

# ***Changes to Financial Reporting Requirements on World Bank- Financed Projects:***

## ***Frequently Asked Questions***

The World Bank is making a number of important revisions to the financial reporting requirements for investment projects, first introduced through the Loan Administration Change Initiative (LACI) in 1998. These changes have been made following several internal reviews that involved extensive consultations with borrowers as well as with Bank project staff. The following pages provide answers to anticipated questions from Bank borrowers.

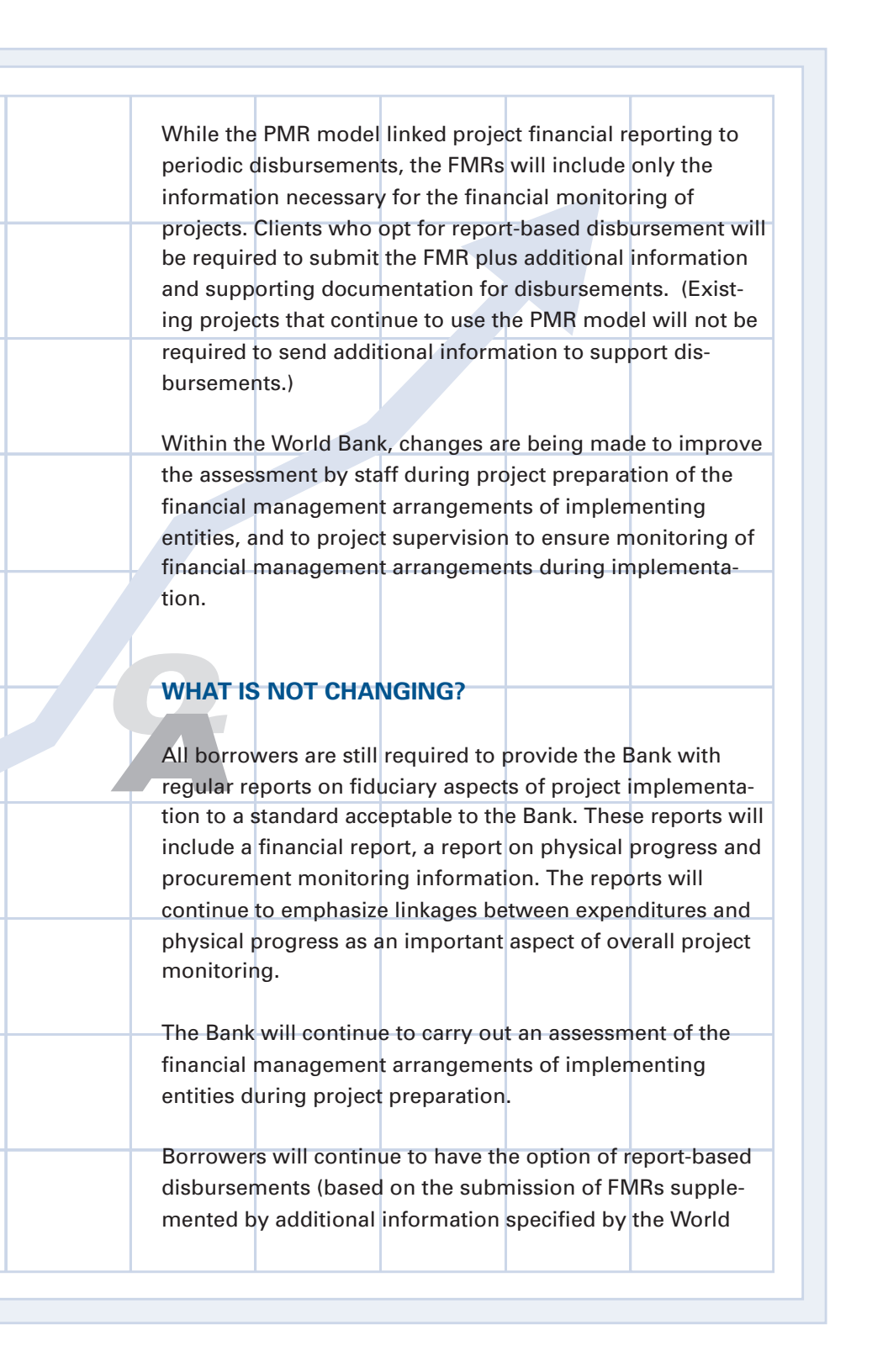
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## WHY ARE CHANGES NEEDED?

