

AGRICULTURAL POLLUTION CONTROL PROJECT
Romania

FINANCIAL MANAGEMENT SYSTEM
Manual

April 2001

LIST

of used abbreviations and expressions

WB	- The World Bank
GEF	- Global Environmental Facility
MWEP	- Ministry of Waters and Environmental Protection
MOF	- Ministry of Finance
MAFF	- Ministry of Agriculture, Food and Forests
APC	- Agriculture Pollution Control
PSC	- Project Steering Committee
PAD	- Project Appraisal Document
PCD	- Project Concept Document
PMU	- Project Management Unit
PIP	- Project Implementation Plan
LACI	- Loan Administration Change Initiative
FMIS	- Financial Management Information System
PMR	- Project Management Report
SOE	- Statement of Expenditures
QCBS	- Quality and Cost Based Selection
ICB	- International Competitive Bidding

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I. FINANCIAL MANAGEMENT

In the implementation of WB assisted projects, the role of financial management, as part of overall project management, in a world of scarce financial resources and complex projects, is fundamental. Its aim is to provide timely, reliable, and useful information for accountability and decision making. In addition, accounting and auditing are essential elements of stewardship - achieving the greatest benefit for the funds invested. This implies an integration of financial and program disciplines to manage available resources to achieve common goals. Accordingly, the WB includes in all legal agreements one or more accounting, financial reporting and auditing covenants as means of ensuring accountability for the use of its funds. Grant covenants are used to assure compliance with general WB policies, the Romanian accounting standards and the IAS.

I.1. FINANCIAL AND ACCOUNTING POLICIES AND PROCEDURES FOR THE PROJECT

I.1.1 GENERAL

The objective of accounting is to present fairly the financial condition of this World Bank project. To ensure the accountability for project funds, the PMU shall:

- (a) Maintain records in an orderly manner of the receipts and disbursement of all funds used for the project as well as records of the value, location and condition of all items purchased but not yet utilised;
- (b) Maintain internal controls to ensure there is the appropriate approach to obtain or deliver goods and services, proof of receipt or delivery, that receipts and payments are accurately recorded on a timely basis, and that assets and liabilities are adequately controlled;
- (c) Report on the use of funds; and
- (d) Facilitate verification of these reports by independent auditors.

The PMU will be responsible for maintaining an adequate control of the accounting information that will be registered in the FMIS.

PMU provides to the WB (or any other donor) and the Project Steering Committee within 6 months after the end of each fiscal year annual audited financial statements of the project that are acceptable to the WB.

Financial reports are to be submitted on a quarterly and annual basis. At the end of each quarter the Project Financial Management Specialist and the Procurement Specialist will prepare reports in line with the following:

- ✓ Funds Disbursed by Categories
- ✓ Funds Disbursed by Type of Procurement
- ✓ Activities by Sources of Funding
- ✓ Project Balance Sheet

In addition to the above mentioned, annual reports are to be prepared on the basis of the quarterly reports, and will summarise the information contained in the quarterly reports.

I.1.2 INTERNAL CONTROL

The PMU internal control system is able to ensure that financial records are reliable and complete. In particular, the internal control system ensures proper recording and safeguarding of assets and resources, adherence to financial management policies and orderly and efficient conduct of business.

The PMU Director, jointly with the Project Financial Management Specialist and the Administrative assistant have to design and approve a scheme (a draft is proposed Annex 3) of documentation/information flow within the PMU and between the PMU and the other institutions implementing the Project. It is recommendable the scheme to be approved by the MWEP/MAFF or the PSC, and to be distributed to **all units and persons** involved with the implementation of the Project.

I.1.3 ORGANIZATION OF THE ACCOUNTING

The PMU accounting structure reflects the type of project, the sources of funds, and the relevant expense accounts, broken down into the various types of expenditures for the project. The PMU accounting systems used by the Project Financial Management Specialist is able to produce financial reports that show costs budgeted for the current period and the total cost of the project to date. Moreover, the PMU accounting system is able to provide financial data to measure performance when linked to the perform indicators of the project.

The PMU accounting system is a double-entry bookkeeping system that records expenses and revenues in order to provide information for financial statements of the *Romania Agricultural Pollution Control Project*.

The accounting and internal control systems of PMU are maintained according to the International Accounting Standards and the Romanian Accounting Standard and System.

The accounting for the Project must at all times be maintained and kept separate, should the PMU undertake any activities other than Project activities during the implementation period of the Project.

The accounting procedures include:

- Registering obligations (Contracts)
- Receiving, verifying, approving, and paying invoices
- Posting the transactions
- Summarising information at end of the accounting period
- Preparing reports
- Conducting financial analysis

The assigned responsibilities of the PMU members are described in the next chapter.

The accounting period for the PMU is one year and will end on the last calendar day of the last month of the year. The closing date for the accounting period is the 15th of the following month. Upon closing the following standard reports are to be produced and distributed:

- Expenditures by Project Components

Expenditures by Categories

Trial Balance

Statement of Sources and Uses of Funds

Balance Sheet

All transactions must be reflected by supporting documentation, which provides objective and verifiable data. The process of registering the supporting documents is the first step for record keeping and providing an audit trail.

Support documents are normally received from external sources but are in some cases prepared internally. Source documents can be classified as invoices, purchase orders, travel expense forms (See Sample Lists, Page 12-13), etc.

The PMU should keep at least three separate financial sets of documents:

1. A file for each Activity of the Project as described in the PCD (PAD) and the Grant Agreement. This file should contain copies of all contracts, concluded under the specific activity, all implementation reports or statements of the supervisors on the specific activity, actualized statement of the financial situation of the activity, that has to be replaced on each change of the situation, copies of all correspondence referring the activity.
2. A Dossier for each contract, containing all evidence for the signature of the contract (tender documents, WB “no objection”, etc), the contract itself (the original, or copy in case all originals are kept separately), all correspondence referring the contract, copies of all invoices and payments and reports, and a Contract Data Sheet (Annex 4), reflecting all received invoices and executed payments under the contract.
3. A special file, containing all originals of the invoices and the Payment orders or Applications for withdrawals, chronologically sorted and endorsed by the Project Manager.

