

Financial Management in World Bank Africa Region Operations

Talking Points

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October 23, 2007

Overview

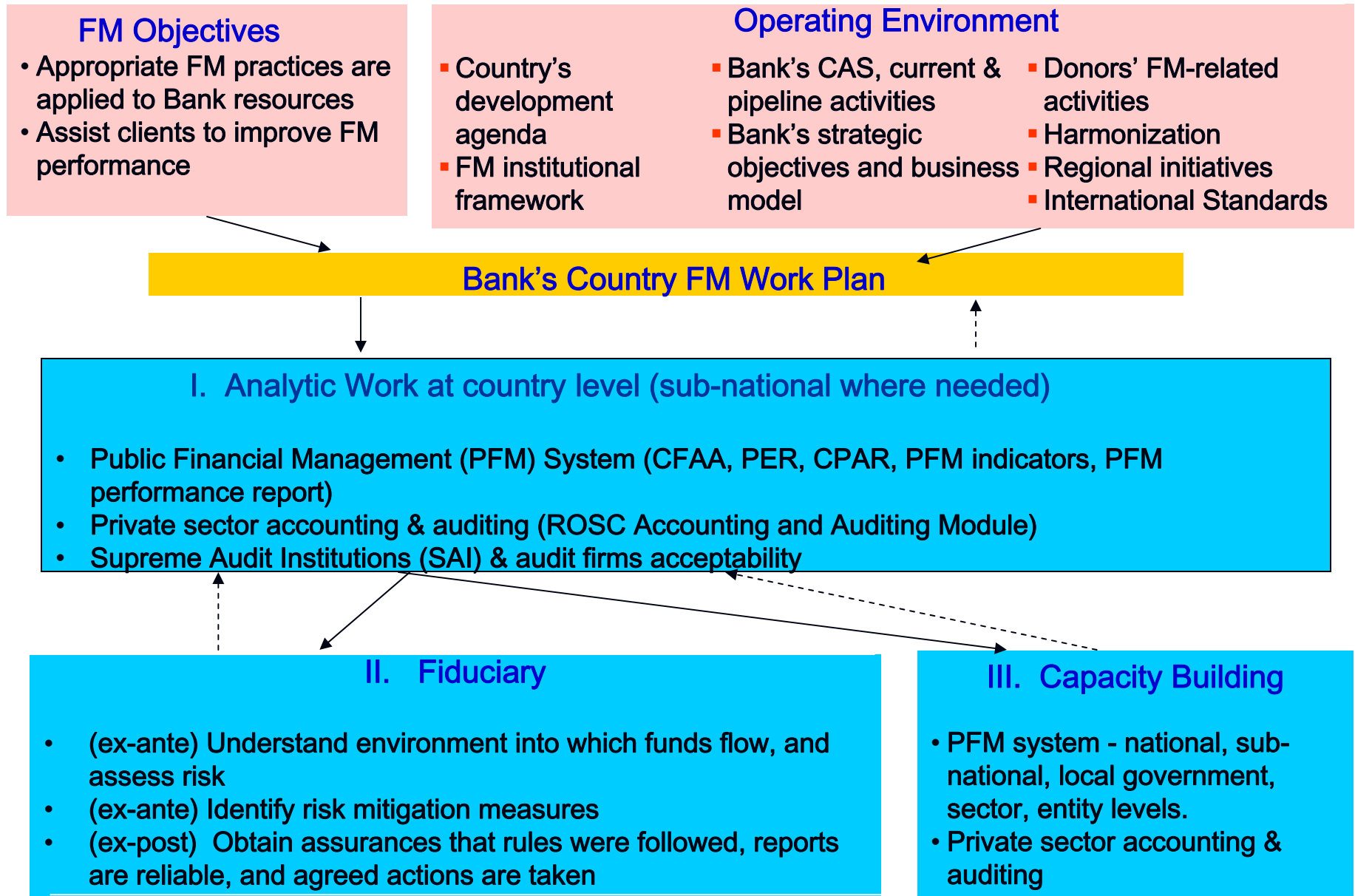
- Brief overview of the World Bank's financial management (FM) work
- The Africa public financial management (PFM) environment
- FM Work in Africa – Emerging Directions
- Human Resources Capacity

Overview of the World Bank's Financial Management (FM) work

Objectives of the Bank's FM Work (1)

- Help countries improve their FM performance and capacity (“development” objective)
- To provide acceptable assurance on the use of Bank loans/grants (“fiduciary” objective)
 - Requirement of the Articles of Agreement: *“make arrangements to ensure that the proceeds of any financing are used only for the purposes for which the financing was granted, with due attention to considerations of economy and efficiency, and without regard to political or other non-economic influences”*.
- “Development” and “fiduciary” objectives are closely related
 - The best fiduciary assurance on the use of Bank funds is from well-performing country institutions and systems.

FINANCIAL MANAGEMENT OPERATING MODEL



Analytic Work at Country-level (1)

- To obtain knowledge of country public financial management (PFM, includes procurement) systems
 - Country Financial Accountability Assessments (CFAA): covers the country's public sector financial management systems
 - Country Procurement Assessment Report (CPAR): covers the country's public sector procurement systems
 - Public Expenditure Reviews (PERs): covers fiscal space and sustainability issues; size and composition of public expenditures; equity, efficiency and effectiveness of public expenditure management and revenue administration
 - PFM Performance indicators and PFM Performance Report: 28 performance indicators covering the entire PFM cycle developed under the international PEFA partnership initiative
 - Reports integrating these (e.g., Public Expenditure Management and Financial Accountability Review– PEMFAR)

Analytic Work at Country-level (2)

- To obtain knowledge of corporate financial reporting standards and practices
 - Report on Observance of Standards and Codes (ROSC) – Accounting and Auditing : covers corporate accounting and auditing standards and practices, and state of the accounting and auditing profession

Project-level FM Work (1)

Ex-ante (before project approval)

- **Conduct financial management assessments**
 - For each project, institutional environment into which the Bank funds will be transferred is reviewed.
 - Done at the project or sector level, depending on the nature of the specific lending operation.
 - Takes into account information and knowledge on the country's public financial management system
 - Covers (i) budgeting; (ii) funds flow; (iii) internal controls; (iv) procurement; (v) accounting; (vi) financial reporting; and (vii) auditing.

- **Identify actions to address identified risks and weaknesses**
 - Capacity building measures
 - Enhanced domestic oversight, external oversight, and/or enhanced Bank supervision, ring-fencing some or all aspects.

Project-level FM work (2)

Ex-post

- Obtain assurances that rules were followed, reports are reliable, and agreed actions are taken
 - Interim Financial reports (unaudited)
 - Annual Financial Statements audited by acceptable auditors
 - Bank supervision including site visits
 - Selective transaction checks by the Bank
 - Where needed, special reviews of internal control systems and physical audits

Financial Management in Development Policy

Lending (Budget Support)

- End-use of budget support funds cannot be tracked since they are comingled with the country's general budget resources.
- Underpinned by analytic work on the country's public financial management (PFM) system .
 - If necessary, this is supplemented with sectoral PFM analytic work
- Government's commitment to addressing PFM weaknesses is crucial
 - Credible reform program and evidence of improvements over time
 - PFM reforms could be supported by policy reforms supported by the budget support operation, technical assistance and investment projects.

