

INNOVATIVE SOLUTIONS TO ADDRESS BOTTLENECKS AND CAPACITY CONSTRAINTS IN FINANCIAL MANAGEMENT

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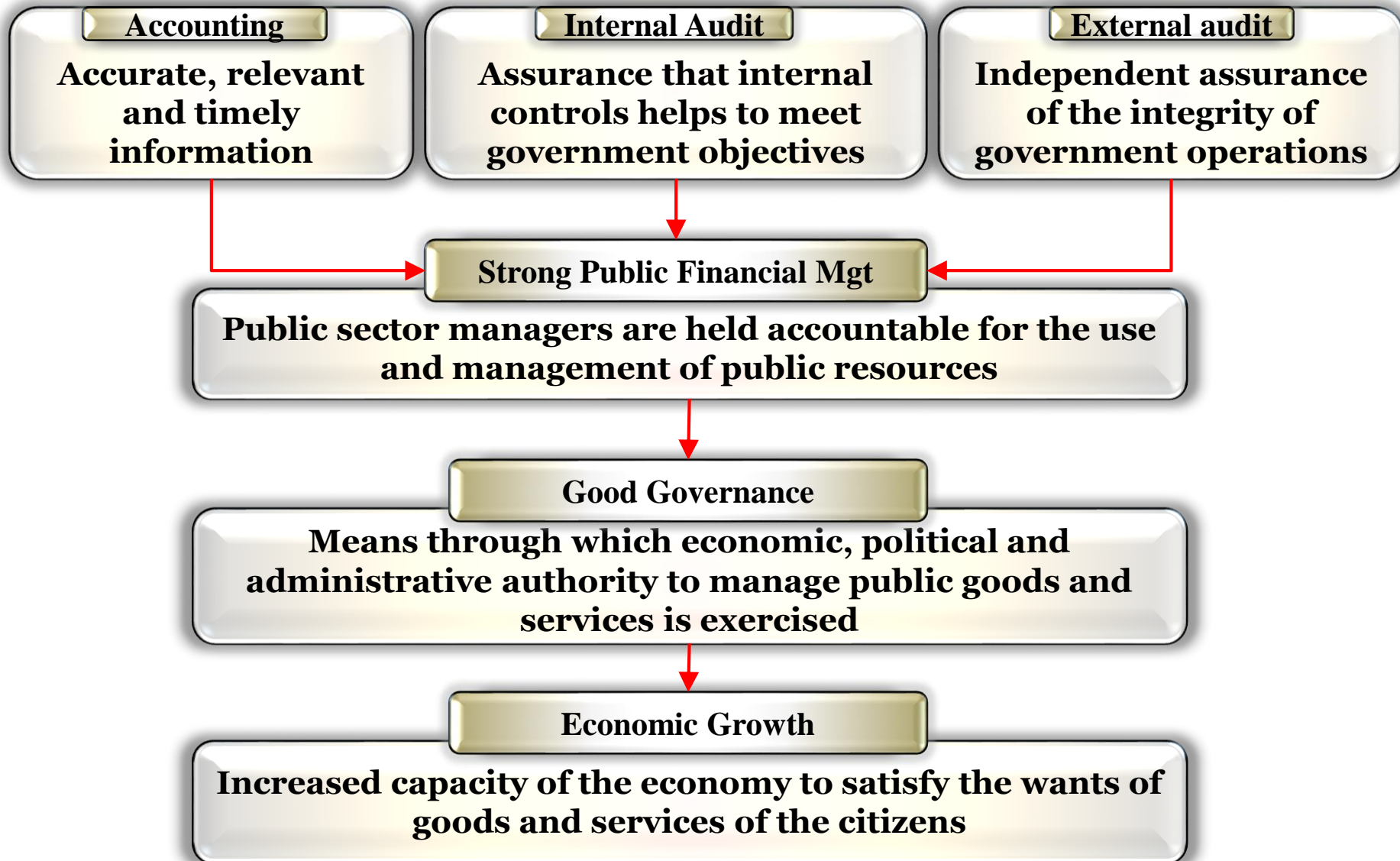
Challenges in the Caribbean

- Limited exports with high market concentration
- Low and volatile economic growth in many countries
- High and rising unemployment, especially among the youth
- Excessive government spending
- Unsustainable overall fiscal deficit of almost 4%
- Shortages in infrastructure (despite sizeable endowments)
- Huge debt accumulation
- Rising poverty levels, 21% of population below poverty line
- Dealing climate change related risks

Source: Dr Warren Smith, President of the Caribbean Development Bank, 2015



STRONG FM CONTRIBUTES TO ECONOMIC GROWTH



What is Financial Management (FM) and Its Importance

Financial Management

- To support borrowing countries in improving their FM Performance and enhancing their capacity.
- Efficient and effective management of project funds to achieve project development objectives. Provide reasonable assurance on the use of Bank and counterpart funds.