Note: *This refers to payments and disbursements of Grant funds and the Contribution of the Romanian Government only. The original financial documents for Contribution by the other participants in the Project (The Calarasi Council, comunas and beneficiaries) shall be kept in the corresponding Accounting Department. Nevertheless, the PMU should be provided with a copy of any such document to be filed as stated above in p. 3.*

The Procurement Specialist must keep separate records of all tender documentation as provided in the WB Guidelines.

The recording and internal control of the PMU equipment such as furniture, cars, computers, printers and etc. is to be maintained by the PMU. All employees are responsible and accountable for equipment in their possession.

Any acquired or donated assets will be recorded in a ***Fixed Asset Record***. This record will include a description of the asset, invoice number, serial number, source, date received, cost in Grant currency and in Lei, inventory number, location and name/designation of person to whom this responsibility is assigned. The Fixed Asset Record will be maintained by the Project Financial Management Specialist who should be notified about worn out or obsolete assets with no cash value.

The Fixed Assets Record is to be transferred to the MWEP/MAFF/Beneficiaries for final registering and accounting. Appropriate fixed assets transfer protocols shall be agreed between the PMU and the corresponding beneficiary.

I.1.4 CHART OF ACCOUNTS

A set of accounts is used to classify and summarise project activities. All transactions are to be recorded in appropriate accounts. The Chart of Accounts for the current Project is attached hereto (Annex 1).

I.1.5 JOURNALS AND LEDGERS

Transactions are posted through a journal. The journals are books of original entry for records and contain information including the account number, a description of the transaction, reference information (Nr.), and the transaction amount.

Journalizing is the process of entering the transactions into a journal based on source documents. The proper journal entry is recorded by posting the data into a journal one at a time. Reverse Journal Entries are used to correct errors.

Three modules of original entry books are maintained Journals, Ledgers and Bank Accounts' (Bank Accounts play the role both of Journals and Ledgers) :

Journals are maintained for each of the Credit categories, as well as a general journal:

1. The Journal
2. Journal of Works
3. The Journal of Goods
4. Journal of Consulting and Training
5. Journal of Operating Costs

The Journals are used to record and keep information about the receipt and status of all primary accounting documents: Invoices, receipts, etc., categorized by Credit Category.

The Ledgers used are:

Accounts Receivable Ledger (Debtors)

Purchaser's Ledger (Creditors)

General Ledger

1. Accounts Receivable Ledger (Debtors)

Keeps information of all incoming revenue, against which the project has a claim.

2. Purchaser's Ledger (Creditors)

Keeps information of all submitted invoices, which contractors, suppliers, consultants, PMU expenses, etc., have a claim against the Project.

3. General Ledger

Maintains account balances used for standard reporting for all other accounts.

The Ledgers contains the following information on transaction posted:

Date

Transaction number
Invoice number
Description (with quantity/no. of items, as appropriate)
Source document reference number
Brief description
Accounts number
Amount (debit or credit)

I.1.6 PERFORMANCE MONITORING

Performance monitoring will be undertaken by the WB and the PMU. Performance would be evaluated by the WB Task Manager on an ongoing basis based on project reporting and contacts with the PMU.

I.1.7 MONITORING

Overall, project monitoring will be based on performance targets and indicators and the Project Implementation Plan as agreed during negotiations. Monitoring and Supervision will be managed at the national level by the PMU according to the Project Monitoring and Evaluation Plan through conducting beneficiary surveys.

Formal monitoring and evaluation by the WB will be on a quarterly basis.

I.1.8 FISCAL YEAR

The fiscal year of the Project is from January 1 to December 31. The accounts are to be closed on the last day of the fiscal year and the audit is to be conducted within two months of the closing of the accounts.

I.1.9 AUDITING

A Financial Audit will be performed annually by independent international auditors acceptable to the WB to examine the Project activities. Auditor' selection is to be carried out by the PMU subject to approval of the WB and in accordance with procedures and TOR acceptable to the WB.

The PMU will be responsible for providing to the WB, within 6 months after the end of each fiscal the financial, managerial, and technical audits of the Project that are acceptable to the WB.

The final accounts and audit reports will be presented to the MWEF and the WB within six months of the end of the preceding financial year.

The PMU will have the required Financial Statements for each year audited in accordance with standards that are acceptable to the WB. An audit of such financial statements will include: (a) an assessment of the adequacy of accounting and internal control systems to monitor expenditures and other financial transactions and ensure safeguarding of project-financed assets; (b) a determination whether the PMU has maintained adequate documentation of all relevant transactions; and verification that expenditures submitted to the WB are eligible for financing under the project, and identification of any ineligible expenditures.

The use of a Special Account and SOEs (if any) will be addressed in the auditor's opinion.

The auditor will be appointed in sufficient time to carry out its responsibilities, including (a) a review of the financial management systems at the beginning of project implementation; and (b) periodical reviews of the project financial management systems thereafter. (The WB-required audits will not cover possible donor-funded activities, even if supervised by the WB.)

1.2. ORGANIZATION OF THE FINANCIAL MANAGEMENT (PMU STAFF' RESPONSIBILITIES)

The main responsibility for the financial management of the Grant funds - the ones from the WB Grant, the funds provided by the Romanian Government and the other Local institutions is borne by the PMU. The scope of the responsibilities of each of the responsible persons and the PMU staff member in financial management is as follows:

1.2.1 THE PROJECT ADMINISTRATOR

1. Monitors the management of contracts in close collaboration with the Project Financial Management Specialist.
2. Opens of the Project as well as Special Accounts and ensures all required documentation is expedited and submitted to the IBRD; supports the Project Financial Management Specialist in Loan disbursement and replenishment procedures.
3. Oversees that project accounts and records are kept timely and accurately.
4. Requests an external audit of the Projects accounts.
5. Prepares and Distributes, with the support of the Project Financial Management Specialist and the Procurement Specialist quarterly progress reports and submits them to the Bank and the Steering Committee secretary, as well as reports on the Project activities, as needed, and Project Management Reports.
6. After verifying that the Invoices, as presented, meets all requirements, requests clearance of the Invoices from the Financial Management Specialist.
7. Countersigns the Payment Orders, the Requests for Reimbursement, Direct Withdrawals and Special Commitments.
8. Endorses all documentary evidence for the payments.

