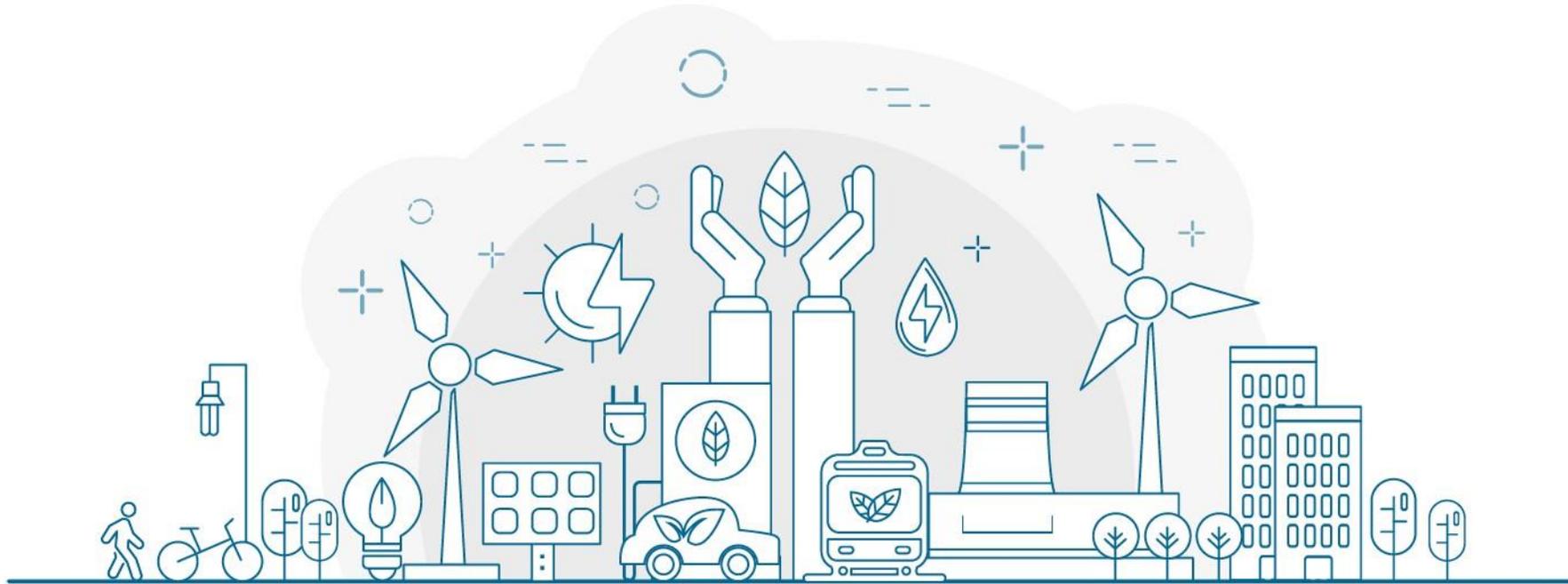


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FINANCIAL MANAGEMENT

Oksana Nazmieva, Principal Financial Management Specialist, PPF, ADB
Musaddiq I. Shaikh, Financial Management Officer, PPF, ADB

SESSION 6:

FINANCIAL MANAGEMENT



Ms. Oksana Nazmieva

Principal Financial Management Specialist
Public Financial Management Division
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Asian Development Bank



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Financial Management Officer
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Asian Development Bank



FINANCIAL MANAGEMENT IN PROJECT READINESS

Introduction

Role of FM in Project Cycle

Financial Due Diligence

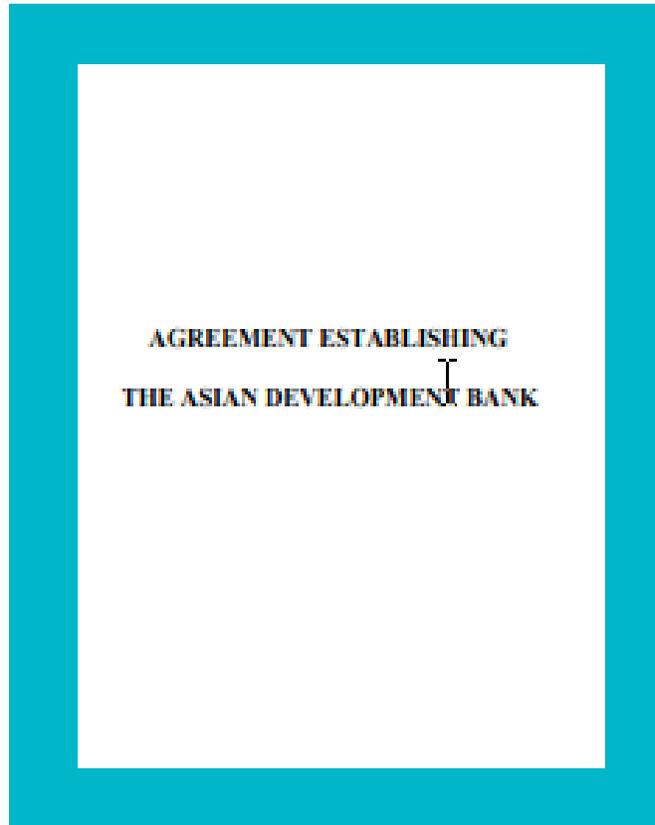
Common FM Issues

Risk Mitigation Measures

Knowledge and Resources



INTRODUCTION



ADB's FM mandate is derived from Article 14 of the Agreement Establishing ADB (the Charter)