Many projects have not succeeded in preparing standardized Project Management Reports (PMRs) introduced in 1998. Consultations with borrower countries indicate that PMRs are often seen as meeting a Bank procedural requirement rather than substantively contributing to good management of projects. Many questioned their usefulness, the rigidity of the reporting format, the justification for the additional costs to produce them, and the realism of the action plans for their production. Their unique format made it more difficult for donors to agree on common reporting arrangements for projects. In addition, few projects (around 5 percent of those appraised from July 1, 1998) adopted PMR-based disbursements.

## WHAT IS CHANGING?

The format and frequency of the periodic reports required from borrowers on fiduciary aspects of project implementation will be more flexible. Instead of the current standardized PMRs, the Bank will accept alternative forms of periodic reporting – now referred to as a Financial Monitoring Report (FMR) - that will be customized to reflect country circumstances and the needs of the individual project. The content of the report will continue to provide the Bank with the information it needs to monitor the overall financial and procurement performance of the project. The reports will normally be prepared in the country's preferred reporting currency, drawing as far as possible on the country's chart of accounts and its internal reporting systems, and the physical progress and procurement reports will be better adapted to project monitoring needs identified by the task team. *Financial Monitoring Reports for World Bank-financed Projects: Guidelines for Borrowers* are now available.



While the PMR model linked project financial reporting to periodic disbursements, the FMRs will include only the information necessary for the financial monitoring of projects. Clients who opt for report-based disbursement will be required to submit the FMR plus additional information and supporting documentation for disbursements. (Existing projects that continue to use the PMR model will not be required to send additional information to support disbursements.)

Within the World Bank, changes are being made to improve the assessment by staff during project preparation of the financial management arrangements of implementing entities, and to project supervision to ensure monitoring of financial management arrangements during implementation.

## **WHAT IS NOT CHANGING?**

All borrowers are still required to provide the Bank with regular reports on fiduciary aspects of project implementation to a standard acceptable to the Bank. These reports will include a financial report, a report on physical progress and procurement monitoring information. The reports will continue to emphasize linkages between expenditures and physical progress as an important aspect of overall project monitoring.

The Bank will continue to carry out an assessment of the financial management arrangements of implementing entities during project preparation.

Borrowers will continue to have the option of report-based disbursements (based on the submission of FMRs supplemented by additional information specified by the World

Bank's Loan Department) or the traditional transaction-based disbursements.

No changes are currently proposed to the Bank's requirements for audited financial statements for each project. A separate review of the Bank's audit policy is currently being carried out, from which some changes may result.

## **HOW DO THE PROPOSED CHANGES ADDRESS THE PROBLEMS IDENTIFIED?**

The introduction of more flexible project implementation reporting responds to the difficulties encountered by borrowers in implementing a standard reporting format in diverse country and sector conditions, and the consequential costs incurred by borrowers. The standardized PMR format rarely reflects the way in which projects are actually managed, leading to additional or duplicate accounting and reporting systems which serve only Bank purposes. A more flexible approach to reporting, while still providing the information required by the Bank for project monitoring, will also facilitate harmonization of the Bank's project reporting requirements with those of other donors, thus reducing costs to borrowers and to donors overall. Cost savings are expected to be greatest for borrowers who can work with the Bank to devise reporting approaches that are less Bank-specific and thus involve a lower marginal cost to their operations.

## **WHEN WILL THESE CHANGES TAKE EFFECT?**

The process of implementing the changes will commence from January 2002.

## **HOW WILL THIS IMPACT EXISTING AND NEW PROJECTS, INCLUDING THOSE CURRENTLY BEING PREPARED? WHAT IS THE PROCESS FOR IMPLEMENTING THE CHANGES?**

Projects appraised prior to July 1, 1998 (pre-LACI) will not be affected. For those appraised between July 1, 1998 and December 31, 2001 borrowers will have the option to adopt the new more flexible reporting arrangements or to continue with the existing PMRs. Borrowers that wish to change from PMRs to FMRs should consult with the Bank team responsible for the project(s) involved, and work with the Bank to determine suitable reporting arrangements. For projects in which a conversion to the new FMR is desired by the borrower and is agreed to by the Bank, there may be a need to either amend Section 4.02 of the relevant loan/credit agreement or for the Bank to issue a formal communication to the Borrower confirming and setting out the change. The actions required will depend on the nature of the existing project legal documents.

