



Financial Management in the ECA region Issues and Challenges

Pascale Kervyn
World Bank
October 2007

Financial Management in the ECA Region

- **Strengthening the three pillars of FM**
 - Fiduciary assurance
 - Public financial management
 - Corporate sector financial reporting
- **Cross-cutting themes**
 - Governance and Anti-Corruption
 - Donor harmonization and cooperation
 - European Union alignment
- **Challenges**
 - **Use of country systems: From the project to the country/region level**
 - **Implementing GAC**
 - From micro-fiduciary assurance to capacity building

Use of Country System

(UCS)

- ★ Governance Agenda - strengthen, rather than bypass, country systems — better national institutions are the long run solution to governance and corruption challenges and to mitigating fiduciary risk
- ★ Recent draft report on UCS – much greater emphasis on the UCS where appropriate
- ★ FM Manual – the default is country system
- ★ No constraints on UCS in FM
- ★ In ECA, many projects and countries are moving to have greater reliance on UCS
- ★ What is our greatest challenge: Impact and compliance

Country systems examples

Albania: Generic

Kazakhstan: Road Transport
Reconstructing, AIDS project

Albania:

Factors that influenced positively on the use of country systems

- Willingness of the new Government;
- Knowledge gained through diagnosis
- Committed management and staff, especially on the Sector-wide operations
- Problems in auditing closed projects;

Capacity assessment

SWAp and other new projects

1. institutional analysis (institutional arrangements and administrative procedures, accounting and financial reporting, internal and external audit),
2. System analysis (identification of needs and planning, tendering, contract management, authorization of payments, execution of payments),
and extended the assessment to institutions at the central, regional and local levels.

Impact during the life of the project

Stronger Country ownership

- Faster project implementation;
- Enhanced capacities of the borrower;
- Better translation of the outcome of the project as per the borrower' needs

Outcome at the sector level

- Bank projects part of achieving the sector goals
- Management ability at the sector level increased

Issues and concerns

- Sometimes government officials are reluctant to take responsibility;
- Government officials had difficulties understanding the new approaches;
- difficulties in coordination of a broader range of people involved in the planning and budgeting of sector-wide operations;
- Delays in PFM reforms (e.g. treasury)

Kazakhstan: RTRP – Key issues

- High staff turnover
- Low staff capacity
- Not appropriate segregation of duties
- Manual Record keeping
- No internal control tools
- Weak Borrower-Bank cooperation/relationship.

RTP- AIDS –Lessons learned and recommendations

- Low staff capacity is a warning signal
- Low wages are critical
- Bank and other reconciliations are basic control tools
- Periodical Replenishment applications and financial reports are reliable monitoring tools
- Manual record keeping supports manipulations
- Bank-Borrower relationship is vital



Implementing GAC

Armenia: payment to third parties

Key Issues Identified

- ✓ Lack of adequate suppliers' invoices
- ✓ Payment to off-shore zones to third parties accounts
- ✓ Contracts with local, but fully implemented by foreign suppliers
- ✓ Contracts with local expenditures made to foreign supplier in foreign currency – claimed 100% foreigners
- ✓ Unauthorized change in the contractual arrangements

Actions taken

- ✓ FM standard supervision conducted
- ✓ Joint FM/procurement full review
- ✓ Timely Reporting of findings
- ✓ Involvement of independent Procurement and FM to revisit the findings
- ✓ New report resubmitted to the recipient
- ✓ Strong management support

Lessons Learnt

1. On a sample basis review the whole cycle: from bids to payments
2. Try to conduct reviews jointly with procurement
3. Always involve procurement if deviations are identified
4. Consult with QA FMS to get the backing and proceed with actions
5. Plan more time for supervisions