

**PROJECT INFORMATION DOCUMENT (PID)  
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC61536

<b>Project Name</b>	Swaziland IFMIS Technical Assistance Project
<b>Region</b>	AFRICA
<b>Country</b>	Swaziland
<b>Sector(s)</b>	Central government administration (100%)
<b>Theme(s)</b>	Public expenditure, financial management and procurement (100%)
<b>Lending Instrument</b>	IPF
<b>Project ID</b>	P159628
<b>Borrower Name</b>	Ministry of Finance
<b>Implementing Agency</b>	Swaziland
<b>Environment Category</b>	C - Not Required
<b>Date PID Prepared</b>	07-Mar-2016
<b>Estimated Date of Approval</b>	10-Aug-2016
<b>Initiation Note Review Decision</b>	The review did authorize the preparation to continue

**I. Introduction and Context**

**Country Context**

1. The primary development challenge for the Kingdom of Swaziland is to address the high rate of poverty and inequality in the country. An estimated 63 per cent of the population lives below the poverty line and inequality is very high with a Gini coefficient of 49.5. Between 2001/02 and 2009/10 consumption of the bottom 40 per cent of the population grew very slowly. Poverty is strongly correlated with unemployment, which is about 28.5 percent overall and 52.4 percent among the youth. Poverty is also associated with the high burden of communicable diseases. The HIV/AIDS prevalence of 31 per cent of the population is the highest in the world and life expectancy has fallen to approximately 49 years. While the country has made significant progress towards achieving the MDGs, it is unlikely to reach the health related MDGs due to the high disease burden.

2. To address poverty, the country has to overcome its low growth trap. During the 1980s, Swaziland grew at a rapid pace that exceeded the growth rate of other SADC member states. Growth slowed down in the 1990s, but remained positive at an average rate of around 3.7 percent, and dropped further to an average rate of around 2.3 percent in the 2000s. Stimulating growth requires a multipronged effort aimed at addressing the HIV/AIDS and TB co-epidemic, managing external and domestic shocks better, promoting good governance and fiscal management, and strengthening the domestic investment climate in a way that will make Swaziland a destination of choice for investors. Growth will need to be supported by investments in human capital and an inclusive social safety net system to address the poverty challenge.

3. Government has published its “Programme of Action (2013-2018)”. It reaffirms His Majesty’s vision 2022, and provides the following definition: “A first world country is one where all citizens are able to sustainably pursue their life goals, and enjoy lives of value and dignity in a safe and secure environment. This implies equitable access to sufficient resources, education, health, food security and quality infrastructure and services, as well as good governance.” To measure progress towards Vision 2022, the Government has recently defined the Swaziland Development Index (SDI), a composite index with eight focus areas: (i) economic prosperity, (ii) agriculture & environmental sustainability, (iii) education, (iv) health, (v) government service delivery, (vi) infrastructure, (vii) governance, and (viii) corruption. The index will be used to assess the country’s overall status, but also to set performance targets and action plans for ministries and agencies up to 2022. Prior to initiation of the SDI process, there has been no Government wide system of tracking development results.

4. The Country Partnership Strategy (CPS) FY2015-2018 recognizes country specific constraints, as well as client demand for World Bank Group (WBG) support in selected developmental areas, which are consistent with the World Bank Group’s strategic goals of reducing extreme poverty and promoting shared prosperity in a sustainable way. The new CPS prioritizes two program pillars: (i) Promoting growth and job creation - This pillar will support Government create an enabling environment for private sector investment and competitiveness, MSME growth and job creation with a strong focus on the agribusiness and tourism sectors; and (ii) Strengthening state capabilities to design implement and monitor policies to reduce poverty and inequality - The World Bank Group will under this pillar provide support in the areas of governance, economic management and social services delivery. The CPS seeks to mitigate governance and implementation risks through interventions directly affecting service delivery to citizens such as health, local government capacity, public sector efficiency, and job creation as well as promoting advocacy and partnerships.