Projects appraised from January 2002 will be required to submit FMRs to the Bank in the format that will be agreed at negotiations. (However, borrowers who prefer to use the current format of PMRs may continue to do so.) For these projects, the Bank's standard legal agreements are being revised to reflect the new FMR requirements and their linkage to other progress reports that borrowers may be required to provide to the Bank. The legal agreements will reflect the mode of disbursement agreed at negotiations.

## WHAT IS MEANT BY “SIMPLE” AND “FLEXIBLE” REPORTING?

No standard format is required, unlike the existing 12-part PMR. Sample reports are included in the *FMR Guidelines for Borrowers*. Under this flexible approach, Bank and borrower staff are encouraged to make every effort to work with, and improve upon, existing borrower systems and to make the format, content and frequency of FMRs responsive to the way projects are actually managed, so that FMRs are not an additional reporting burden.

For **financial reporting**, all projects must prepare a statement showing for the period and cumulatively (project life or year to date), cash receipts by sources and expenditures by main expenditure classifications; beginning and ending cash balances of the project; and supporting schedules comparing actual and planned expenditures. As explained in the *FMR Guidelines for Borrowers*, **physical progress reports** should contain relevant information on implementation progress to facilitate a comparison of outputs and costs. **Procurement reports** will no longer require information that is already in the Bank’s systems and will be more aligned with the project procurement plan.

## WHAT WILL BE THE EFFECT ON DISBURSEMENT ARRANGEMENTS?

Borrowers will continue to have a choice between transaction-based and report-based disbursement. While the PMR model linked project financial reporting to periodic disbursements, the FMRs will include only the information necessary for the financial monitoring of projects. Clients who opt for report-based disbursement will be required to submit the FMR plus additional information and supporting

documentation for disbursements. Existing projects that continue to use the PMR model will not be required to send additional information to support disbursements.

Borrowers using report-based disbursements will have greater flexibility as to the frequency of disbursement requests. This is intended to promote better cash flow management and support project implementation for all clients, while also reducing the financial cost of borrowing for IBRD clients. Annex B of the *FMR Guidelines for Borrowers* provides more information on this topic.

### **CAN WE CONTINUE TO USE THE EXISTING PMRS?**

Yes. Borrowers that provide the information set out in the PMRs introduced in 1998, fully satisfy the requirements of FMRs.

### **WHAT IS THE EFFECT ON PROCUREMENT?**

The introduction of the Financial Monitoring Report will have no direct effect on the procurement process. The FMRs provide a framework, however, for procurement tracking by project entities, and for providing such information to the Bank. As information about all procurement below the “prior review” threshold will typically be provided in the FMR (subject to any minimum thresholds agreed between the client and Bank), the nature of the procurement reports in the FMRs will change as compared to the PMRs. By reporting the information on medium-sized and smaller contracts, borrowers will not have to separately provide information on contracts to the Bank during supervision missions, which will allow visiting Bank teams to spend more time helping project staff address problems,

rather than collecting data. Therefore the procurement reports in the FMR will facilitate more effective procurement supervision and “post review”. Information on contracts above the prior review threshold will normally not be provided in FMRs, as is it can be obtained from existing internal Bank systems. However, borrowers should maintain all procurement information within a single system, so that regular, comprehensive procurement reports can be prepared for internal management purposes.

## **WHAT TOOLS ARE AVAILABLE TO ASSIST IN IMPLEMENTATION OF THESE CHANGES?**

The *FMR Guidelines for Borrowers* are available in English. Versions in other Bank languages will follow shortly. Bank staff will also conduct workshops in many countries to guide borrowers and discuss “good practice” examples of report formats.

## **TO WHOM DO WE GO FOR ADDITIONAL ASSISTANCE?**

For specific project-related assistance, borrowers should contact the Bank’s task team leader, who will consult with financial management and procurement staff, as needed, to respond to any queries. For disbursement-related matters, borrowers should contact the Disbursement Officer or Financial Management Specialist assigned to the country.