Aligns with Strategy 2030's OP6 "Strengthening Governance and Institutional Capacity"



INTRODUCTION (Cont'd)



Borrower able to meet obligations under loan



Loan proceeds used for purposes intended



Attention to economy and efficiency



Guided by sound banking principles in operations

ADB's FM mandate is derived from Article 14 of the Agreement Establishing ADB (the Charter)



INTRODUCTION (Cont'd)

ADB's Strategy 2030 – Seven Operational Priorities



Addressing Remaining Poverty and Reducing Inequalities



Accelerating Progress in Gender Equality



Tackling Climate Change, Building Climate and Disaster Resilience, and Enhancing Environmental Sustainability



Making Cities More Livable

Strengthen the financial position of cities



Promoting Rural Development and Food Security



Strengthening Governance and Institutional Capacity



Fostering Regional Cooperation and Integration

Strengthening financial management, financial sustainability, and governance

Facilitate cross-border resource mobilization through adoption of international standards for reporting and auditing

INTRODUCTION (Cont'd)



Strengthening
Governance
and Institutional
Capacity

PROJECT LEVEL

- Working with state-owned enterprises and utilities to improve financial sustainability
- **Strengthen project designs** to improve financial sustainability.
- Financial restructuring plans including covenants

COUNTRY LEVEL

- Promote use of country public financial management systems for project financial reporting.
- **Strengthen capacity of supreme audit institutions.**
- **Technical capacity building of executing agency staff.**

COLLABORATION AND HARMONIZATION WITH OTHER DEVELOPMENT PARTNERS

- PEFA assessments
- Harmonized financial reporting and auditing to lower transaction cost



INTRODUCTION (Cont'd)

Value of Financial Management

*The overall arrangement for planning, directing, monitoring, organizing, and controlling of **financial resources***