1.2.2 THE PROJECT FINANCIAL MANAGEMENT SPECIALIST

1. Administers the payments and replenishment procedures;
2. Carries out financial and accounting operations in accordance with the instructions of the World Bank operates the computerized FMIS;
3. Produces and submits to the Project Manager periodical, midterm and final financial and accounting reports with respect to the budgets of the components of the project;
4. Represents the PMU in the case of financial audits performed by national control bodies and the World Bank auditors.

1.2.3 THE PROJECT AGRICULTURAL/TECHNICAL SPECIALIST

- 1 Assist the Project Administrator in implementing project responsibilities in respect of environment-friendly agricultural program;
- 2 Work with the Procurement Specialist to prepare detailed TOR and to select, in compliance with the agreed upon procedures, an agency capable of designing the program, providing technical guidance and monitoring the results;
- 3 Participate in preparation of working plans;
- 4 Co-ordinate the design and organization of the workshops, training sessions, and study visits;
- 5 Verify the requirements for the purchase of the equipment and the principles of its use by groups of farmers;
- 6 Monitor the project using the agreed performance indicators;
- 7 Participate in preparation of the programs for publicity and demonstration purposes.

1.2.4 THE PROCUREMENT SPECIALIST

1. Provides procurement and contract information to the Project Financial Management Specialist and input to the FMIS.
2. Administers the contract in close collaboration with the Financial Management Specialist and the PMU Director;
3. Performs all operations in connection with tax assessment, custom duty clearance, exemptions from taxes, levies, custom duties and fees;
4. Keeps accurate and timely files and records of procurement activities to serve as a basis for audit and Financial Management Reporting;
5. Prepare the Project for periodic Procurement reviews;
6. Maintains the connection with the World Bank on procurement issues;
7. Undertake any Procurement activity as required by the Project development.

1.2.5 THE PROJECT ACCOUNTANT

- 1 Assist the Financial Management Specialist in application of the budget plan;
- 2 Assist the Financial Management Specialist in implementing the financial management system in accordance with World Bank financial procedures;
- 3 Assist the Financial Management Specialist in preparation of all financial reports and statements, requested by the World Bank or GOR;

- 4 Ensure the internal financial control of all project activities up to a certain amount, as the Financial Management Specialist decided, with Project Administrator approval;
- 5 Ensure that all Project expenditures are eligible to be financed by the Project Funds;
- 6 Assist the Financial Management Specialist to ensure that project funds flow on a timely basis and all project accounts are replenished on time;
- 7 Keep full accounting records of the project activities and operations by project components and sub-components as well as by each financing source and prepare all financial and accounting reports, according to Romanian regulations;
- 8 Assist the Financial Management Specialist in all related financial and accounting project activities;

1.2.6 THE PROJECT ADMINISTRATIVE ASSISTANT

1. Provides administrative support as required for the implementation of the financial management activities.
2. Assists in opening of the Project's Special Account and ensuring all required documentation is expedited and submitted to the WB.
3. Maintains the evidence and records of all activities and documents regarding the project implementation;
4. Assist the Project Manager and other PMU staff to ensure the smooth and efficient implementation of project activities;
5. Co-ordinates the visits of international consultants and others and ensures provision of all logistical support;
6. Arranges the workshops and meetings for project activities and prepares agenda and minutes;
7. Ensures, when it is required, the translations for the project

1.3. BUDGETING AND FINANCIAL FORECASTING

The Budgeting and financial forecasting are integral part in the process of preparation of the PMRs. The PMRs shall be prepared and submitted to the PSC and the WB regularly on a quarterly basis. These activities are under the responsibilities of the PMU and the PMU Staff taking part in them is the Project Manager, the Project Financial Management Specialist and the Procurement Specialist. The preparation of the PMR should start at the closing date of the PMU accounts. i.e. 15 days after the end of the quarter to be reported.

1. The Procurement Specialist provides the Project Financial Management Specialist with information about the on-going and forthcoming procurement procedures, the implementation of which, correspondingly the payment under which, are expected to start in the planning period. The information should be presented to the Project Financial Management Specialist in spreadsheets format, following the LACI implementation handbook.

2. The Project Manager, based on the current and planned activities in the components, provides the forecast of payments for Contracts under implementation for the planned period.
3. The Project Financial Management Specialist, based on the data from the FMIS concerning the implementation of the budget for the current period and the data received from the Project Manager and the Procurement Specialists, prepares the draft budget for the next quarter and submits it to the Project Manager for review.
4. The Project Manager, after reviewing the draft budget, discusses it with the Project Financial Management Specialist and the Procurement Specialist as appropriate.
5. The Project Financial Management Specialist incorporates the agreed data in the PMR.
6. The PMR is signed by the Project Manager and distributed to the Project Coordinator, the WB and the PSC. (If considered appropriate, the reports may be distributed to the other Romanian agencies involved in the APC Project.).

This operation has to be finished within the terms for the preparation of the PMR.

Dates of submission of PMRs: Not later than 45 days after the end of the reported period.

I.4. FINANCIAL MANAGEMENT INFORMATION SYSTEM (FMIS)

The computerised FMIS must have the capacity to record and monitor (there should be no ambiguity about accounts not being computerised):

- Project Data as set in the Project Appraisal Documents;
- Contractors, Clients;
- Funds available by Source and Accounts;
- Exchange Rates of Local currency towards the currency of the Grant and the currency of the transactions;
- All transactions recorded: in General Ledger, in Bank Accounts' Ledgers, etc.
- Direct Withdrawals;
- Special Account transactions;
- Borrower's contributions;
- Other Sources of financing;
- Project Contracts, including authorisations for payments.