Assisting Countries to Build Capacity

■ Bank instruments

- Investment projects focusing on PFM and corporate financial reporting improvements
- Policy dialogue and conditionality in Development Policy lending
- Technical assistance (TA) Loans
- Institutional Development Fund (IDF) Grants
- Technical assistance and advice by the Bank
- Analytic work (e.g., Integrated PFM reports, CFAAs, PERs, CPARs, PFM indicators)
- Use of country institutions and systems in investment projects

■ Working with development partners

- Donor grants
- Donor-funded technical assistance expertise

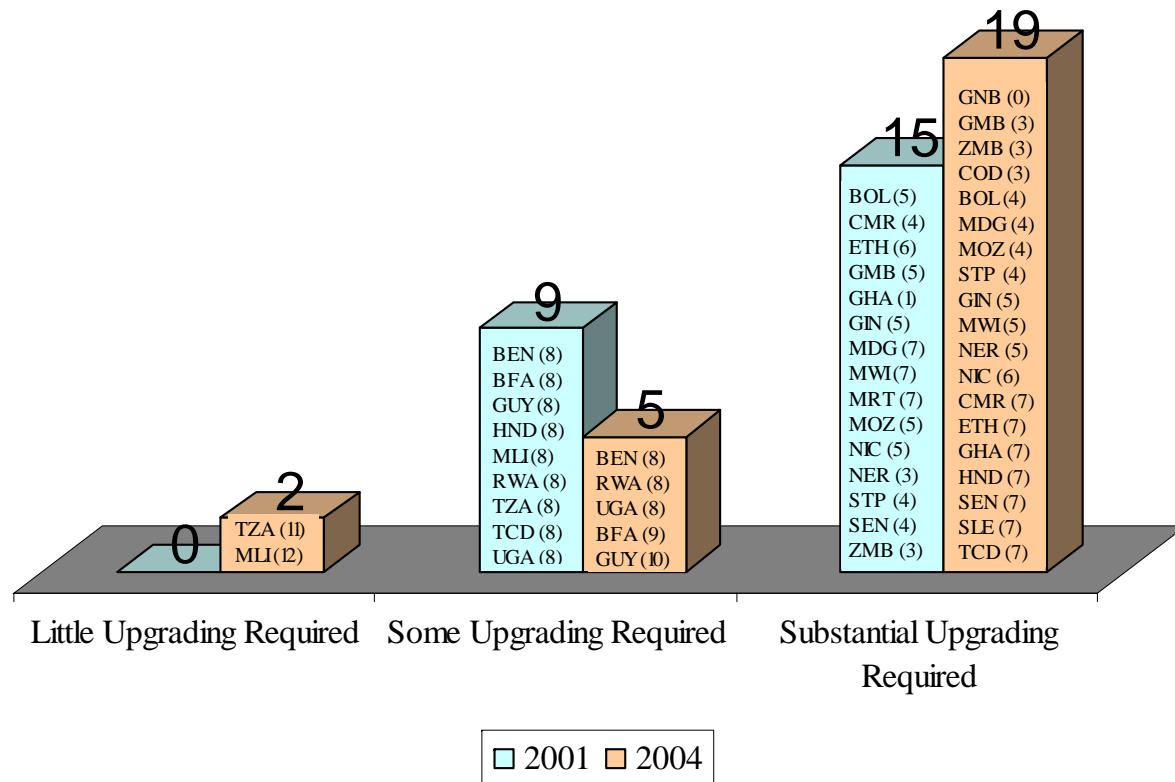
■ Partnerships with expert institutions (IFAC, audit institutions in other countries, etc)

- Twinning arrangements
- Study tours, exposure visits

The Africa PFM Environment

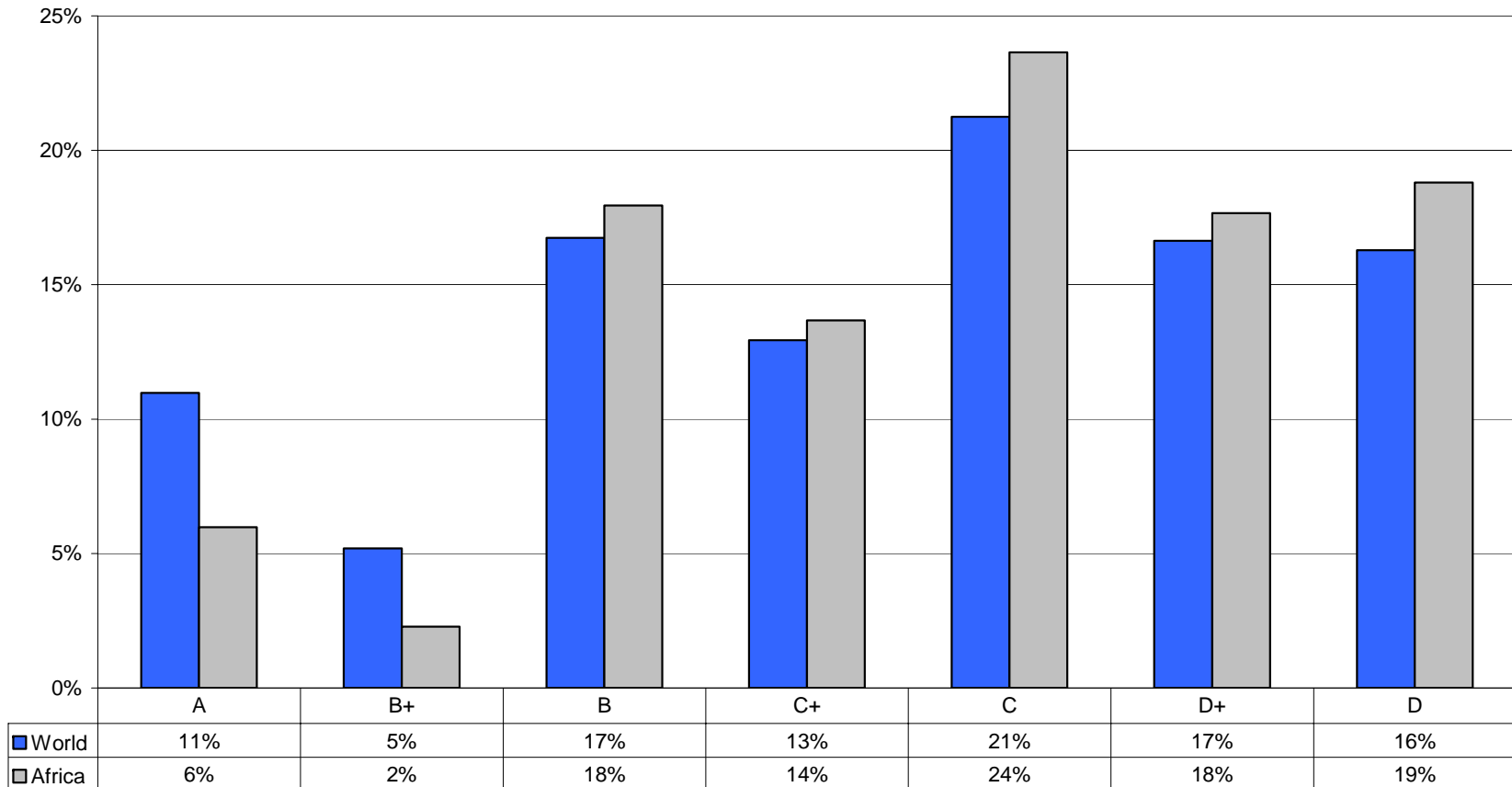
Comparison of HIPC Public Financial Management (PFM) Assessments of 2001 & 2004