**Public financial
management**

Accountability over **public
financial resources**

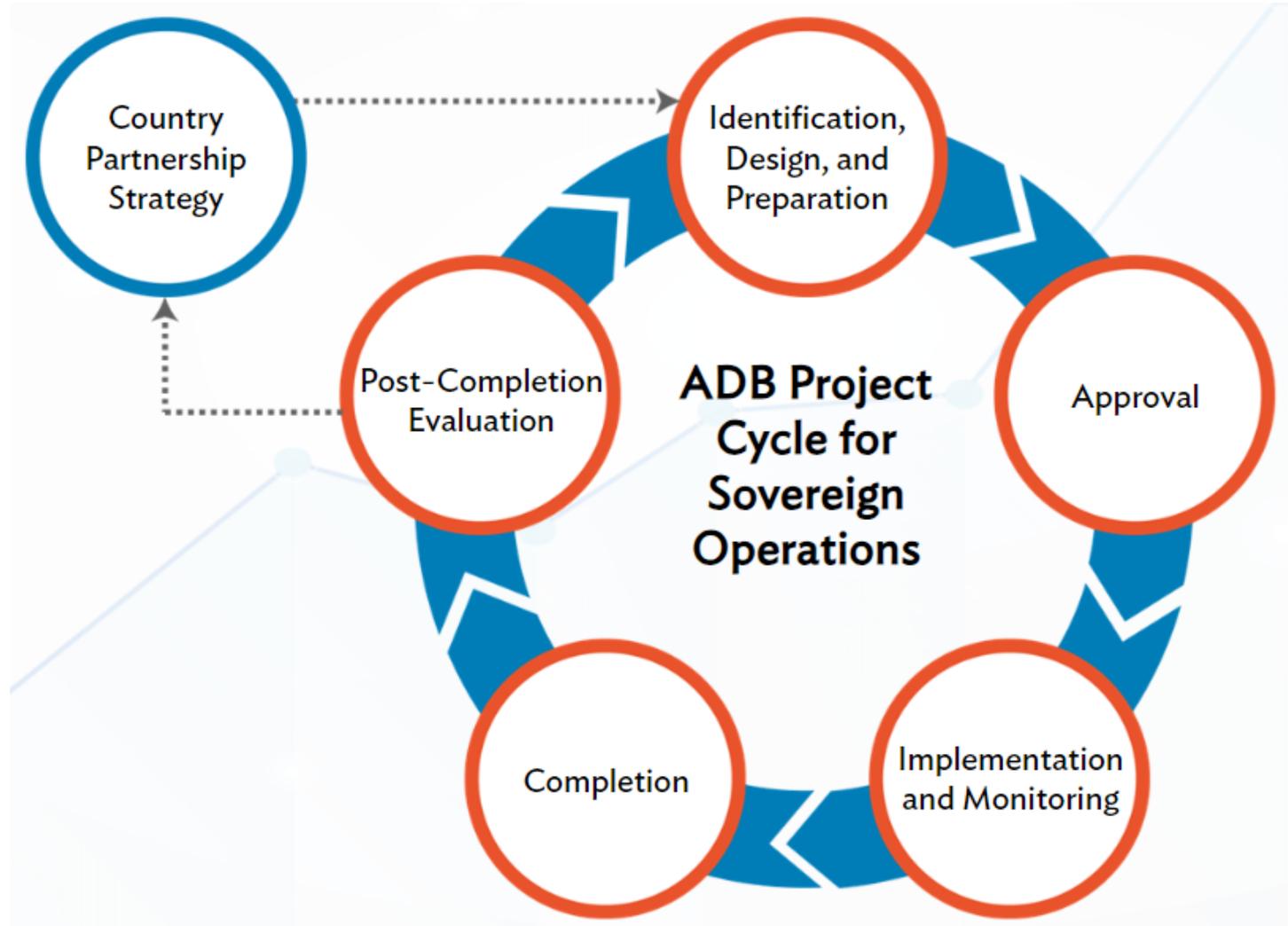
**Financial management of
projects**

Control and monitoring of
the use of **project funds**