It has to be able to:

- Record all entries;
- Process Project accounts;
- Have control on the inputs and can monitor the Grant Procurement Ceilings by type of expenditure: civil works, goods, services;
- Update the status of every Contract under the Project;

- Update all databases on entry of a new data;
- Perform project accounting on a transaction basis, based on double entry accounting, according to the International Accounting Standards (IAS) and national budgetary and accounting requirements, if requested;
- Updates costs to monitor the unit and overall costs as per the budget of the Project and to report actual expenditures;
- Monitor the funds in the Special Account as well as the Local Contributions Accounts;
- Produce output and Financial Reporting (including full set of LACI);
- Produce Project Financial Statements, including Balance Sheet, Sources and Uses of Funds, Income and Expenditure Statement showing Cash at Bank balance in Local and/or Grant (Foreign) Currency;
- Produce Special Account Statements;
- Produce Cash Withdrawal (Disbursement) Statements;
- Produce all data necessary to fill the SOEs;
- Produce Project Cash Forecast ;
- List payments by category of expenditure (Civil Works, Goods, Consulting and Training, Operational Costs);
- List payments by Category of procurement (International Competitive Bidding, International Shopping, Local Shopping, National Competitive Bidding for Civil Works and Goods, Quality and Cost-Based Selection, Short List Selection, etc. for Consulting Services);
- Produce report on Budget Control by comparing planned against actual expenditures.

All Reports should be available in two currencies: Romanian Lei (Local Currency) and the US Dollars (Grant Currency).

A detailed User's Manual on FMIS is available.

1.5. DISBURSEMENTS

The disbursement procedures for the APC Project are determined in the Grant Agreement and the Disbursement Letter, which shall include full instructions about any procedure to be utilised by the PMU. Disbursements are made only at the request of the PMU. Payments may be made to reimburse the Local participants in the Project for payments already made from its own resources; directly to a third party (supplier or consultant); or to a commercial bank for expenditures against a WB special commitment.

All disbursements of Grant Funds will be channelled through Direct Withdrawals from the Grant Account and transfers and withdrawals form the Special Account.

The opening of the Special Account is the responsibility of the Project Manager. The Project Manager shall secure the fulfilment of all the provisions of the Romanian legislation for the opening of the Special Account.

The Special Account shall be opened in the Romanian Commercial Bank.

With the First Application for Withdrawal the PMU requests the Initial Advance to be transferred to the Special Account.

I.5.1 DISBURSEMENTS FROM THE SPECIAL ACCOUNT

Any payment from the Special Account to cover an eligible project expenditure is subject to the regulations set forth in the contract between the MWEP and the Commercial Bank for the opening of a Special Account.

I.5.2 DIRECT PAYMENTS AND SPECIAL COMMITMENTS

Any exception to the exclusive use of the Special Account for direct payments from the Grant Account to the Client or utilising the World Bank Special Commitment has to be agreed between the PMU and the World Bank.

I.5.3 PAYMENTS PROCEDURES

The Payment is the basic procedure to be used for disbursement of Grant (Project) Funds. All payments should be made against valid supporting documentation, according to the Disbursement Handbook. No payments may be executed without a duly signed Contract. The contract constitutes the basic document for accounting of commitments and disbursements. When a contract is signed, the contract amount is considered as committed Grant funds.

I.5.3.1. Acceptance and Checking of Invoices

Any payment to a Contractor or a Supplier shall be made against an **invoice**. Each invoice shall clearly specify the civil works executed, goods supplied, the services provided, and be supported by a statement of accomplished works, as appropriate. The invoice shall show:

- the costs, taxes shown separately, of the work done;
- the amount of any deduction for the mobilization advance;
- the total amount to be paid;
- the contractor's/supplier's bank account to which payment should be made;
- and the pertinent reference to the accompanying statement(s) of work.

Invoices shall be dated and signed by the contractor's/supplier's authorized representative.

Sample list of necessary documentary evidence:

For Civil Works:

- Bank Guarantee – for Advance Payment
- Performance Bond - for contract implementation
- Contract Documents - for all payments
- Work in Progress Acceptance Protocol - for partial payments during contract implementation
- Final Reception Protocol - for the Final payment

For Goods:

- Bank Guarantee – for Advance Payment
- Performance Bond - for contract implementation
- Contract Documents - for all payments
- Acceptance or Installation Protocol - for final payments

For Consulting Services and Training:

- Bank Guarantee - for advance payments (if required);
- Contract Documents - for all payments;
- Progress Reports - for partial payments
- Final Report - for the final payment
- Verification of Reimbursables and Consultant's Fees
- Study Tour Accounting Records and documentary evidence of expenses

The Procurement Specialist, after verifying that the Invoice, as presented, meets all requirements, verifies the invoice and attached statements and issues a clearance and then transmits the file to the Project Financial Management Specialist for payment.

The Project Financial Management Specialist checks the breakdown of the invoice against the un-disbursed portion of the commitment shown on the contract record into the FMIS system, and prepares the payment documents.

Except in the event of duly proven *force major*, the total time that elapses between receipt of the invoice by the PMU and the issuance of the payment order (Application for Withdrawal) to the bank (regarding payment to the contractor/supplier) shall not exceed 20 working days.

I.5.3.2. Issue of Payment Instructions

Authorization of a payment involves the following operations: (see previous subsection)

1. The Procurement Specialist certifies the works are accomplished, the goods are supplied or the service performed.
2. The Project Financial Management Specialist prepares the Payment Instruction for the net amount to be paid to the Contractor's Bank account as specified in the corresponding Invoice;

Payment Order for withdrawals from the Special Account:

The form of the Payment order is to be agreed with the Romanian Commercial Bank where the account is opened and must meet all requirements of the Romanian Commercial Bank. Nevertheless, it must contain the following information:

- Name and address of Payee;
- Bank, Bank Account, Bank Code (sort Code), Address of the Bank (branch)
- Account No.
- SWIFT Code
- Currency and Amount of payment

- Referential information about the payment – Contract No, Invoice, etc.

The payment order should have first and second signatures, laid down by the corresponding authorised persons, whose signature specimen have been submitted to the Bank.

Withdrawal Application for Direct Withdrawals from the Grant Account

The Project Financial Management Specialist has to fill thoroughly and without errors and mistakes the special Application Form, supplied by the World Bank with the Disbursement Letter. It is important that all required fields are filled in order the Application to be accepted and executed by the Bank.

Payment Order for payment to Local Client from the Special Account in the Treasury opened for this type of Payments

This order has to meet the requirements of the Treasury and to have additional information, necessary for the World Bank to identify the payment as a Project eligible payment.

