes:

Expenditures are budgeted realistically and executed efficiently, adhering to policy guidelines

Accurate records are maintained, and timely financial reports are generated and distributed to support informed decision-making and management

Adequate funds are available to finance the Project

Maintain appropriate controls and safeguards over project funds and assets

Establish independent and competent audit arrangements

FINANCIAL MANAGEMENT ASSESSMENT

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FINANCIAL MANAGEMENT ASSESSMENT

- In lending operations, the main risk that concerns the Financial Management team is the **FM RISK**, which is part of fiduciary risk. The FM risk is that the loan/credit/grant proceeds will not be used for the purposes intended.
- During the project preparation the FMS assesses the benefiting entities and proposed FM arrangements to **identify potential significant weaknesses** and to determine the risk they pose

- FM risks include inherent and control risk- Together or combined, an overall FM risk of the Project.
- Risk range: High (H), Substantial (S), Moderate (M), Low (L).
- Risk mitigation measures are also identified and agreed with
- Appropriate FM arrangements and procedures are documented in a **Project Operations Manual (POM).** POM is a dynamic document that should be periodically updated.

FM ASSESSMENT

Organizational framework for the project and entity

Organizational framework for the project and entity

Nature of the Project and special considerations

Implementation and institutional arrangements

Six pillars

Planning and Budgeting - budget preparation and monitoring

Accounting – accounting policies and procedures; system, FM Staffing

Internal control and internal audit. Fraud and anti corruption issues

Fund flow and disbursement dealing on resources flow to the Project

Financial Reporting dealing on content and timing of financial reports

External audit oversight

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IMPLEMENTATION SUPPORT

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In one word, what comes to your mind when you think of Bank's FM implementation support?

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IMPLEMENTATION SUPPORT: KEY FACTORS

Timing, Scope and Coverage

- Project complexity and FM risk
- Findings and actions from the FM assessment
- Capacity of the implementing entity and country environment
- Work jointly with other Bank team members (i.e., TTL, Procurement, Finance officers, etc.)

Risk-Based Approach

- More resources on higher risk operations
- Extended field visits, where warranted, decentralized activities
- Client meetings, desk review of interim and annual audited financial statements, field visits, transaction reviews

FINANCIAL MANAGEMENT SPECIALIST ROLES

Assesses/monitors the on-going adequacy of FM arrangements

Ensures proposed and agreed mitigation measures are established and functioning

Reviews actual practices against FA, DFIL, PAD,POM

Conducts sample transaction reviews to verify compliance and enhance operational efficiency

Reviews un-audited Interim Financial Reports, audited financial statements, and auditor performance

Strengthens technical expertise through capacity building activities

FM rates FM performance – The range: Highly satisfactory(HS), Satisfactory(S), Moderately satisfactory (MS), Moderately Unsatisfactory (MU), Unsatisfactory (U), Highly Unsatisfactory (HU)

DISBURSEMENTS

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What issues makes an expenditure ineligible?

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EXPENDITURES: ELIGIBLE VS INELIGIBLE

Eligible

- Payments supported by adequate documentation
- Purchased in accordance with the procurement guidelines and plans
- Goods delivered, services rendered, works completed

Ineligible

- Outside the scope of definitions in the financing agreement
- Declared ineligible on account of audit or review
- Not covered by the project and category descriptions in the financing agreement
- Not procured in accordance with the procurement strategy, procurement plan, or agreed procedures
- Payments made before the financing agreement date or effective date of retroactive financing, where applicable
- Expenditures for which the Borrower has been unable to provide sufficient and appropriate evidence
- Payments made or due for expenditures incurred after the closing date

INELIGIBLE EXPENDITURES

If the Bank finds the following....	The Bank may, at its discretion....
Amounts are ineligibly spent	·Require the Borrower to refund the amount to the Bank or, ·Exceptionally, provide substitute documentation, evidencing other eligible expenditure.
Payments are lacking supporting evidence	·Provide additional evidence ·Deposit an equivalent amount into the designated account ·Refund the amount to the Bank and possibly cancel the amount from the loan. ·Exceptionally, provide substitute documentation, evidencing other eligible expenditure.