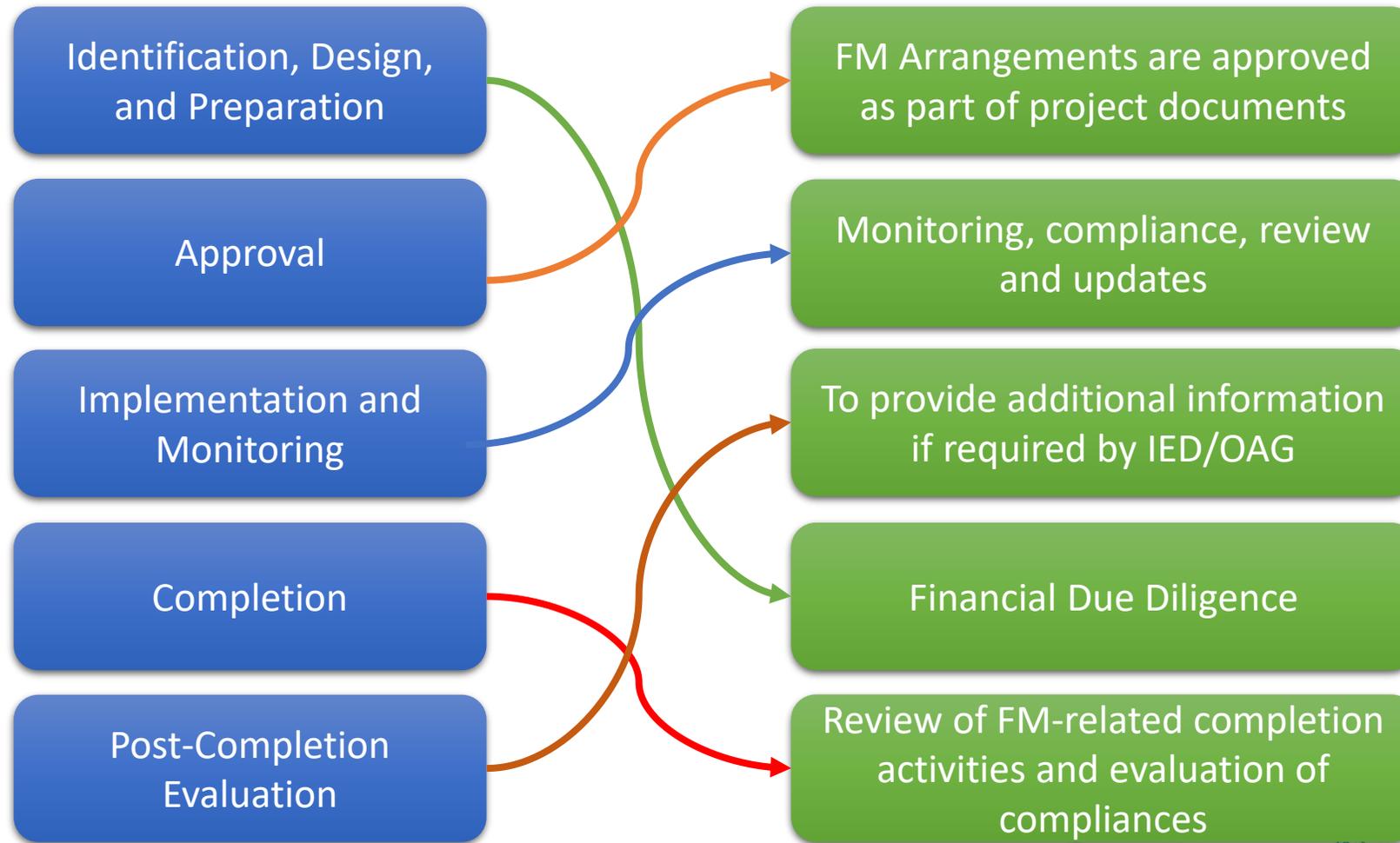
ROLE OF FM IN PROJECT CYCLE

ADB Project Life Cycle



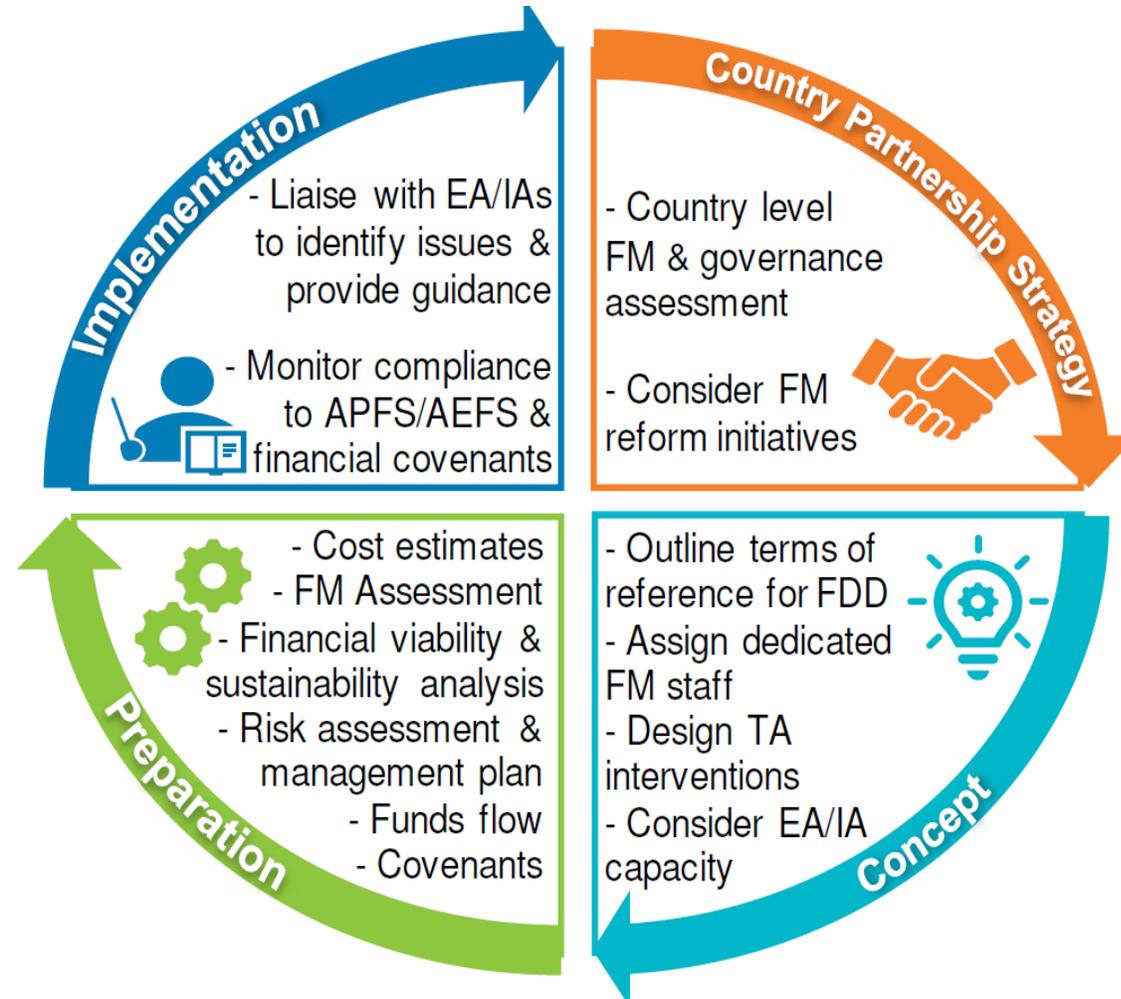
ROLE OF FM IN PROJECT CYCLE (Cont'd)

FM Process across the Project Life Cycle



ROLE OF FM IN PROJECT CYCLE (Cont'd)