Relative Need for Upgrading PEM Systems
 (Number in Paranthesis indicate total of benchmarks met)



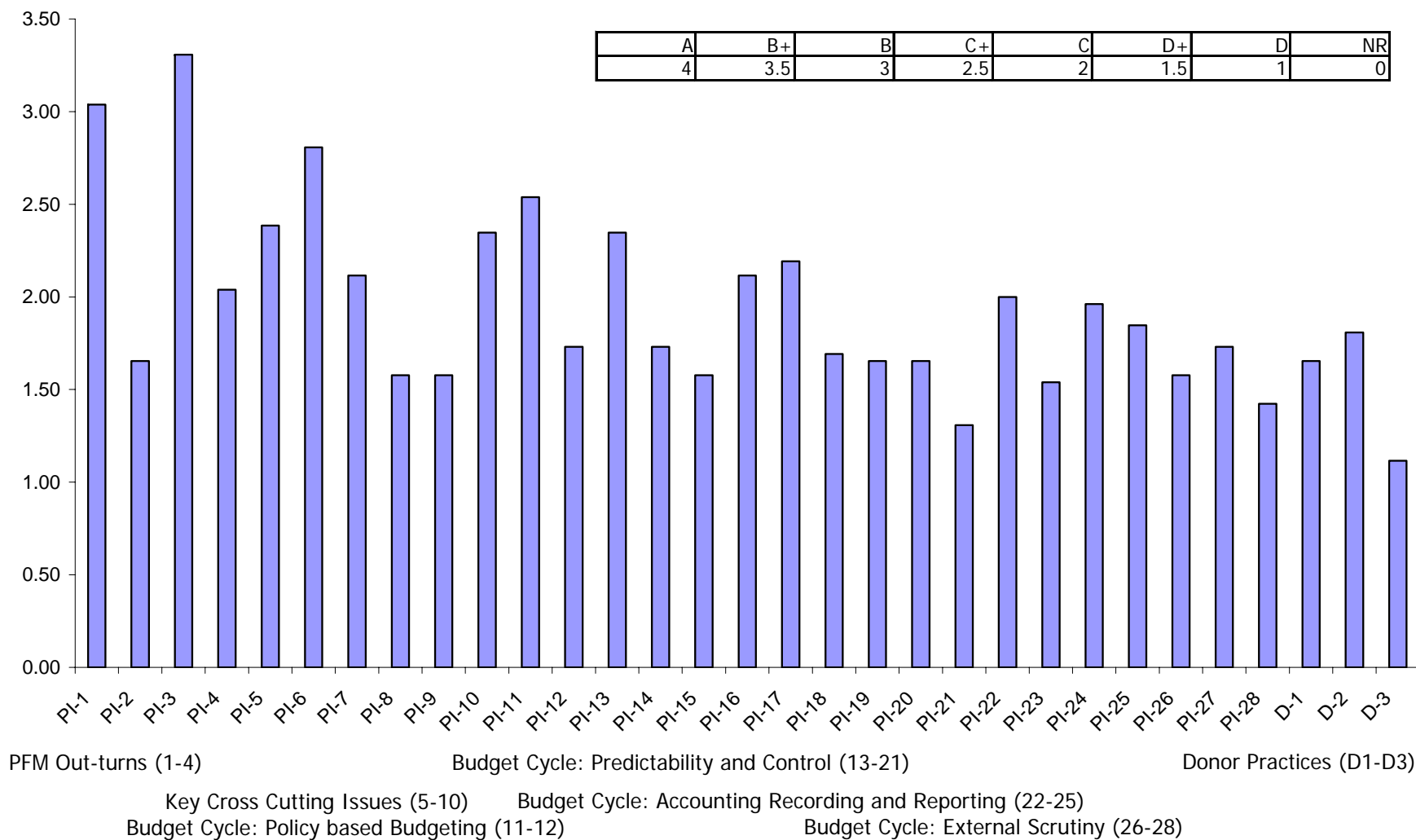
Africa PFM: PEFA Ratings

PEFA Ratings 2006
32 Countries



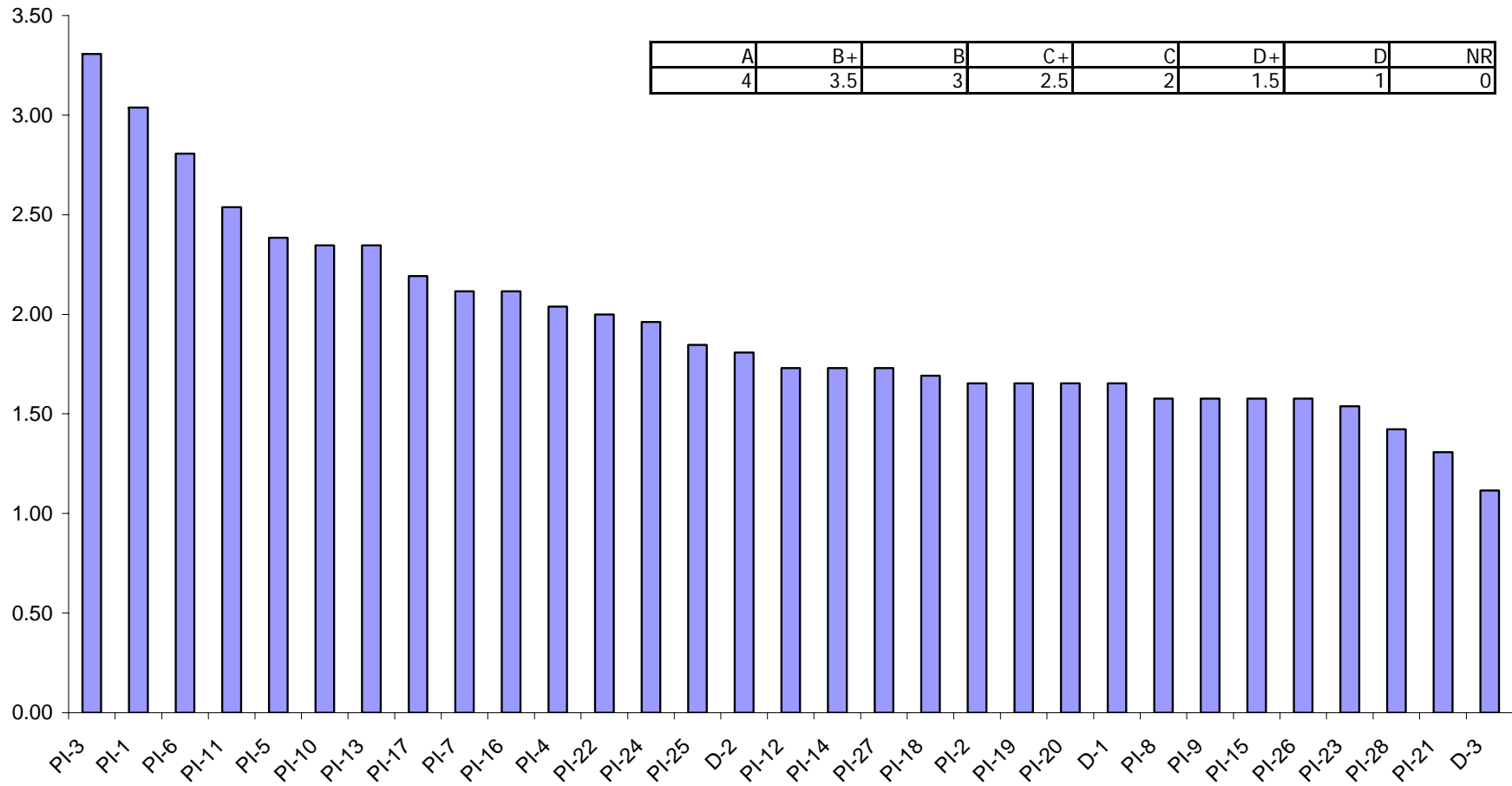