### **Sectoral and Institutional Context**

5. In both the Government’s “Programme of Action (2013-2018)” and the CPS governance, economic management and public sector efficiency are key focus areas. A well performing PFM system is a prerequisite to improve these focus areas. A “Country Integrated Fiduciary Assessment” (CIFA) was published in 2011 – the summary PEFA PFM Performance Report is attached as Annex 1. The assessment of the potential impact of the PFM weaknesses concluded that “the PFM system in Swaziland has yet to achieve levels of good practice that will ensure fiscal discipline, strategic allocation of resources, efficient, economical and effective service delivery and accountability. Most PFM indicators continue to lag basic levels of good performance. There remain key risks in the PFM system that require urgent further mitigation – (i) over-expenditure due to poor discipline in expenditure controls; (ii) high levels of expenditure arrears due to lack of full implementation of a commitment system; (iii) weak accountability arrangements due to inadequate capacity in financial reporting, internal audit, Auditor-General and the PAC; (iv) weak payroll systems; and (v) fiscal shortfalls as there is no appropriate fiscal planning framework and ineffective tax institutions.”

6. As a result of the CIFA, Government has formulated a PFM Reform Action Plan (PFMRAP) and initiated implementation since FY 2011/12, including preparation of a new bill for Public Finance Management. The PFM reforms encompass various activities including

reintroduction of medium term budgeting, improving budget formulation, budget execution and expenditure control, improving internal audit and internal control, and improving accounting, recording and reporting of fiscal operations of Government. However, implementation of the PFM RAP has been slow, and these key risks are still prevalent.

7. The CIFA assessment highlighted a number of weaknesses in the area of accounting, control and reporting - (i) a lack of regular bank reconciliations and clearance of suspense and advances; (ii) very little information maintained at Ministries on resources received directly by service delivery units; (iii) in-year budget reports are not being prepared making it difficult for MOF to monitor budget performance and to identify new actions to get the budget back on track and for the Ministries to manage better the operations for which they are accountable; (iv) central government consolidated financial statements is prepared without essential information on assets and liabilities, (v) no formal accounting standards are used to prepare the financial statements, and (vi) late submission of the consolidated financial statements for audit.

8. A review by Government in 2011 also identified a number of weaknesses with the current Treasury Accounting System of Government. The weaknesses include –

a. There are a number of applications in use but are not fully integrated and lacking some functionalities—which leads to entering and re-entering data at many points leading to duplication of work, thereby rendering the Government accounting and financial management system partially manual with a high potential for errors in addition to providing opportunities for misappropriation of resources.

b. Not all functionalities required for budget preparations, execution and reporting have been fully developed. Examples of functionalities not fully developed include initial preparation of estimates, requisitions for capital project warrants, tracking of completion certificates against warrants for capital projects, processing requisitions and quotations, printing of payment vouchers and other supporting documents, processing payment adjustments, bank reconciliation, cash flow and procurement plans.

c. There is a general lack of reporting capability and where they exist, they are in the form of printed reports which are difficult to use for further analysis.

d. End users lack the facility to review information online or to generate their own reports.

e. There are many instances of batch processing of data as opposed to online real time processing common in most modern systems.

f. There is a lack of a clear path or ability to upgrade current applications for missing functionalities.

g. System documentation is limited and scanty.

h. The current system has a text based user interface as opposed to a graphical interface, which affects end user productivity.

i. Chart of accounts needed to be reviewed to facilitate other management, monitoring and reporting requirements such as MTEF, performance budgeting and reporting.

j. Routine processes such as bank reconciliation are not automated leading to creation of huge backlogs for unreconciled accounts.

k. Current system uses batch processing as opposed on online real-time processing used by most modern system. If one transaction is not complete in a batch then the all transactions are rejected.

l. Management of budget data is centralized, with bulk of the work being done by Budget Department at Ministry of Finance.