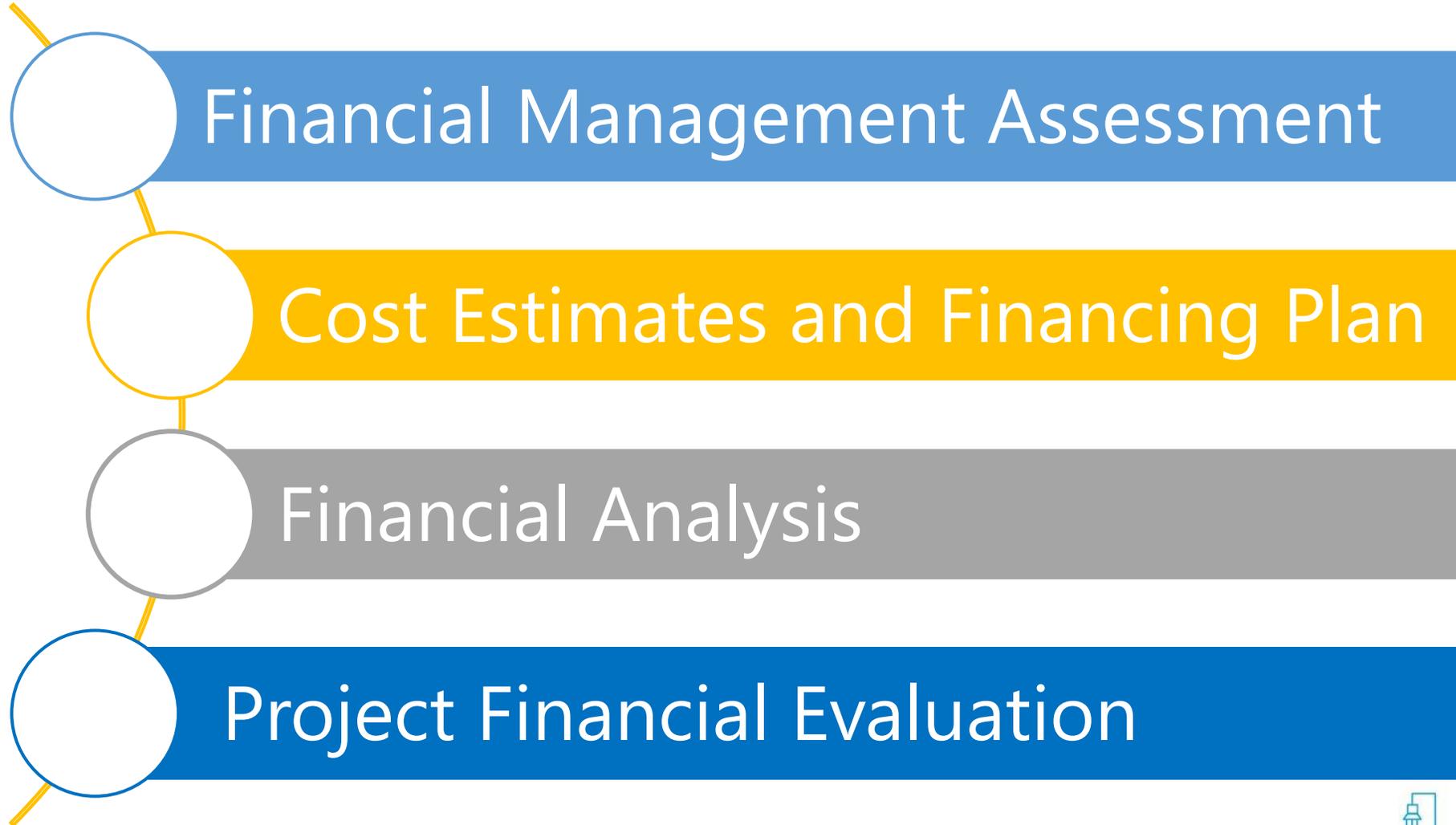
The successful execution of ADB's FM function in ADB's sovereign operations is a collective responsibility within the Bank and with the Borrower/EA/IA



AEFS = audited entity financial statement, APFS = audited project financial statement, EA = executing agency, FDD = financial due diligence, FM = financial management, IA = implementing agency, TA = technical assistance
 Source: Asian Development Bank, PPF.



FINANCIAL DUE DILIGENCE



FINANCIAL DUE DILIGENCE (Cont'd)

Financial Management Assessment - Objective



Are FM arrangements sufficient for successful project implementation?



Any FM development needs to be addressed during implementation?

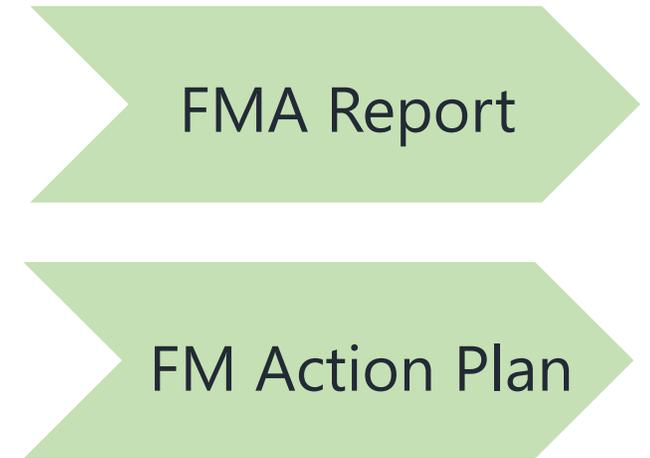


Are FM arrangements sustainable?