Africa PFM: PEFA Ratings

**PEFA Assessment Results 2006
13 Countries in Africa**



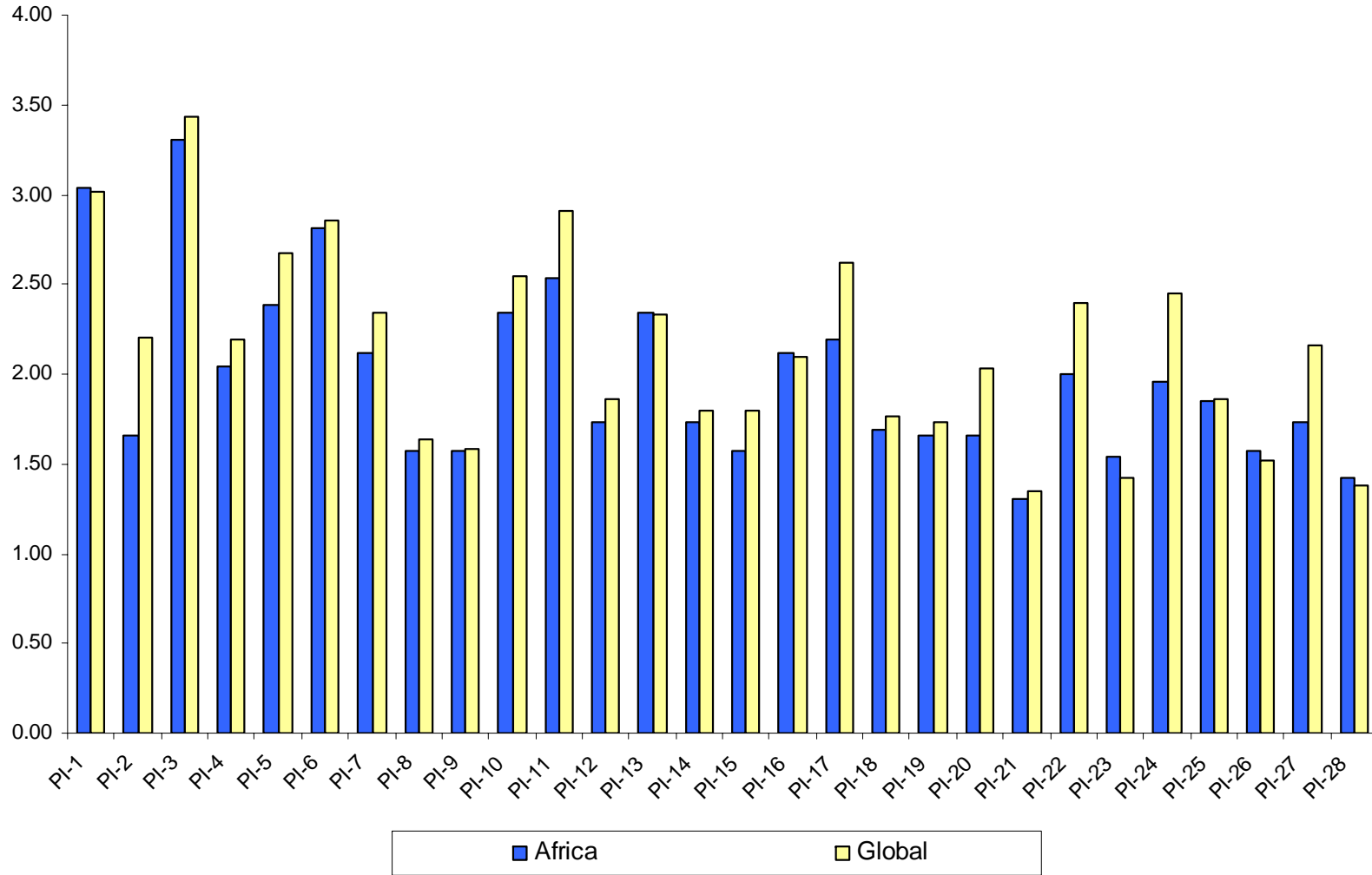
Africa PFM: PEFA Ratings

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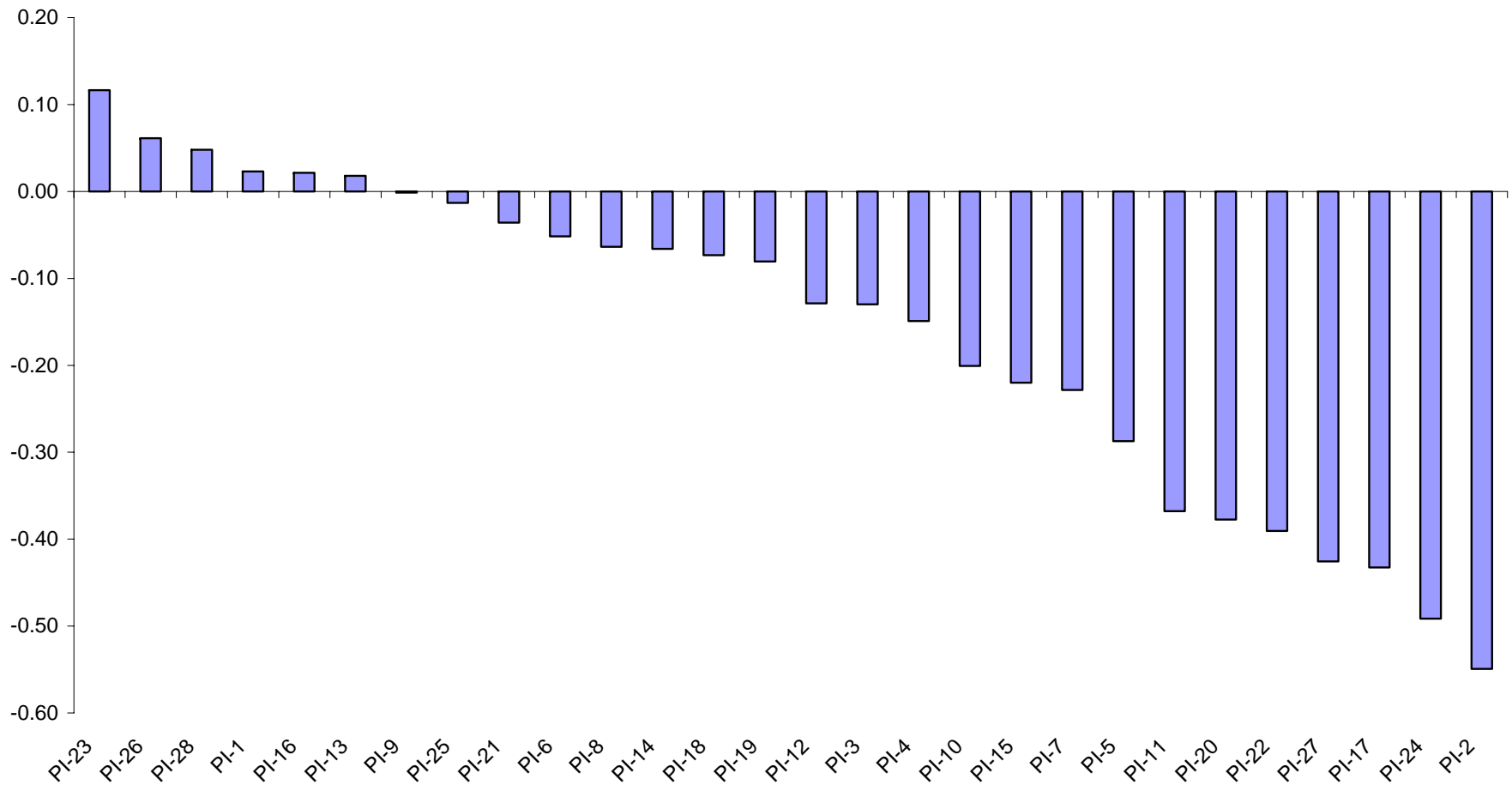