Payment Order to the Commercial Bank for payments of Local Contribution in foreign exchange

This should follow the requirements of the Romanian Commercial Bank and shall have all the necessary requisites as for a payment from the Special Account (See above).

Before issuing the corresponding payment instruction, the Project Financial Management Specialist should verify that the corresponding accounts have enough funds to cover the payment and in case of insufficient funds, immediately shall inform the Project Manager and undertake the necessary actions to resolve the problem

3. The Project Manager countersigns the Payment Instruction;
4. The Payment Instruction is submitted to the Procurement Specialist or other designated signatory for signing.
5. After all signatures are in place, the Payment Instruction is submitted to the Bank or the Treasury, or to the WB in the case of direct withdrawal for processing;
6. A copy of the signed Payment Instruction is attached to the Invoice before it is placed in the file of supporting accounting documentation kept by the PMU for use by the auditors.

I.5.3.3. Procedures for Operating the Cash at Hand

The Cash at Hand shall be used by the PMU to cover small payments of Incremental Operational Costs, where it is not feasible to sign contracts or for advance payments for monitoring and supervision missions of the PMU Staff.

1. The Project Financial Management Specialist shall prepare on a monthly or weekly basis, jointly with the Procurement Specialist a budget for the expenses, which may be covered by the Cash at Hand.
2. The Project Manager approves the Budget.
3. The Project Financial Management Specialist prepares Withdrawal Application to the Special Account or the Local Contributions Account, from which the sum shall be withdrawn. The Application should authorise either the Project Manager

or the Project Financial Management Specialist (as appropriate) to receive the cash from the Bank.

4. The disbursement of the Cash should follow the normal order established in Romania for such disbursements. The Project Financial Management Specialist should keep in a special file all primary documentation for such payments (receipts, reports, statements for expenditures, tickets, hotel bills, etc)

The operations shall be registered in the accounting system as normal payments.

I.5.3.4. Registering the Operations

Registering (Accounting) the operation shall be done by the Project Financial Management Specialist. This operation shall be executed in the following stages:

- i) Registering of the Invoice. When the Invoice, submitted by the Contractor has been checked and approved by the Procurement Specialist, the Project Financial Management Specialist should be supplied with a copy to be registered in the FMIS. The Project Financial Management Specialist enters the date of the receipt of the Invoice, the name of the Contractor, the Invoice Number and the Amount approved for payment (in the currency of the Invoice and the Grant Currency).
- ii) After the Payment Instruction has been processed by the bank, the Project Financial Management Specialist registers the operation with the date on the Bank Statement into the FMIS.

I.5.4 REPLENISHMENTS

According to the Grant Agreement, when the funds in the Special Account drop below the authorised allocation, or after six months from the previous application, whichever occurs first¹, the PMU shall prepare and submit to the World Bank and application for replenishment, with attached Statement of Expenditures (SOE).

The SOE shall be prepared by the Project Financial Management Specialist on the basis of the Bank Statements for the Special Account. It shall list in the Form (1903 SE /1-92/), samples of which are delivered with the Disbursement Letter.

The computerised accounting system PAIS provides the facility for automated preparation of the SOEs.

I.6. PROJECT MANAGEMENT REPORTING

I.6.1 PROJECT MANAGEMENT REPORTS

The Project Management Report, quarterly prepared by the PMU and presented to the WB and the PSC within 45 days from the end of the preceding quarter, whether or not further advances are required.

The Project Management Report contains the set of Financial Statements cumulatively and for the period covered by the report, as listed in the previous sub-

¹ The Disbursement Letter contains full instructions about the timing for presenting the Application for Replenishments.

section as well as expenditures proposed to be financed during the following three-month period.

I.6.2 FINANCIAL STATEMENTS

- A. Summary of Sources and Uses of Funds
- B. Uses of Funds by Project Activity
- C. Balance Sheet
- D. Special Account Statement
- E. Income and Expenditures statement
- F. Project Expenditures Statement

I.6.3 PROJECT PROGRESS REPORT

The PMU issues quarterly Progress implementation Reports. These reports are consolidated in a semi-annual Progress Report.

The Progress Report contains comparisons of actual physical and financial progress vs. forecasts, and updated six-month project forecast. The function of the Progress Project Report is:

1. To measure performance against the implementation schedule and compliance with Grant covenants and to ensure proper control, which allows swift action to be taken to correct deviations from the plan.
2. The baseline for all monitoring of progress will be the approved component/ sub-component plans. The normal monitoring cycle will be monthly. However the WB (Task Manager or Regional Office) can call for more regular reports at key times.

The report is signed by the Project Manger.

The report shall be submitted to the World Bank the MWEP and the PSC. The PSC will consider the report and will consider whether any changes need to be made, using the formal change control mechanisms. The role of the PSC is to:

- review progress against plan;
- identify problem areas and initiate solutions by assigning issues to individuals;
- identify targets for the next reporting period;
- determine whether the Project is and will remain within its overall time-scale;
- make any recommendations for changes to the Project Plan.

I.6.4 PROCUREMENT MONITORING REPORTS

The Procurement Monitoring reports contain information on actual achievement of procurement target dates versus planned target dates, for every procurement activity. They shall be prepared by the Procurement Specialist.

II. PROJECT PLANNING PROCEDURES

A plan is a document describing how, when and by whom a specific target is to be achieved. A plan is a design of how identified targets for products, time-scales, costs and quality can be met.

A plan consists of a statement of:

- the products to be produced;
- the activities needed to create those products;
- the activities needed to validate the quality of those products;
- the resources and time needed for all activities;
- the dependencies between activities;
- external dependencies for the delivery of information, products or services;
- when activities will occur;
- the points at which progress will be monitored and controlled;
- what risks there are that may prevent the plan being achieved and what measures should be taken to address these risks.

A product-based approach to planning has been adopted to assist the effective planning and monitoring of the project. This will allow the PMU to focus on the products to be delivered at each phase of the project.

II.1. IMPLEMENTATION PLANNING

There will be one type of implementation plan used in this project - a high-level annual project implementation plan incorporating any component or sub-component. These plans are dynamic and will need to be revised as the project develops. Guidance on how agreement on changes to the plan will be reached is in Section III.