- m. Current system is unable to enforce compliance with issued budget ceilings and commitment plans.
- n. There are no audit trails in the current system for capital projects to provide transactions details. Payments cannot be tracked against phase / milestone and completion certificates, which sometimes give rise to arrears of unpaid certificates. Most financial information and files for capital projects are manually maintained and stored.
- o. Commitment control is weak leading to budget overruns.
- p. The current commitment control has several weaknesses and is not fully integrated with all other sub-systems. Further it does not cover all expenditure transactions such as: salaries, CTA, utilities, general ledger journals.
- q. The current system does not provide the ability to track commitments incurred by various Government entities at various stages of transaction processing.
- r. Generally Government clients (suppliers, contractors) are not paid in time and it is a major challenge.
- s. There are no master files for suppliers and inventory items with completed details.
- t. Supporting documents for procurement processes are manually filed and often get misplaced.
- u. Line Ministries enter payment transactions details on the system and at the same time prepare manual payment vouchers to support transactions on the system.
- v. Most of key bank reconciliation reports are done manually and there is a backlog of reconciliation for most Treasury bank accounts.
- w. Current system is not flexible in reports production and does not support ad hoc data retrieval without writing programs.
- x. Payroll system is not integrated with General Ledger and Accounts Payable and payroll expenditure transactions are not subjected to commitment control.
- y. The current system is not integrated and does not provide sufficient details to address audit requirements; there are insufficient audit trails to trace back the totals reported in various generated reports.

9. To strengthen the accounting and budgeting functions within Government, both the CIFA and the above review of the TAS recommended installing an IFMIS. In particular, the system should, as a minimum: (i) fully support Government financial management; (ii) be a fully integrated system that operates in online real-time mode, and web-enabled; (iii) be user friendly and enables fast adaptation by end users; (iv) be secure and supports extensive audit capabilities; (v) be a tried and tested solution with a wide user base; (vi) be developed using state of the art tools and provides extensive tools for configuration; (vii) support a wide range of reporting and data downloading capabilities that can be employed by end users with ease to track and monitor transactions; (viii) be able to interface with critical government systems in the Central Bank of Swaziland and the Swaziland Revenue Authority.

10. This recommendation was adopted by Government and was included in the PFM Reform Action Plan. To set the ball rolling, the Ministry of Finance allocated SZL7 million in the FY 2013/14 recurrent budget to assist Treasury to start the process of implementing the IFMIS. The MOF decided to acquire an off-the-shelf solution and invited bids from three tier 2 companies. A preferred supplier was identified, but contracting was not finalized as the allocated funds were insufficient. In the period up to September 2015 only about SZL1 million was retained in the budget to initiate some work on the IFMIS, but funds to proceed with contracting of a supplier and other resources for the project was substantially unsecured.

11. The European Commission (EC) also decided during 2012 to launch a “Swaziland Governance (Public Finance Management) Programme”, amounting to €8.2m. This program proposes as a core intervention technical assistance for an IFMIS, to be provided by the World Bank through an agreement amounting to €3.34m (USD 3.64m). The initial request was to set up a “Bank Executed Trust Fund”, but based on a decision in September 2014 that this will not be possible, the EC and the Bank then pursued the possibility to provide technical assistance through a reimbursable advisory services agreement. After consultation with Brussels the EC indicated in October 2015 that their funds would have to be channeled through a “Recipient Executed Trust Fund”.

12. Under the new CPS the Government and the World Bank has also embarked on the design, appraisal and negotiation of an investment project aimed at “Public Sector Modernization” (P152528). This operation is linked to the objective of the second CPS pillar (Strengthening state capabilities) by supporting the performance of the public sector through several cross-cutting and mutually reinforcing interventions. It was initially proposed to the Government to fund the shortfall in funding for the implementation of the new IFMIS (estimated at about E78m) through this project, but Government has confirmed in September 2015 that it will provide the necessary funding for the purchase of hardware and software in the 2016/17 MTEF.

#### **Relationship to CAS/CPS/CPF**

13. The Bank’s new CPS FY2015-2018 will prioritize two program pillars: (i) Promoting growth and job creation; and (ii) Strengthening state capabilities. This second pillar intends to provide support in the areas of governance, economic management and social services delivery. The CPS specifically identifies that governance will be supported through initiatives aimed at improving transparency and accountability systems. This is an area of World Bank comparative advantage, and the new CPS confirms support in PFM through partnerships with development partners such as the EC. Non-lending technical advisory and knowledge sharing services is included as key modalities to achieve improvements in PFM, in critical areas such as the IFMIS and its functionality to support revenue and expenditure management, budget and commitment control systems, expenditure arrears management, financial reporting, internal and external audit. The technical assistance to be provided under this operation directly supports this.