Africa PFM: PEFA Ratings

**PEFA Scores 2006:
Africa vs. Global**



Africa PFM: PEFA Ratings

**PEFA Scores 2006:
Africa vs. World**



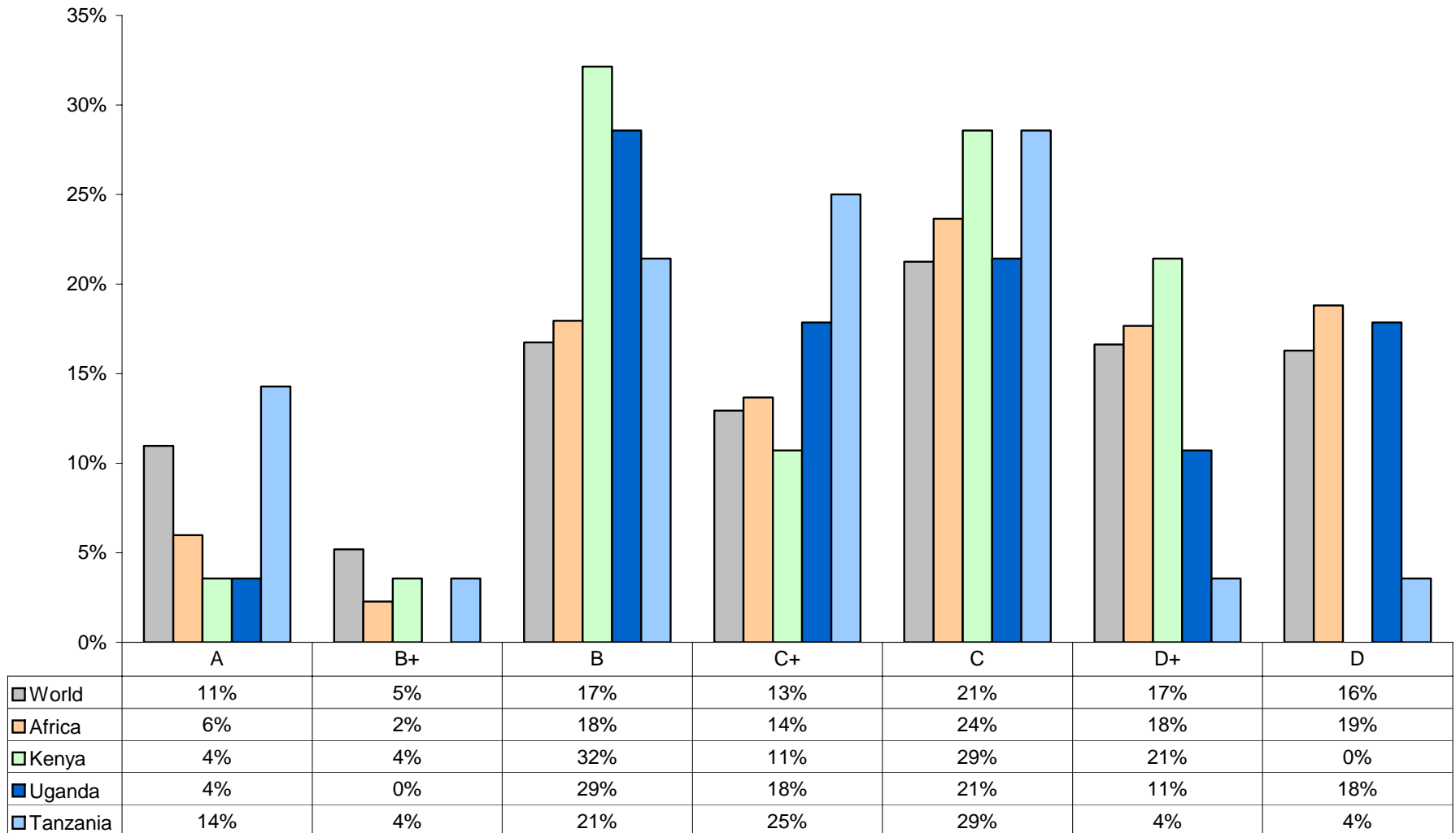
Africa PFM: PEFA Ratings

- Top 10 indicators with largest gap - Africa vs. World.