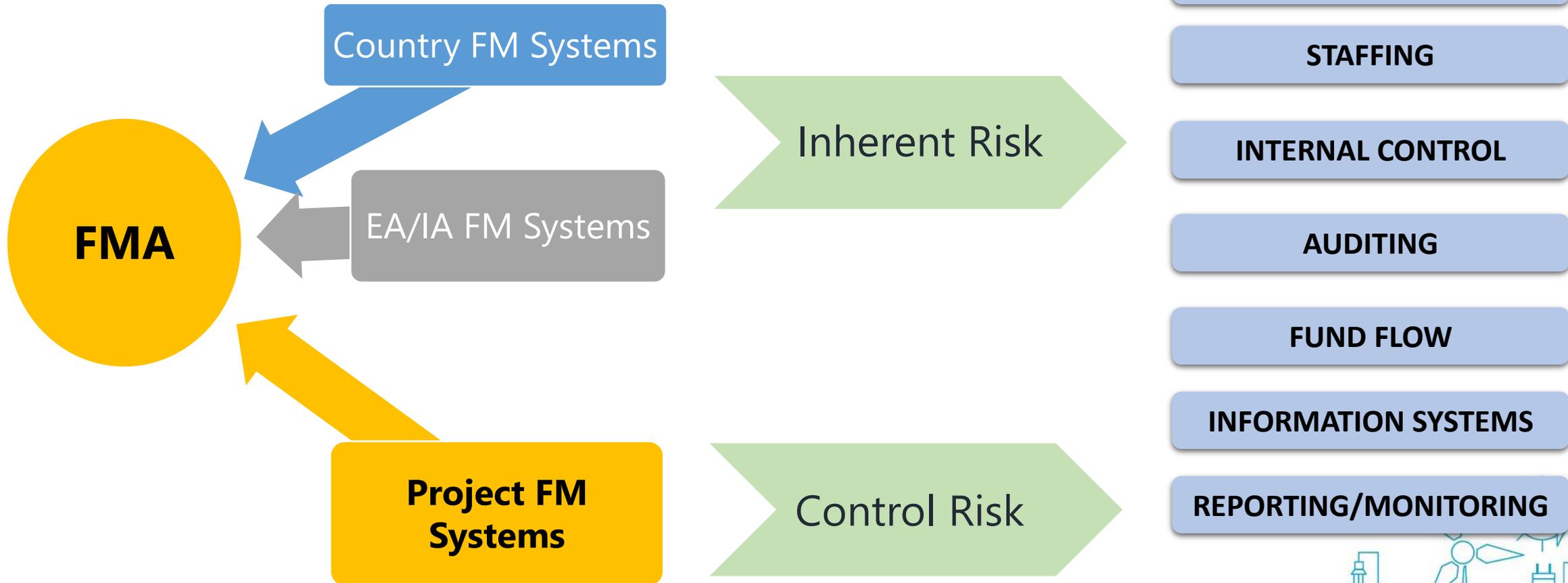
FINANCIAL DUE DILIGENCE (Cont'd)

FMA Process



FINANCIAL DUE DILIGENCE (Cont'd)

Elements of Financial Management Assessment



FINANCIAL DUE DILIGENCE (Cont'd)

FM Risk Assessment



Likelihood of Occurrence

Likely	Moderate Risk— Monitoring	High Risk— Mitigation
Unlikely	Low Risk— Documentation	Substantial Risk— Mitigation and/or Monitoring
	Low	High

Impact

FINANCIAL DUE DILIGENCE (Cont'd)

FM Risk Assessment

Area of further development	Risk	Impact	Likelihood	FM Rating
Executing agency has weak control over its fixed assets – it does not : (i) maintain a fixed asset register, (ii) conduct periodic physical verification, and (iii) perform a reconciliation of the books with physical assets	Risk of loss of its assets, leading to misappropriation, inability to complete the project or efficiently operate project facilities, and financial losses. Risk of incorrect or incomplete annual financial statements.	High	Likely	???



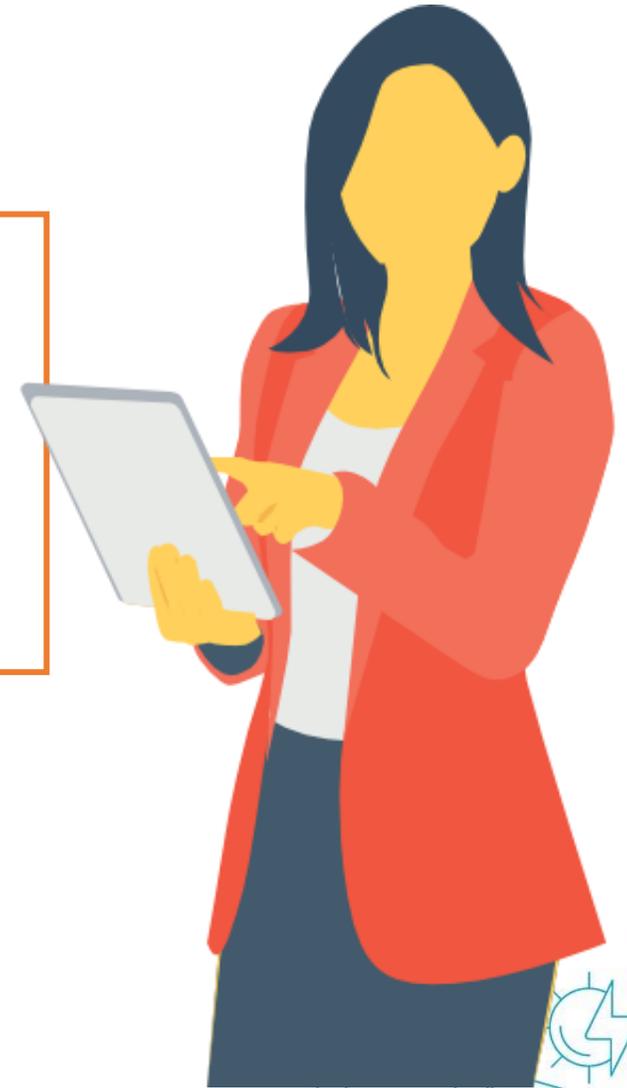
FINANCIAL DUE DILIGENCE (Cont'd)

Financial Management Action Plan (FMAP)

Weakness Area	Pre-mitigated FM risk	Mitigating Action	Responsibility	Timeframe
XX	XX	XX	XX	XX

1 2 3 4 5

Agreed with EA and IA
Within the control of the Entity



FINANCIAL DUE DILIGENCE (Cont'd)

