

INTRODUCTION OF PROJECT FINANCIAL MANAGEMENT

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ELEMENTS OF GOOD PFM SYSTEM

- 1 Planning and Budgeting
- 1 Internal Controls
- 1 Economy and Value for Money
- 1 Records Management and IT
- 1 Book-keeping and Accounting
- 1 Financial Reporting
- 1 Auditing
- 1 Fixed Asset Management

PLANNING AND BUDGETING

Budget Definition:

- Quantitative expression of a proposed plan of action by management for a specific period, normally one year; and
- An aid to coordinating what needs to be done to implement that plan
- Includes both financial and non financial information

ADVANTAGES OF P&B

- Provides a framework for tasks to be completed and judging performance – an effective planning and monitoring tool
- Motivates managers/directors and staff
- Promotes coordination and communication among sub-units within the organisation
- Minimise operational surprises

PROJECT P&B

- 1 P&B Start immediately after Project Identification, and continue until “Ex-post” Evaluation
- 1 P&B are essential elements of financial management
- 1 Project owner or borrower is responsible for P&B
- 1 Lender’s duty is to confirm that borrower has properly carried out this responsibility

PRE-IMPLEMENTATION P&B

PRE-IMPLEMENTATION P&B INCLUDE:

- 1 Pre-feasibility and/or feasibility study that contains details of
 - 4 Project justification
 - 4 Market analysis
 - 4 Technical analysis
 - 4 Planning of project activities and timing
 - 4 Critical path analysis
 - 4 Project cost estimates

PRE-IMPLEMENTATION P&B (cont'd)

- 4 Financial analysis
 - 4 Economic analysis (including shadow pricing, where necessary)
 - 4 Cash flow planning and analysis
 - 4 Sensitivity analysis
 - 4 A financing package
- 1 A loan or grant request is based on the feasibility study / policy of the recipient Government and / or policy of the donor agency/Government

P&B DURING PROJECT IMPLEMENTATION

At this stage, P&B activities involve preparation, implementation and monitoring of:

- 1 Annual and quarterly physical activities
- 1 Annual and quarterly plans, including:
 - 4 Procurement
 - 4 Receipts
 - 4 Expenditures
 - 4 Cash flow

P&B DURING PROJECT IMPLEMENTATION (cont'd)

One simple way to set up first annual and quarterly budget is to adopt the first year's figures from the year-by-year table in the project appraisal document (PAD for WB, PAM for ADB and MoU for EIF), or from the feasibility study.

SOME TIPS:

- 1 Set up physical and financial budgets in the same format (or chart of accounts) as will be used for quarterly reporting, and
- 1 Design the quarterly report in the same format as will be used for the annual financial statement

P&B DURING PROJECT IMPLEMENTATION (cont'd)

- 1 The first quarter (sometime even the first few quarters) in a project life usually involve minimal activities
- 1 One-quarter of the planned annual project activities and cost may not occur in the same (or indeed any) quarter of the year