The project plan is the overview of the project and is updated by the PMU in consultation with the participating institutions and the Task Manager. It includes a view of the major outputs or products of the project and major milestones.

It has to include the original targets and performance indicators, compared to the actual implementation for the reported period (semi-annual or annual). An analysis of the implementation has to be made, including measures to resolve the problems, if any.

On the basis of the analysis an amended Implementation Plan for the next period has to be developed.

This Plan must incorporate all necessary changes in the tasks to be achieved and proposed corrections to be made in the performance indicators.

II.2. PROJECT MANAGEMENT REPORTS (PMR)

The Project Management Reports are to be delivered quarterly and form an integral part of the planning procedures as they contain most information needed for the Project Planning:

- *Financial Statements* providing information on the Sources and uses of Funds by Grant Category and by Project Activity, forecasts of expenditures, amount of disbursements requested and an reconciliation of the Special Account;
- *Project Progress Reports* providing information on project implementation progress in physical and financial terms using monitoring implications, including identifying deviations from plan and explaining reasons for such variations;
- *Procurement Management Reports* provides a report on the status of Procurement and Contract commitments and expenditures, including source of supply data for contracts monitoring the Procurement Plan.

The Project Management Report is dealt within Section I.6.

III. CHANGE OF CONTROL PROCEDURES

The reason for having a change control mechanism is to ensure that that the impact of any changes to plans is properly assessed in a structured way. With any project with a number of components, there are risks that changes in one area may have an impact elsewhere which needs to be considered before the change is made.

A change is defined as an amendment to the make up of a product or output or the timing of its development.

Change control is defined as the process by which the decision to approve, reject, postpone or resubmit a change to an output is controlled and managed.

The change control process has 4 stages:

- raising a request for change form - this is prepared by the
- impact analysis of the request for change by the other components;
- submission of request for change to relevant authorising body;
- action following the decision.

The PMU will hold a record of all change requests.

Any approved change must be noted on the front cover of the project plan or component plan. The Project Manager has the responsibility to ensure that all those with copies of the plan or product description have the most recent version in issue including any approved changes. The PMU will maintain a library of all plans and product documents, including their amendments.

IV. AMENDMENT OF THE PROJECT FINANCIAL MANAGEMENT MANUAL

This Financial Management Manual shall not be amended without prior approval of the WB.

CHART OF ACCOUNTS

Account CODE	TEXT
10000	Assets
11000	Cash at Bank
11100	Special Account
11110	SA in ROL
11300	Local Contributions
11310	USD Account in RCB for Interest and Charges
11320	Account in Treasury for Project Expenses
11330	ROL Account in RCB for Interest and Charges
11900	Cash at Hand
11910	Cash in Forex
11920	Cash in ROL
13000	Accounts Receivable
13300	Insurance and Guarantees in
13400	Taxes and Custom Duties Receivable
13500	Replenishments
14000	Other Current Assets
14100	Advance Payments
14110	Prepayments - GEF
14120	Prepayments - LC
14130	Prepayments - Other Lenders
14200	Letters of Credit
14210	Letters of Credit - GEF
14211	Letters of Credit
14212	Special Commitment
14220	Letters of Credit - LC
14230	Letters of Credit - Other Lenders
15000	Inventory and Related Property
15010	Inventory and Related Property (GEF)
15020	Inventory and Related Property (LC)
15030	Inventory and Related Property (OTH)
15100	Operating Materials and Supplies Held for Use

15110	Operating Materials and Supplies Held for Use (GEF)
15120	Operating Materials and Supplies Held for Use(LC)
15130	Operating Materials and Supplies Held for Use (OTH)
15200	Operating Materials and Supplies Held for Future Use
15210	Operating Materials and Supplies Held for Future Use (GEF)
15220	Operating Materials and Supplies Held for Future Use (LC)
15230	Operating Materials and Supplies Held for Future Use (OTH)
15300	Inventory - Raw Materials
15310	Inventory - Raw Materials (GEF)
15320	Inventory - Raw Materials (LC)
15330	Inventory - Raw Materials (OTH)
15400	Inventory - Work in Progress
15410	Inventory - Work in Progress (GEF)
15420	Inventory - Work in Progress (LC)
15430	Inventory - Work in Progress (OTH)
16000	Fixed Assets
16010	Fixed Assets (GEF)
16020	Fixed Assets (LC)
16030	Fixed Assets (OTH)
<i>16100</i>	<i>Buildings, Improvements and Renovation</i>
16110	Buildings, Improvements and Renovation (GEF)
16120	Buildings, Improvements and Renovation (LC)
16130	Buildings, Improvements and Renovation (OTH)
<i>16200</i>	<i>Land Improvement</i>
16210	Land Improvement (GEF)
16220	Land Improvement(LC)
16230	Land Improvement(OTH)
<i>16300</i>	<i>Computer Equipment</i>
16310	Computer Equipment (GEF)
16320	Computer Equipment (LC)
16330	Computer Equipment (OTH)
<i>16400</i>	<i>Equipment and Hardware</i>
16410	Equipment and Hardware (GEF)
16420	Equipment and Hardware (LC)
16430	Equipment and Hardware (OTH)

16500	<i>Information Technology Software</i>
16510	Information Technology Software (GEF)
16520	Information Technology Software (LC)
16530	Information Technology Software (OTH)
16600	<i>Furniture</i>
16610	Furniture (GEF)
16620	Furniture (LC)
16630	Furniture (OTH)
16700	<i>Vehicles</i>
16710	Vehicles (GEF)
16720	Vehicles (LC)
16730	Vehicles (OTH)
16900	<i>Other Fixed Assets</i>
16910	Other Fixed Assets (GEF)
16920	Other Fixed Assets (LC)
16930	Other Fixed Assets (OTH)
20000	<i>Liabilities</i>
21000	Current Liabilities
21100	<i>Creditors</i>
21110	Creditors Payable to Project Account
21130	Other Creditors (Accruals)
21600	Local Contributions Payable to Project Account (VAT, Customs Duties)
21800	Other Current Liabilities (Contingencies)
22100	Long Term Debt - GEF
22110	GEF Grant
24000	Replenishments to Special Account - World Bank
30000	<i>Funding Sources Accounts</i>
31910	Local Contributions Operative - Calrasi County
31920	Local Contributions Operative - Beneficiaries
31930	Local Contribution Operative - Communas
32000	Government Grants
39000	Accumulated Income and Expenditure
39500	Income and Expenditure - Period
40000	<i>Revenue Accounts</i>
41000	Interest Received