Cost Estimates and Financing Planning

Cost Estimates

- **EA is responsible for the preparation of cost estimates**
- **Prepared for the scope of the project as described in the DMF**
- **Identify cost components for financing and support effective project management**
- **Should be supported by verifiable data**

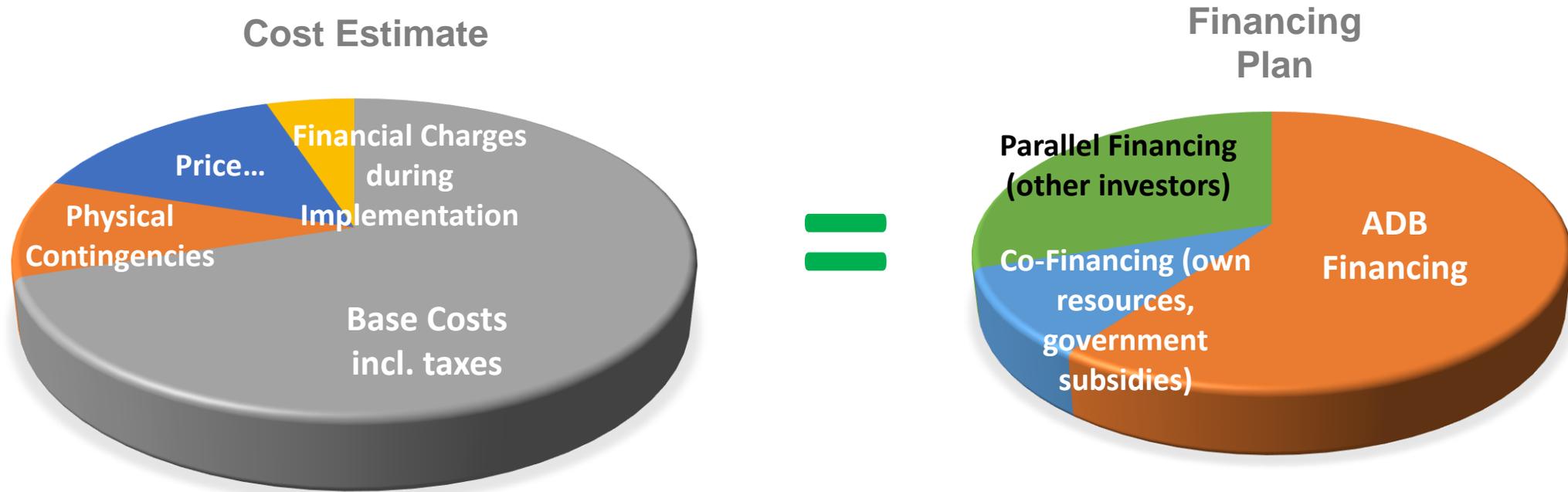
Financing Plan

EA is responsible to prepare the financing plan and fulfil any financing gap



FINANCIAL DUE DILIGENCE (Cont'd)

Cost Estimates and Financing Planning



Circular relationship between Financing Plan and Cost Estimate:
FCDI depend upon source of funds, but
the total cost needs to be determined to establish the total finance
needed



FINANCIAL DUE DILIGENCE (Cont'd)

Financial Sustainability

*is achieved when **sufficient financing** is available for assets to be **operated and maintained in a sustainable manner** and deliver the intended benefits **over their economic life**.*

- Assessed at project design and approval
- Monitored at implementation
- Evaluated at project completion



Just after
project completion



5 years after
project completion



FINANCIAL DUE DILIGENCE (Cont'd)



Financial Sustainability



Assumptions



Forecasted entity's financial performance



Designing financial covenants



Agreement with the borrower

✓ FA&E, PAM & RRP

✓ Legal Agreements



FINANCIAL DUE DILIGENCE (Cont'd)

Financial Analysis and Evaluation

Financial Analysis

- Analyze executing and implementing agencies financial performance by
 - Incremental recurrent cost analysis
 - Financial Statement analysis

Maximization of benefits
Sustainability of the outcome

Financial Evaluation

- Analyze financial viability of executing and implementing agencies by assessing
 - Where a project or a project component is intended to **recover all or partial costs** without external support, financial evaluation is required to **assess the financial viability** of the project.
 - Cost recovery should **not be dependent on any unpredictable subsidy or external support**