No.	PEFA Indicator
1	2. Composition of expenditure outturn compared to original approved budget.
2	24. Quality and timeliness of in-year budget reports.
3	17. Procedures in operation for the management and recording of debt and guarantees.
4	27. Legislative scrutiny of the annual budget law.
5	22. Timeliness and regularity of accounts reconciliation.
6	20. Effectiveness of internal controls for non-salary expenditure.
7	11. Orderliness and participation in the annual budget formulation process.
8	5. Classification of the budget.
9	7. Extent of unreported government operations.
10	15. Effectiveness in collection of tax payments.

PFM Diagnostics: PEFA Indicators

PEFA Scores 2006

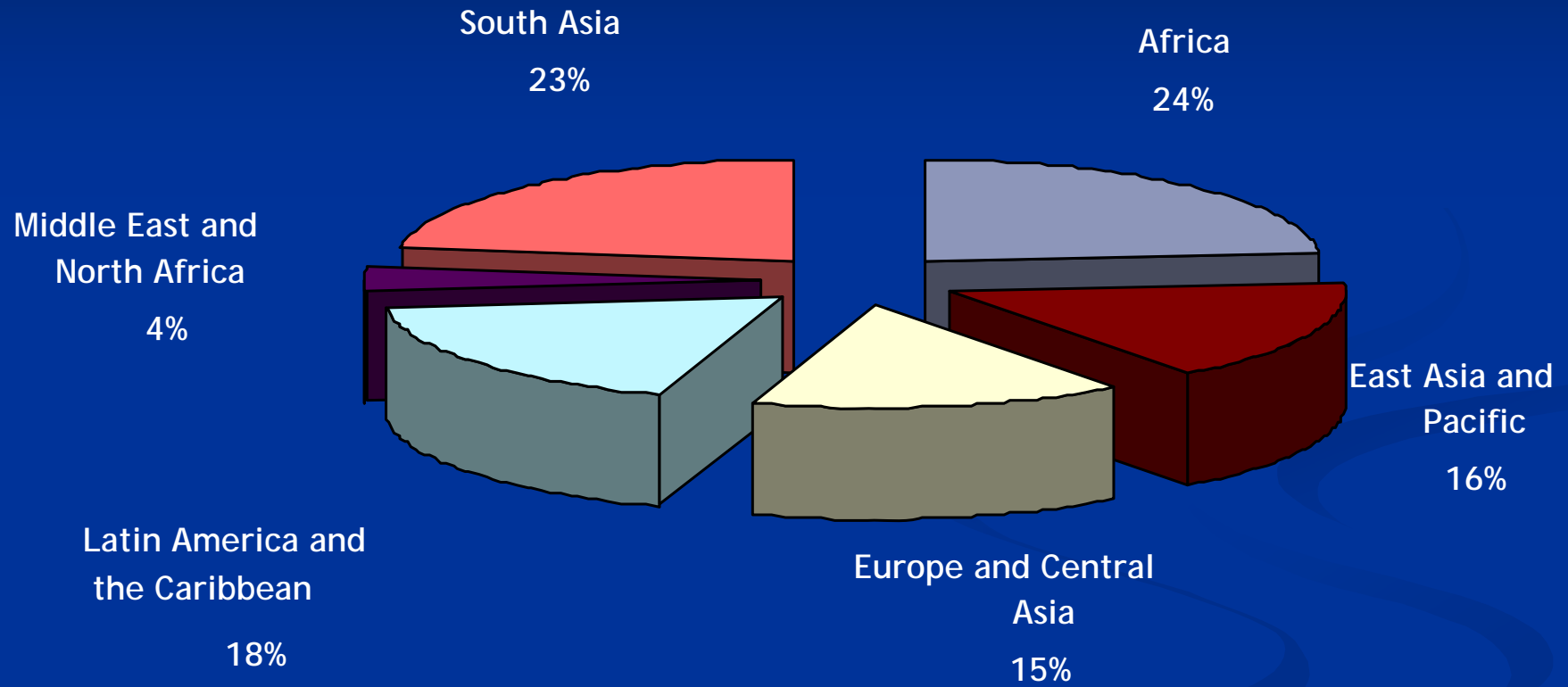


Note: Global scores are for 32 countries for which PEFA Assessments were completed by October 2006.