41010	Interest Received - SA
41020	Interest Received - LC Account
41030	Interest Received - Other Lenders' Accounts
42000	Currency Differences Gains
42010	Currency Differences Gains - SA
42020	Currency Differences Gains - LC Accounts
42030	Currency Differences Gains - Other Lenders' Account
43000	Contrarevenue from Currency Differences
43010	Contrarevenue from Currency Differences - SA
43020	Contrarevenue from Currency Differences - LC Accounts
43030	Contrarevenue from Currency Differences - Other Lenders' Accounts
44000	Insurance and Bank Guarantees
46000	Local Contribution Transferred in without Reimbursement
47000	Other Project Revenue
50000	Expenses Accounts
51000	Operational Costs
51010	Operational Costs (GEF)
51020	Operational Costs (LC)
51030	Operational Costs (OTH)
<i>51100</i>	<i>PMU Salaries (GEF)</i>
51110	Actual Salary Amount Paid
51120	Withdrawals for personal Grants
51130	Social Security payments
51140	Health Insurance payments
51150	Additional Pension Fund
51160	Unemployment Fund
51190	Other
<i>51200</i>	<i>PMU Salaries (LC)</i>
51210	Actual Salary Amount Paid
51220	Withdrawals for personal Grants
51230	Social Security payments
51240	Health Insurance payments
51250	Additional Pension Fund
51260	Unemployment Fund
51290	Other

51300	<i>PMU Salaries (OTH)</i>
51310	Actual Salary Amount Paid
51320	Withdrawals for personal Grants
51330	Social Security payments
51340	Health Insurance payments
51350	Additional Pension Fund
51360	Unemployment Fund
51390	Other
51400	<i>PMU Inventory</i>
51410	PMU Inventory (WB)
51420	PMU Inventory (LC)
51430	PMU Inventory (Other)
51500	<i>Telephone, mail, fax</i>
51510	Telephone, mail, fax (WB)
51520	Telephone, mail, fax (LC)
51530	Telephone, mail, fax (Other)
51600	<i>Consulting, training and other services</i>
51610	Consulting, training and other services (WB)
51620	Consulting, training and other services (LC)
51630	Consulting, training and other services (Other)
51700	<i>Office supplies</i>
51710	Office supplies (WB)
51720	Office supplies (LC)
51730	Office supplies (Other)
51900	<i>Other Operational Costs authorized by the Loan</i>
51910	Other Operational Costs authorized by the Loan (WB)
51920	Other Operational Costs authorized by the Loan (LC)
51930	Other Operational Costs authorized by the Loan (Other)
53000	Management Fee - GEF
54000	Project Expenditures for Consulting and Training Services
54010	Project Expenditures for Consulting and Training Services (GEF)
54020	Project Expenditures for Consulting and Training Services (LC)
54030	Project Expenditures for Consulting and Training Services (OTH)
54100	<i>Consulting</i>

54110	Consulting (GEF)
54120	Consulting (LC)
54130	Consulting (OTH)
<i>54200</i>	<i>Training</i>
54210	Training (GEF)
54220	Training (LC)
54230	Training (OTH)
<i>54300</i>	<i>Study Tours</i>
54310	Study Tours (GEF)
54320	Study Tours (LC)
54330	Study Tours (OTH)
<i>54400</i>	<i>Fellowships</i>
54410	Fellowships (GEF)
54420	Fellowships (LC)
54430	Fellowships (OTH)
57000	Bank Charges
57010	Bank Charges (SA)
57020	Bank Charges (LC)
57030	Bank Charges (OTH)
59000	Other Expenditure
59010	Other Expenditure (GEF)
59020	Other Expenditure (LC)
59030	Other Expenditure (OTH)
59200	Insurance Premium
59300	Eligible Office Expenses
59400	Other Expenditure (Accruals)

Sample Segregation Of Duties:

ACTION	RESPONSIBILITY
1. Preparation of TOR/TS	Procurement Specialist
2. Bidding Documents	Procurement Specialist
3. Bid Announcement	Procurement Specialist
4. Bid Evaluation	PMU with participation of implementing agencies / beneficiaries
5. Bid Evaluation Report Preparation	Procurement Specialist
6. Contract Award & Signature	Project Manager
7. Request for no-objection	Procurement Specialist
8. Contract Implementation Monitoring	PMU
9. Approval of Contract Deliverables	PMU- Director and Financial System Management Specialist
10. Receiving Invoice	Financial System Management Specialist
11. Approval of Invoice submitted to the PMU	PMU – Financial System Management Specialist
12. Payment Order Signatures	PMU – Project Manager, Financial System Management Specialist
13. Payment Documents Filing	Financial System Management Specialist
14. Co-financing Payment Order	PMU – Project Manager, Financial System Management Specialist