COMMON ISSUES IN FDD and Risk Mitigating Measures

Common Issues in FDD

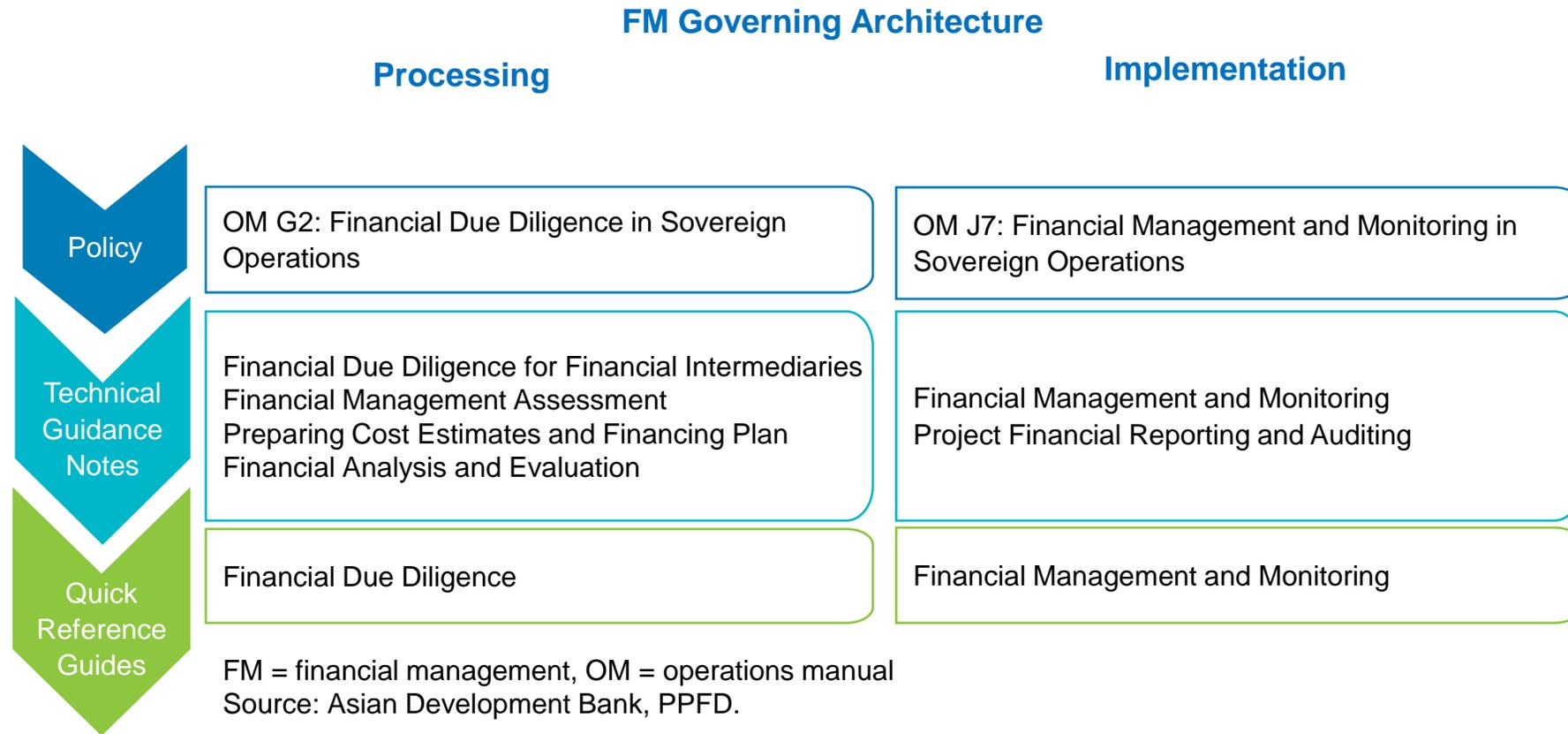
- **Staffing and knowledge gaps** No expert or lack of skills and **expertise** in the EA/IA FM staff
- **Manual bookkeeping** and lack of **automation**
- **Legacy audits** and non closure of **books of accounts** of previous years
- **Quality of audited financial statements/financial information**
- **Internal Auditing function**
- **Financial Sustainability** and lack of **budget support** from the Govt. / **Financial viability gaps**
- **Availability of financial data** for financial analysis
- **Quality of detailed** project cost estimates



KNOWLEDGE AND RESOURCES

ADB FM Guidance Framework for the EA/IAs

To operationalize the principles, a comprehensive FM guidance framework has been developed



KNOWLEDGE AND RESOURCES

OPERATIONS MANUAL

OM G2 – Financial Due Diligence in Sovereign Operations

<https://www.adb.org/sites/default/files/institutional-document/31483/om-g2.pdf>

OM H1 - Financing of Interest and Other Charges During Implementation

<https://www.adb.org/sites/default/files/institutional-document/31483/om-h1.pdf>

OM H3 - Cost Sharing and Eligibility of Expenditures for ADB Financing

<https://www.adb.org/sites/default/files/institutional-document/31483/om-h3.pdf>

OM J7 - Financial Reporting, Auditing, Management, and Monitoring in Sovereign Operations

<https://www.adb.org/sites/default/files/institutional-document/31483/om-j7.pdf>

TECHNICAL GUIDANCE NOTES

Financial Management Assessment, May 2015

<https://www.adb.org/sites/default/files/page/82468/financial-management-assessment.pdf>

Cost Estimation in Sovereign Operations, February 2022

<https://www.adb.org/documents/preparing-cost-estimates-adb-financed-projects-programs>

Financial Analysis and Evaluation, October 2019

<https://www.adb.org/documents/financial-analysis-evaluation-guidance-note>

Financial Reporting and Auditing, November 2022

<https://www.adb.org/sites/default/files/institutional-document/831596/financial-reporting-auditing-sovereign-operations.pdf>

E LEARNINGS

Financial Management

<https://elearn.adb.org/course/view.php?id=507>

IPSAS Cash Basis

<https://elearn.adb.org/enrol/index.php?id=265>



Please contact the FM focal/alternate
directly or email at

CWRDFM@adb.org

QUESTIONS ?