Importance

- Proper planning and uses of resources
- Effective funds flow for smooth implementation
- Ensures accountability and transparency



World Bank-Financed Projects FM Requirements

“The Bank requires the borrower to maintain FM arrangements that are acceptable to the Bank and that, as part of the overall arrangements for implementing the operation, provide reasonable assurance that the proceeds of the loan are used for the intended purposes.”



Staffing

Challenges

- Project Coordinating Units (PCUs), usually under MOF, responsible for multiple projects.
- Generally 1 person makes up the FM team so no proper segregation of duties.
- FM Staff capabilities varies across the region.
- Ability to attract suitable qualified FM staff given yearly consultancy contracts.

Solutions

- Build up capacity of PCU FM team members to handle projects, regardless if it is donor-financed or government financed.
- Project Coordinator and MOF or relevant line ministry involve in review of financial information
- Annual Caribbean-wide fiduciary workshop with case studies focusing on common issues.
- Developing e-learning training modules to improve training and increase coverage.



Funds Flow

Challenges

- Individual Designated Accounts (DAs) open for every project.
- Availability of funds to meet project implementation.
- Project categories changes during implementation. Cumbersome restructuring process to reallocate funds.
- Fixed DA ceilings.

Solutions

- Piloting of not having a DA but incorporate as part of the Treasury Single Account (TSA). Use government's own payment and treasury arrangements. However, tends to be slower in beginning.
- Most projects use Interim Financial Report (IFR)-based disbursements.
- Advance funds covering 6-months of activities. Floating DA ceiling.
- Use minimal number of categories in legal agreement.



Budgeting

Challenges

- Budgeting process incomplete (no monitoring and no controls)
- Budgets tend to be unrealistic so run out of funds.
- Budgets done based on procurement plan and operating costs. Variance analysis poorly conducted.

Solutions

- Try to implement detail budget (by quarter and by year) plan for the life of the project by activities/component.
- Prepare quarterly variance analysis and explain significant variances.
- Monitor and adjust activities based on actual implementation progress.



Accounting

Challenges

- Various types of accounting systems used in the region.
- Poor set-up of the chart of accounts. Can not easily capture and report on project activities.
- Month-end or year-end closing accounting procedures seldom used by projects. Contributes to delays in reporting.

Solutions

- Promote off-the-shelf easy to use accounting systems (QuickBooks, ACCPAC, etc.).
- Piloting of not having separate accounting system but use government's own accounting system (SmartStream, FreeBalance, etc.)
- Good chart of accounts to capture multiple sources of financing and uses (by activities, categories, components, etc.).
- Provide month-end closing checklist to be used by projects.



Reporting

Challenges

- Interim Financial Reports (IFRs) are either not prepared or not timely submitted.
- Annual audited financial statements (F/S) not acceptable or incomplete.
- Annual audited financial statements not timely submitted within 6 months after end of fiscal year.

Solutions

- Standard (single or multi-financier) IFR templates for most projects in the region
- Flexibility – Quarterly or semi-annual IFR submissions
- Annual audited F/S same as IFR except have notes to F/S.
- Produce F/S template/sample.
- Bank policy provides flexibility on periodicity of audits. Small projects only have 1 audit for life. Use long-period (more than 12 months) audits for beginning and end of projects.



External Audit

Challenges

- Lengthy and complicated process to prepare TORs, short-list and select private audit firms.
- Private audit firms do not really understand donor-financed projects and activities.
- High costs of audits.
- Poor quality audits.

Solutions

- Shift more audits to Supreme Audit Institutions (SAIs) or government Audit Offices.
- Use portion project funds allocated to audits to build SAI capacity. Promote sustainability and better audits with less cost.
- Build region-wide Caribbean Organization of Supreme Audit Institution (CAROSAI) capacity with trust funds and promote twinning arrangements.
- Annual workshops to SAI and private audit firms.



THANK YOU!