IBRD/IDA Lending By Region

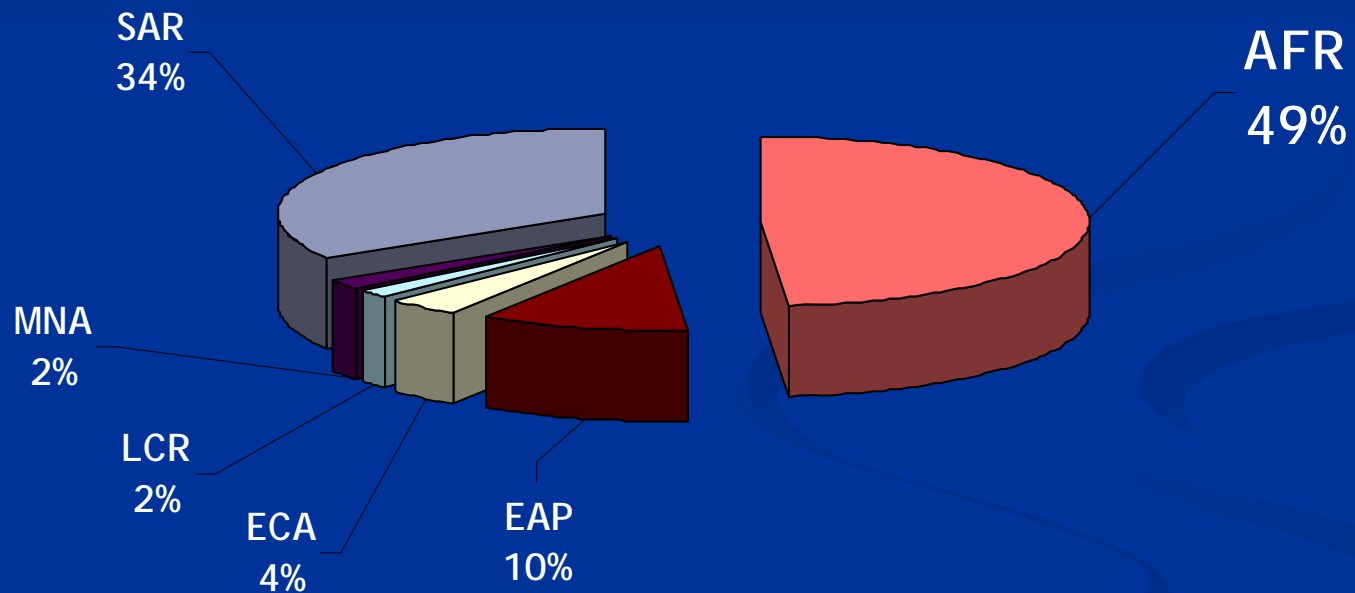
Fiscal 2007



Total Lending: \$24.7 billion



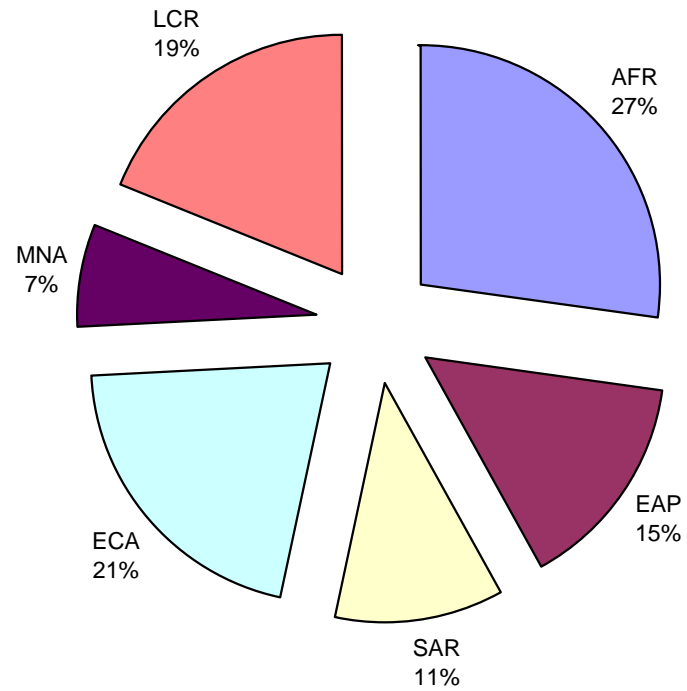
Nearly Half of IDA Lending went to Africa in Fiscal 2007



Total Fiscal 2007 IDA Lending: \$11.9 billion

Africa Portfolio

**World Bank Portfolio
FY 2007, 1462 Projects**



FM Work in Africa: Emerging Directions

Key principles guiding FM work

- Strong focus on improving the performance of country FM institutions
 - *“The best assurance that Bank funds are used appropriately comes from country institutions that perform well”*

- Shift in focus in recent years
 - from compliance ... to capacity
 - from transactions ... to systems
 - from projects ... to country institutions
 - a more substantive focus on risk – *“risk-based approach”*

- Use of country systems where appropriate, rather than “ring-fenced project systems”

- Coordination and harmonization with development partners
 - Avoid overlapping and duplicative analytic work
 - Provide coordinated consistent advice
 - Common procedures and reporting requirements

Fiduciary FM work in Africa: Current areas of emphasis

- Get the basics right i.e., a strong focus on ensuring “core elements” are well established and functioning
 - country and project FM assessments
 - all basic elements of the FM system are in place

- Enhanced measures in the light of governance/PFM weaknesses and the sharper GAC focus (e.g., Kenya)
 - Increased transparency of financial information
 - Social accountability mechanisms
 - Stronger internal controls and internal audit
 - Stronger institutional oversight e.g., Audit Committees and Finance committees
 - Anti-corruption measures e.g., hotlines, compliant handling mechanisms
 - Detailed work on understanding specific areas of risks in the context of the particular project and institution
 - All the above measures done at the institutional (not project) level.

- Strong focus on capacity building

- Harmonization with development partners
 - around country systems

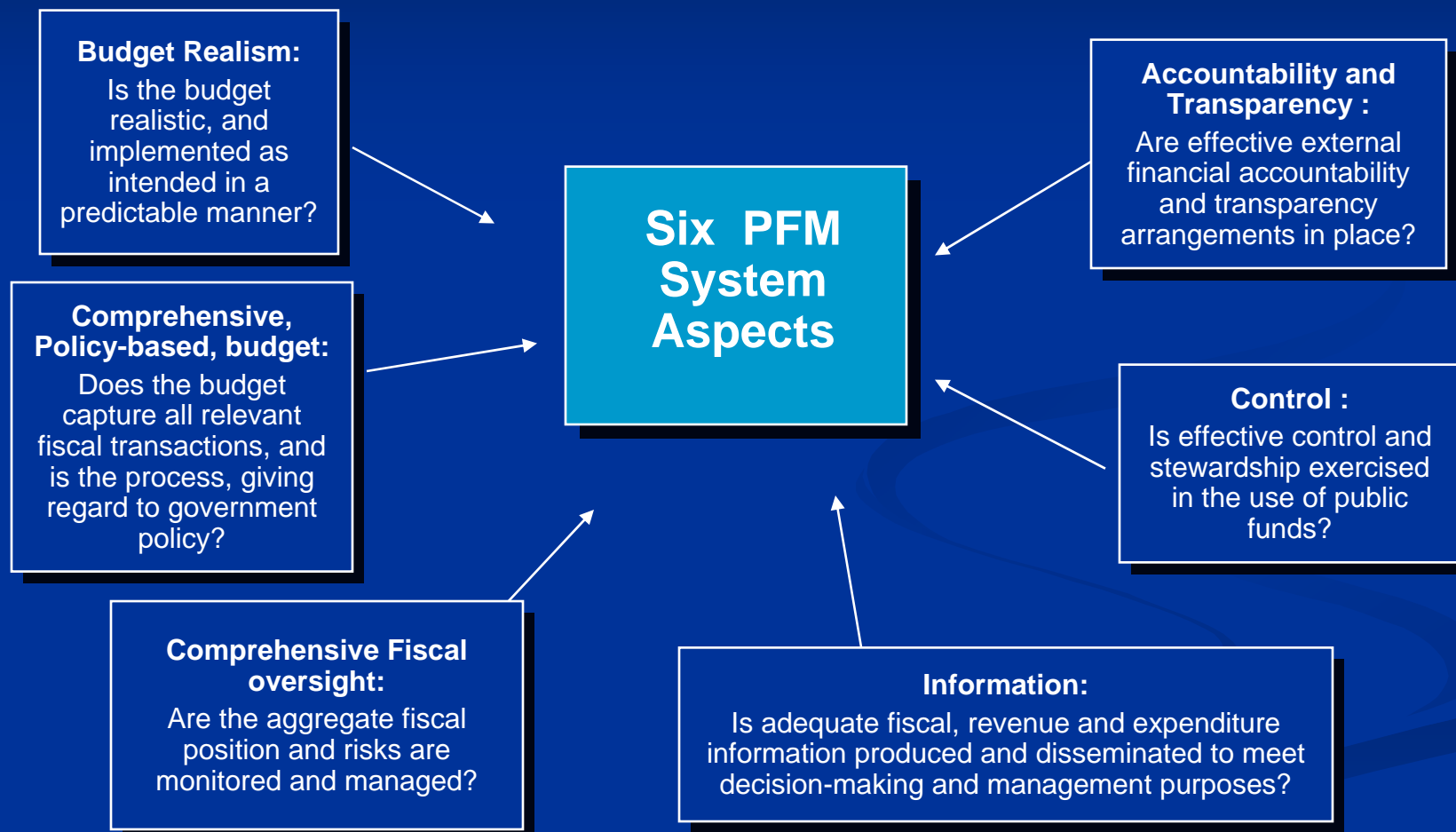
“Ringfenced” or “Regular” Systems?