DISBURSEMENT METHODS

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Name the Bank's disbursement methods available to projects

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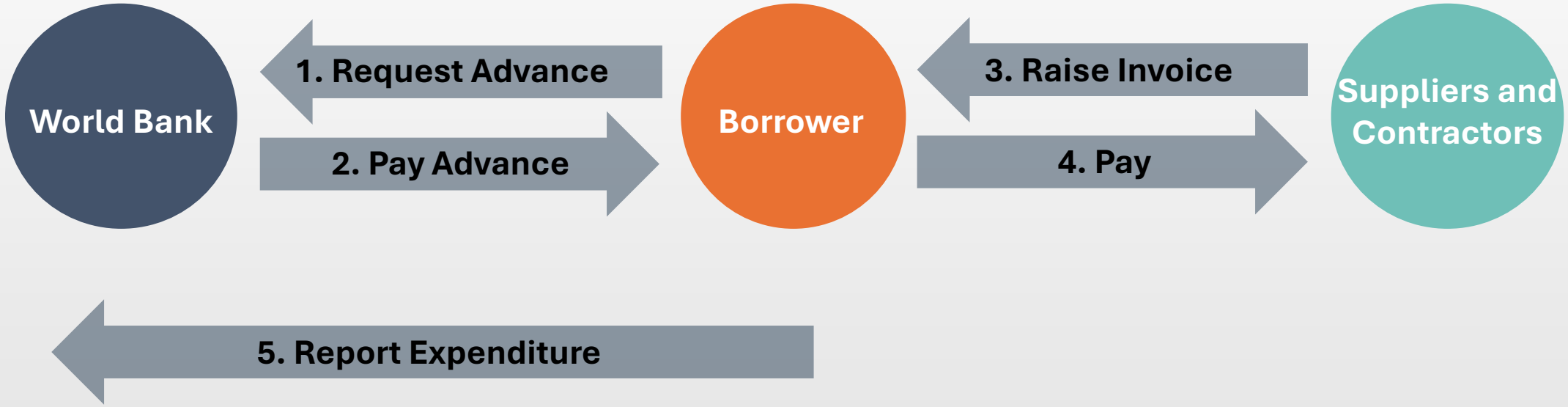
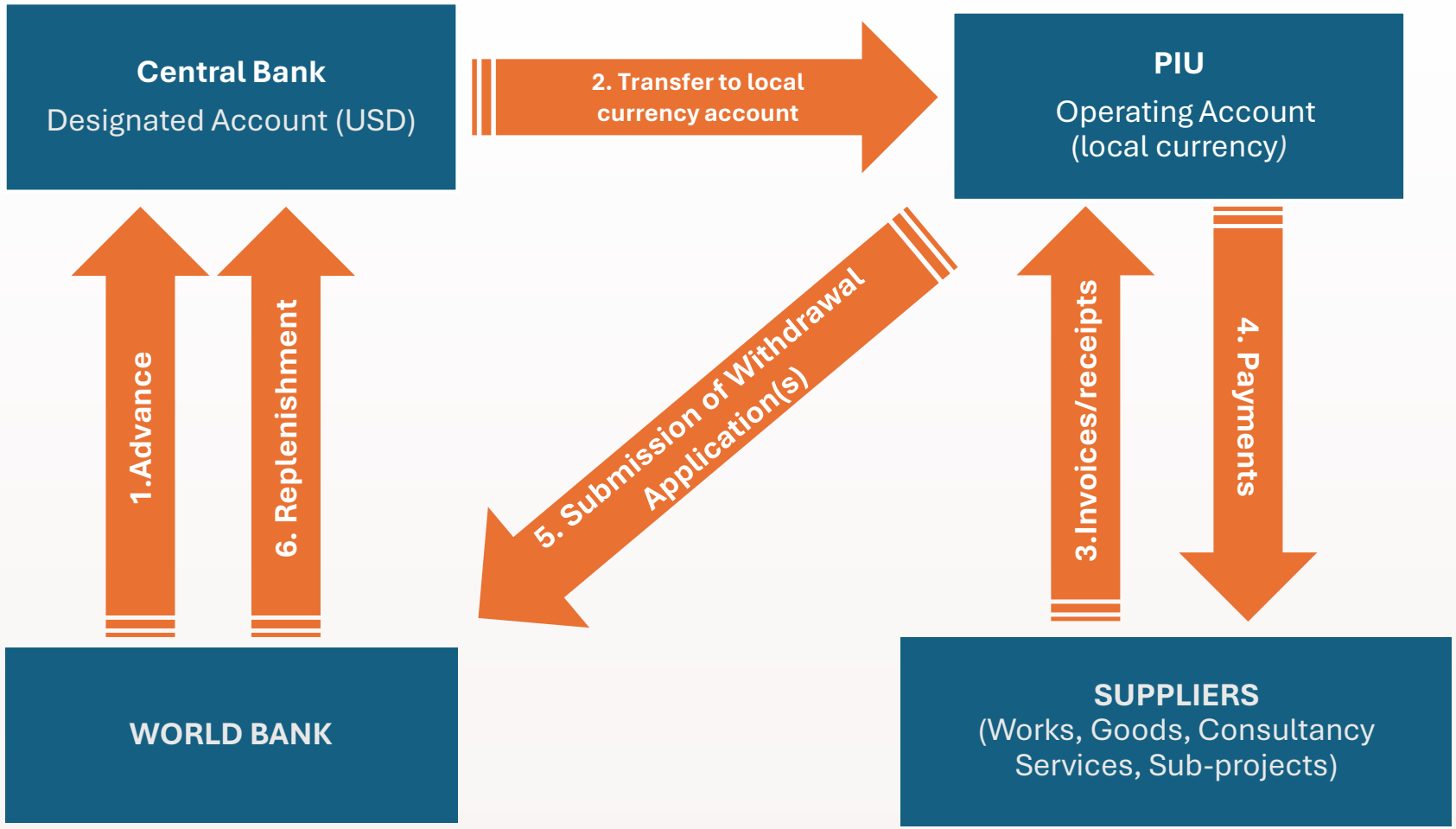
1. ADVANCES TO THE DESIGNATED ACCOUNT