Sample Scheme of Document Flow

- Step 1.** All the incoming documents are registered by the Administrative Assistant in the Registry System (Journal) of the PMU. If an invoice has been received, the Administrative Assistant inputs the date of receiving and the issuing entity in the PMU Registry System.
- Step 2.** The Administrative Assistant then delivers the incoming mail to the PMU Director who then channels it to the responsible persons in each case.
- When an invoice is received, the PMU Director checks if said invoice is properly dated and signed by the contractor's/supplier's authorized representative and then passes it to the Project Financial Management Specialist. In case of supporting documents under an ongoing contract, these are transferred to the Financial Management Specialist as well.
- When the document received refers to the procurement process the PMU Director channels it to the Procurement Expert and/or to the Financial Management Specialist, e.g., if a “no objection” form from the World Bank is received, it has to be filed by both, the Procurement Expert and the Financial Management Specialist. If the document received is an offer or Bank Guarantee or similar, related to an ongoing tender, then it is stored in a safety box at the PMU, accessed only by the PMU Director and the Financial Management Specialist.
- Step 3.** The Financial Management Specialist checks if the invoice clearly specifies the civil works executed, goods supplied, services supplied, and is supported by a statement of accomplished works, as appropriate. The invoice should show the costs, taxes shown separately, of the work done, the amount of any deduction for the mobilization advance, the total amount to be paid, the contractor's/supplier's bank account to which payment should be made, and the pertinent reference to the accompanying statement(s) of work accomplished.
- Step 4.** The Financial Management Specialist requests clearance of the Invoice from the PMU Director, respectively of the Working Groups or the corresponding local institutions representative.
- Step 5.** The PMU Director verifies the invoice and attached statements and together with the Working Group issues a clearance/letter of satisfactory contract performance by supplier, which certifies the works are accomplished, the goods are supplied or the service performed, and then transmits the file to the Financial Management Specialist for payment.
- Step 6.** The Financial Management Specialist checks the breakdown of the invoice against the undisbursed portion of the commitment shown on the contract record into the FMIS system, and prepares the payment order for payments included in the Project Management Report for the current quarter, or in the case that such invoice has not been included in the Project Management Report for the current quarter, a request supported by evidence for deposit into the SA of the invoice amount, is furnished to the WB. Except in the event of duly proven force major, the total time that elapses between receipt of the invoice by the PMU and the issuance of the payment order to the bank (regarding payment to the contractor/supplier) shall not exceed 20 working days.
- Step 7.** The Financial Management Specialist prepares the Payment Instruction for the net amount to be paid to the Contractor's Bank account as specified in the corresponding Invoice;

- Step 8.** The PMU Director countersigns the Payment Instruction;
- Step 9.** After all signatures are in place, the Payment Instruction is submitted to the Bank/Treasury for processing;
- Step 10.** A copy of the signed Payment Instruction is attached to the Invoice before it is placed in the file of supporting accounting documentation kept by the PMU for use by the auditors.
- Step 11.** Registering (Accounting) the operation shall be done by the Financial Management Specialist.

Sample Contract Forms for Works, Goods, Technical Assistance

"CONTRACT"

Contractor:		Payment Nr.	1	2	3
Contract No:					
Category:	Consulting&Training	<u>Authorizations:</u>			
WB no Objection	"Date of receipt"	PID Director			
		PIDAccountant			
		Project Manager			
		<u>Contract Covenants:</u>			
		Bank Guarantee			
		Progress Reports/Final Report			
		Verification of Reimbursables			
		Other Deliverables			
		Study Tour Accounting Records			

"CONTRACT"

Contractor:		Payment Nr.	1	2	3
Contract No:					
Category:	Works	<u>Authorizations:</u>			
WB no Objection	"Date of receipt"	PID Director			
		PIDAccountant			
		Project Manager			
		<u>Contract Covenants:</u>			
		Performance Bond			
		Contract Documents			
		Work in Progress Acceptance/ Final Reception Pprotocol			
		Others			

"CONTRACT"

Contractor:		Payment Nr.	1	2	3
Contract No:					
Category:	Goods	<u>Authorizations:</u>			
WB no Objection	"Date of receipt"	PID Director			
		PIDAccountant			
		Project Manager			
		<u>Contract Covenants:</u>			
		Performance Bond			
		Contract Documents			
		Acceptance or Installation Protocol			
		Others			

Y - available
 N - not available
 na - not applicable

Sample Travel Expense Form

1. Remuneration of Staff (Supported by Schedule A)					Calculated	OVERALL	Contractual	Invoice 1	Invoice x
a) Foreign Personnel									
		Man Months @ US\$	0.00	per month	0.00	\$0.00	0.00		
		Man Months @ US\$	0.00	per month	0.00	\$0.00	0.00		
		Man Months @ US\$	0.00	per month	0.00	\$0.00	0.00		
					SUBTOTAL	\$0.00	0.00		
b) Local Personnel									
		Man Months @ US\$	0.00	per month	0.00	\$0.00	0.00		
		Man Months @ US\$	0.00	per month	0.00	\$0.00	0.00		
		Man Months @ US\$	0.00	per month	0.00	\$0.00	0.00		
					SUBTOTAL	\$0.00	0.00		
2. Out-of-Pocket Expenses									
a) International Travel (Supported by Schedule B and ticket stubs)									
		1) Consultants				\$0.00	0.00		
		2) Dependants				\$0.00	0.00		
		3) Miscellaneous				\$0.00	0.00		
					SUBTOTAL	\$0.00	0.00		
b) Accommodation									
		1) Hotel	Man Months @ US\$	0.00 per month	0.00	\$0.00	0.00		
		2) Rent	Man Months @ US\$	0.00 per month	0.00	\$0.00	0.00		
					SUBTOTAL	\$0.00	0.00		
c) Subsistence									
			months @ US\$	0.00 per month	0.00	\$0.00	0.00		
d) In-country Travel									
			months @ US\$	0.00 per month	0.00	\$0.00	0.00		
					SUBTOTAL	\$0.00	0.00		
3. Office Costs									
a) Rent									
			months @ US\$	0.00 per month	0.00	\$0.00	0.00		
b) Renovation									
							0.00		
c) Running Costs									
		Office	months @ US\$	0.00 per month	0.00	\$0.00	0.00		
		Car	months @ US\$	0.00 per month	0.00	\$0.00	0.00		
d) Office Supplies									
			months @ US\$	0.00 per month	0.00	\$0.00	0.00		
e) Office Staff									
			months @ US\$	0.00 per month	0.00	\$0.00	0.00		
f) Local Advisors									
	ceiling					\$0.00	0.00		
g) Translation									
	ceiling					\$0.00	0.00		
					SUBTOTAL	\$0.00	0.00		
4. Fixed Assets									
a) Vehicle									
	ceiling				0.00	\$0.00	0.00		
b) Office Equipment									
	ceiling				0.00	\$0.00	0.00		
c) Office Furniture									
	ceiling				0.00	\$0.00	0.00		
d) Other									
	ceiling				0.00	\$0.00	0.00		
					SUBTOTAL	\$0.00	0.00		
5. Training									
a) Study Tours									
b) Workshops									
6. Establishment of a Pilot Office									
7. Software									
a) Off-the-Shelf									
b) In-house Development									
c) Tools									
8. Contingencies									