- The use of country FM systems is the default position and will be encouraged, where these are assessed to be adequate.
- Not an "all or nothing" approach
 - All or selected elements of the implementing entity's regular FM systems could be used in a given project
- Design special arrangements in a manner that would strengthen – and not undermine – country FM systems
 - where the regular FM institutions or systems have weaknesses, these would not be bypassed but rather supplemented with needed assistance
- Strong emphasis in project design on capacity building and measures to improve country's FM performance.
- Project Implementation Units (PIUs) should not be justified based (either wholly or partly) on weak FM capacity.
- Some limited exceptions to the application of this framework
 - e.g., post-conflict situations

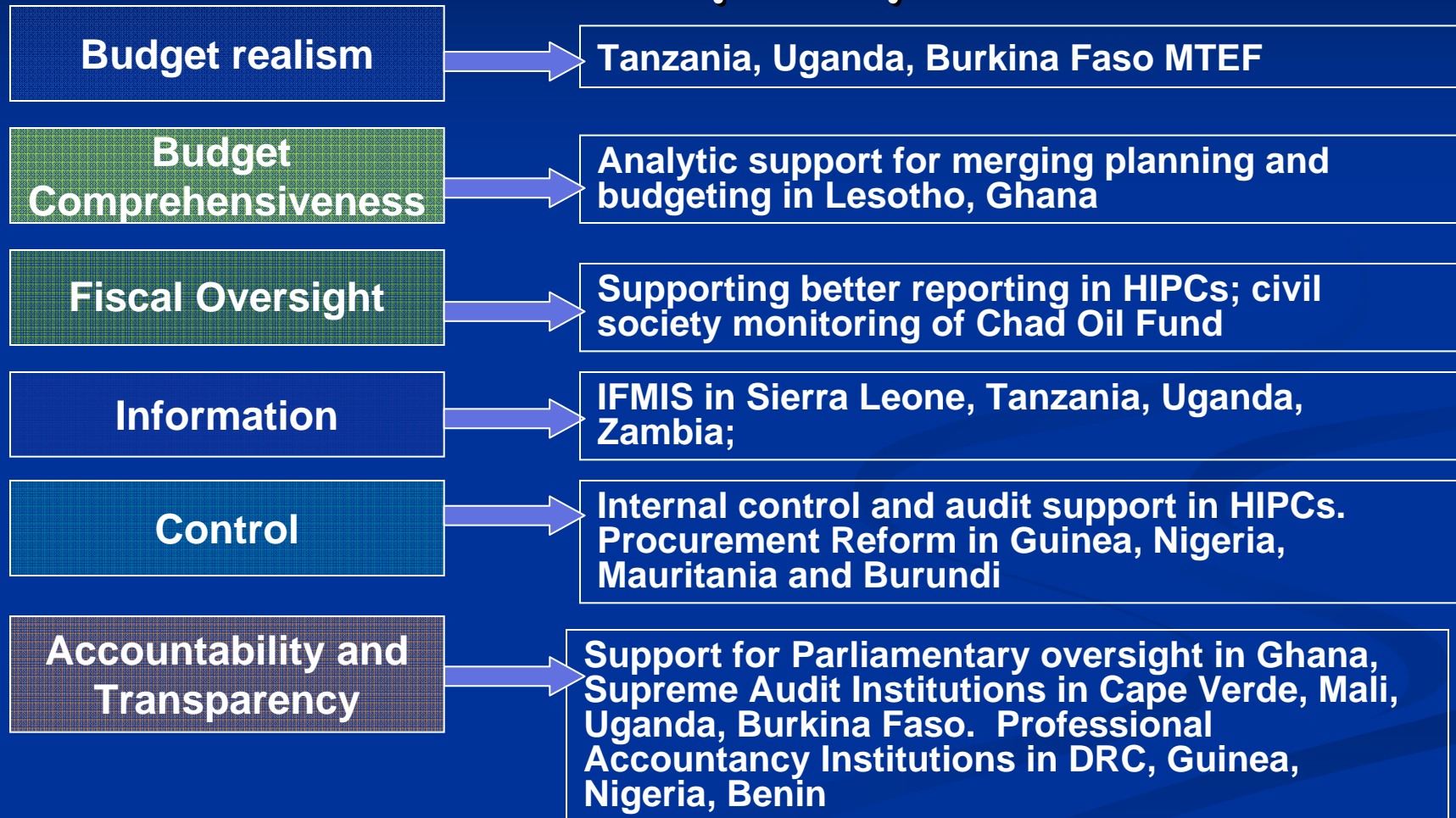
Public Financial Management (PFM): An Agreed Strengthened Approach

- A country-led and owned PFM reform agenda
- A well coordinated program of support by donors – coordinated, coherent, multi-year program of PFM work that supports and is aligned with the government's PFM strategy
- A shared information pool – a common framework and information set for measuring and monitoring results over time
 - PFM performance indicators expected to be available for about 70 countries by end-2007

PEFA's Performance Measurement Framework



Some examples of Bank support to build public financial management capacity



Human Resource Capacity

FM Human Resources Capacity in Africa

- Lack of trained and skilled personnel is a major issue
- Many countries in Africa have fewer than 100 professionally qualified accountants and they are normally deployed in the private sector
 - Angola and Mauritania 1 each, Mozambique 2, Mali 5, Eritrea 7, Sierra Leone 91, Ethiopia (second largest country) less than 300
- More than half of the countries in Africa have no access to a national or sub-regional system for training and accrediting accountants and auditors
 - Nationals of most countries must obtain foreign currency, which few can afford, to pay for foreign tuition and examinations

FM Human Resources Capacity in Africa

- In the short to medium term, need a critical mass of trained FM personnel
 - Most acute need is at the technician level
 - Also need for trained professionals at the higher levels
- Countries need to have a system of training and accreditation that can produce qualified FM personnel (accountants, auditors, PFM, etc)
 - To meet public and private sectors demands on a long term sustainable basis
- Retention of qualified staff is also crucial
- World Bank is now initiating a major program of support under the Africa Action Plan in collaboration with other partners