Payments to the borrower for the expected cost of project expenditures.

The borrower subsequently provides documentation showing that such expenditures have been incurred and paid from the advance previously made to the Designated Account (DA)



DOCUMENTATION OF THE DA



OPERATING THE DA

Interest Income

- Is the property of the Borrower
- Should be used according to the Borrower's internal regulations
- Should be withdrawn from the account promptly

Bank Charges

- Reasonable charges incurred from operating the account may be eligible for financing from the loan/credit/grant.
- However, in practice, generally offset by interest earned on the DA and local bank accounts.

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2. REIMBURSEMENT

The Bank reimburses the borrower for expenditures eligible for financing that have been pre-financed from the borrower's own resources.

3. DIRECT PAYMENT

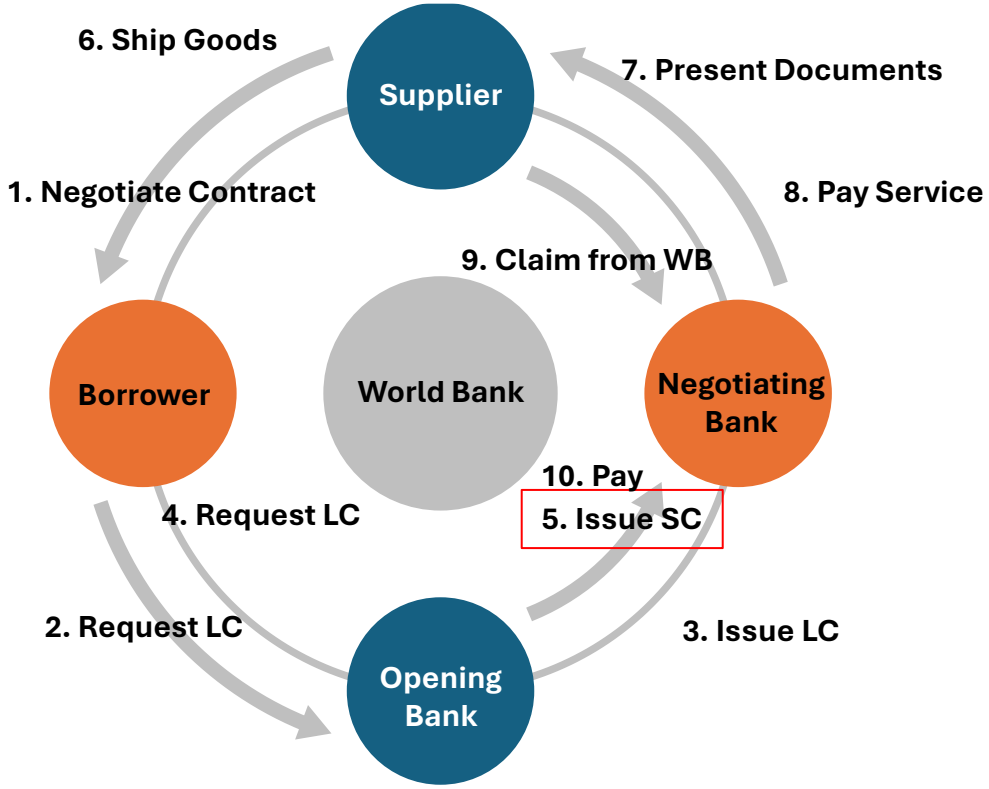
At the request of the Borrower, the Bank will pay directly to third parties, e.g., the suppliers, consultants. Usually above a certain amount of the payment.

SPECIAL COMMITMENT

Payments to a financial institution for the cost of project expenditures covered by a **special commitment.**

It is an **irrevocable commitment** entered by the Bank in writing to pay such amounts notwithstanding any subsequent suspension or cancellation.

The financial institution provides confirmation that such expenditures have been incurred at the time a request for payments is made.



IMPORTANT DATES

- **Approval Date:** When the WBG approves the project.
- **Signing date:** The date the Loan/grant are signed. For grants the signing and effectiveness dates are generally the same unless there are effectiveness conditions (like POM, staffing)
- **Effectiveness:** the date the loan/grants becomes effective after fulfilling effectiveness conditions. For credits, there is a need for Parliamentary ratification & legal opinion forthcoming to WB from MoF.
- **Retroactive Financing:** Limited to 20% (40% for emergency Projects) of loan/credit/grant amount and up to 12 months prior to the loan/grant signature .
- **Implementation Period:** Expenditures incurred/received as of the loan/credit/grant signing until the closing date are eligible for financing (before signing, if retroactive financing clause is defined in the loan/credit/grant agreement).
- **Closing Date:** All expenditures must have been incurred/received by the Closing Date
- **Disbursement Period:** From Effectiveness to the end of the Disbursement deadline date (if granted) the Bank can make disbursements under the Projects
- **Grace Period:** Up to 4 months after the Closing Date and can be used to finalize payments for expenditures incurred/received by Closing Date.

FOREIGN EXCHANGE

Movements are not financeable by the Bank

Prudent management of foreign exchange fluctuation risk

All expenditures should be converted at the rate of transfer

Reconcile closing bank balances

CLOSING PROCEDURES

Program closing aspects - Key procedures and guidance can be found in the "Disbursement Handbook. However, the following are key issue that need attention:

- Ensure that accounting records and books of accounts are up to date;
- Plan for closing of the project books of account and the preparation of the final financial statements;
- Plan and prepare for the audit by external the auditors,;
- Ensure that the availability of accountants to fully close the project accounts, including liaison with the external auditors to complete the final audit;
- Follow up and fulfill outstanding FM covenants – IFR, audited financial statements and outstanding action plans agreed;
- Ensure that the expenditures claimed near the closing date are eligible (services rendered, goods shipped/received) by the closing date;
- All outstanding debts should be paid before the closing date or end of the grace period;
- Plan for the closing of DA, including final documentation of expenditures and refund of any outstanding balances and manage recovery of the special account/designated account;
- Ensure appropriate arrangements are made for payment of retention money under warranties that go beyond the closing date

FM COVENANTS: INTERIM FINANCIAL REPORTS & AUDIT REPORTS

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IFR REQUIREMENTS

Quarterly or Semi-annual

Due no later than 45 days after the period end

Statements

- Sources and Uses of Funds
- Uses of Funds by Components
- Uses of funds by Categories
- Cash Forecast
- Designated Account
- Notes to the IFR –notes on financial performance

AUDIT REQUIREMENT

Annually

Within 6 months after end of the fiscal year

Statements

- Require borrowers to have financial statement audited in accordance with the provisions made in the legal agreement by an **independent auditor acceptable** to the Bank and in accordance with consistently applied **auditing standards acceptable to the bank**.
- Audited FS should be prepared based on **accounting standards acceptable to the Bank** (Responsibility of Management)

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AUDIT REPORT REQUIREMENTS

Audit Opinions on:

Statements

- Sources and uses of funds **(Expense by components)**
- Statements of cumulative investments **(Expenditures by categories)**
- Designated account reconciliation
- Explanatory Notes

Eligibility of Expenditures

Compliance with relevant laws, project financing agreement

Designated Account Statement

AUDIT REPORT REQUIREMENTS
INTERNAL CONTROL/MANAGEMENT LETTER

Accounting records, systems, and controls that were examined throughout the audit

Instances of non-compliance with the terms of the relevant financing agreements

Ineligible expenditures, specifying amounts paid from project accounts and claims submitted to the Bank

Audit issues that pose a substantial risk to project implementation

Any additional relevant audit findings relevant to the borrower/beneficiary

REMEDIES

Type of noncompliance	Actions the Bank may take
Failure to maintain acceptable financial management arrangements, failure to submit interim unaudited financial reports; audited financial statements not received by due date or considered unacceptable (ineligible expenditures, unreliable financial statements, deficiencies in internal controls, unacceptable scope or findings)	• May refuse to extend the closing date of the affected loan • May delay negotiations and/or board presentation of new loans benefiting the noncompliant entity
Acceptable audited financial statements four months overdue	All of the above and the following actions: • May withhold further advances of amounts of the loan • May discontinue disbursements based on summary reports (interim unaudited financial reports and statements of expenditure)
Acceptable audited financial statements nine months overdue or evidence that there are major deficiencies in internal controls or that funds have not been used for eligible purposes	All of the above and this action: • May suspend disbursements on affected loan in accordance with Bank policies

FINANCIAL STATEMENT NOTES

Summary of project and background

Significant accounting policies

Available cash balance

Fixed Assets

Foreign exchange gain or loss

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COMMON ISSUES NOTED IN FM DURING IMPLEMENTATION

- Commingling of funds – DA & Operating Account
- Inaccuracies in foreign exchange calculation and reporting
- Unidentified difference
- Late submission of financial statements and audit reports
- Incomplete IFR and audit reports
- No response to management letter
- Missing audit opinions
- Payment of ineligible contracts
- Payment without adequate supporting documentation that services have been fully rendered or goods received

COMMON ISSUES NOTED IN FM DURING IMPLEMENTATION (CONT.)

Delayed submission of funding requests causes insufficient cash flow

Delayed payment impacting implementation

Limited availability of qualified FM staff, overburdened FM staff due to multiple projects

Project counterpart funds are not included in the fiscal budget

No analysis or reporting on budget execution

Excluding FM from contract management leads to poor performance oversight, non-compliance with payment terms, and overpayments

GROUP DISCUSSION

Please share your experiences with these processes, challenges and how you managed to address them at your tables.

Share your key points with plenary.

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CONCLUSIONS

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GOOD PRACTICE & LESSONS

Engage on the onset and throughout, with the WB's FM Specialist

Understand the WB's FM requirements

Understand the FM & Disbursement responsibilities

Mitigate risks by addressing FM issues and ineligible expenditures

Ensure covenants are complied with

Lessons: Proactivity, Leadership, Staffing, Commitment, and Follow up

CONCLUSION

Funds are **used only for their intended purposes** in an efficient and economical way

Funds are **properly managed** and flow smoothly, adequately, regularly and predictably in order to meet the objectives of the project

Preparation of accurate and timely financial reports to enable project management to monitor implementation

An **independent, qualified auditor should be** appointed to audit the Project's financial statements and internal controls

FM issues should be proactively addressed

This Requires Team work !!

PROJECT SPECIFICS

Financing Agreement (Loan/credit/grant)

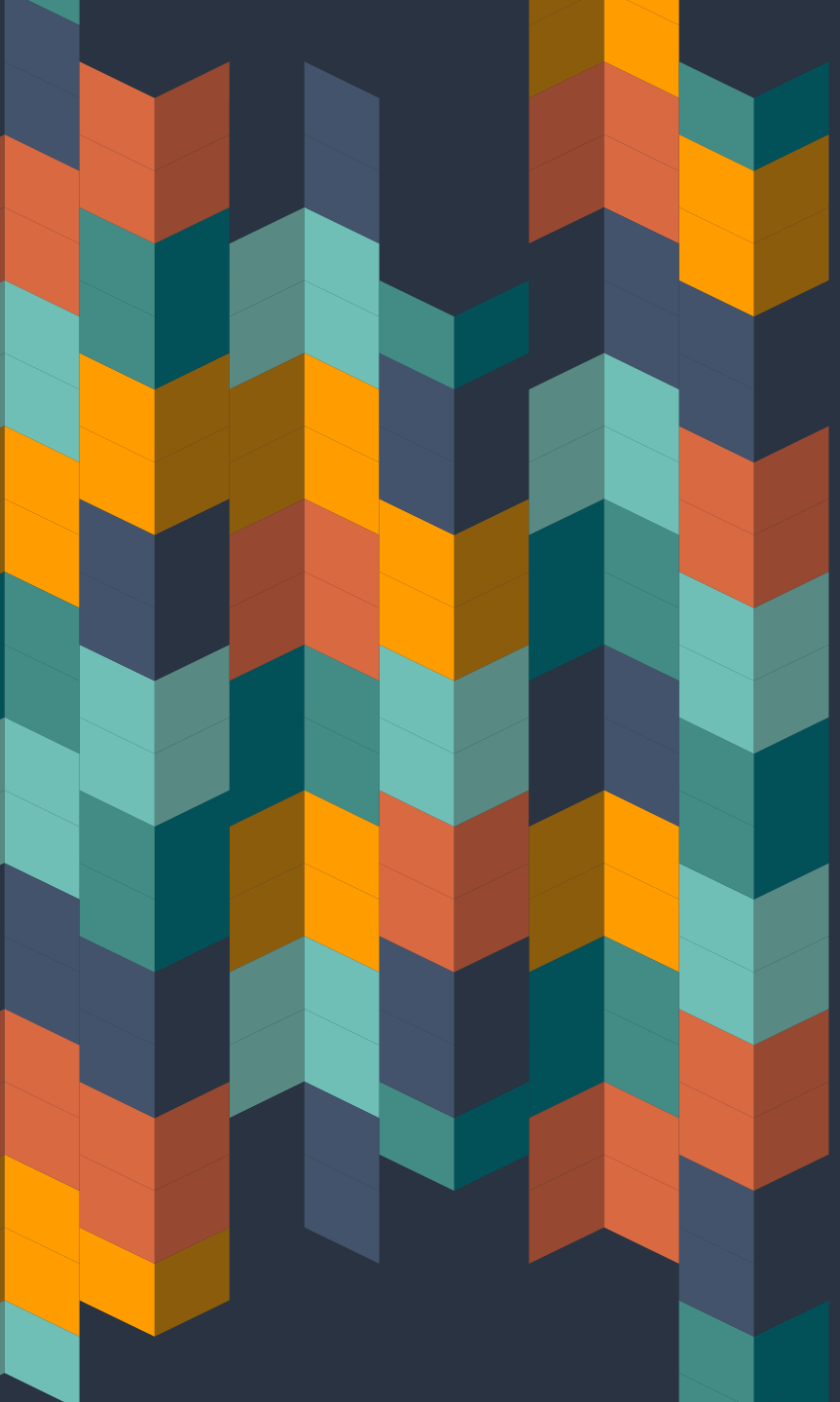
Project Appraisal Document (PAD) or Project Paper

Disbursement and Financial Information Letter (DFIL)

Project Operation Manual (POM)

World Bank Disbursement Guidelines/Handbook

Client Connection



THANK YOU!

Questions?

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