14. This operation also have linkages with an investment financing project under preparation, aimed at “Public Sector Modernization” (P152528). The proposed project is an Investment Project Financing operation financed by a US\$25 million IBRD loan over a five year period. The project is designed to reflect the strategic areas of the National Development Strategy (1997-2022), currently under revision. Additionally, it draws from subsequent strategic documents such as the Poverty Reduction Strategy Action Plan (2008), the PFM Action Plan (2012), the National Development Plan (2014-2017) and the Program of Action 2013-2018. It is designed to facilitate the government's renewed focus on improved public sector performance through interventions that address key management challenges in selected ministries to unblock constraints that hinder the performance of their mandates, especially those related to human resource management and financial management (which will be supported by the envisaged IFMIS). Specific interventions to improve core financial management capabilities of staff who will be operating the new IFMIS, will be undertaken under this project. The selected ministries are among the strategic ministries whose functions are described in the government’s definition of first work status; three of them (education, agriculture and health)

account for nearly half of the total number of civil servants, and there are also in the process of undertaking their own reform initiatives linked to improving frontline service delivery.

## II. Project Development Objective(s)

### Proposed Development Objective(s)

15. The development objective is to improve financial control, and the quality and timeliness of public financial management information.

### Key Results

16. Achievement of the development objective will be measured through the – (i) the improvement in commitment control over the budget; (ii) the provision of timely and reliable in-year budget execution reports; and (iii) the provision of timely and reliable annual financial statements. In this regard an updated PEFA PFM Performance Measurement Report will be used as a source of verification. A results framework will be developed in the project document supporting the financing agreement with the Swaziland Government.

## III. Preliminary Description

### Concept Description

17. The project will support the procurement, configuration and implementation of an off-the-shelf financial management system for all budget votes funded through the Government's Consolidated Fund. In broad terms, it has been agreed that the two sources of funding will be used as follows:

- a. Government has confirmed in September 2015 that it will provide the necessary funding for the purchase of hardware and software in the 2016/17 MTEF. This is estimated to be USD5.00 million.
- b. The EC funding of USD3.64m (EUR3.34m) would be channeled through a "Recipient Executed Trust Fund" at the World Bank, and fund the technical assistance required for – (i) the design and implementation of the new PFM business processes, controls and information and technical architectures; (ii) direct costs associated with the delivery of the technical assistance; and (iii) project management.

18. Component 1: Design and implementation of the new PFM business processes, controls and information and technical architectures (USD2.11m)

This activity will provide technical assistance for –

- a. Business process mapping, review and reengineering; design of the financial control, accounting and reporting requirements; and determination of system interfaces.
- b. Technical architecture review and design, including site locations, networks, server environment, end-user equipment, data storage and back-up facilities
- c. Determination of the user base and capacity gap assessment
- d. Assessment of change management requirements
- e. Procurement and contracting the IFMIS solution components
- f. Quality assurance of the set-up, configuration and commissioning of the IFMIS solution
- g. Delivery of the business process, accounting, reporting and IFMIS training plans
- h. Implementation of the change management plan
- i. Set-up of the IFMIS administration functions, including security and business continuity arrangements and procedures

j. Data clean-up and conversion from the TAS to the new IFMIS

19. Directs costs associated with set-up of the Trust Fund and the delivery of the technical assistance (USD1.01m)

This activity includes the direct costs associated with the provision of technical assistance, training and change management, as well as the compulsory trust fund set up costs and management fee.

20. Project management (USD0.52m)

Project management and administration costs will be covered under this component, including audit fees.

21. Implementation approach

In the first instance, the IFMIS will be made available to the Treasury accounting unit at the Office of the Accountant-general, with the immediate objective to establish effective control over expenditure commitments and the completeness and accuracy of the accounting records of line ministries and the Consolidated Fund. At this stage, it would appear that controls over expenditure commitments are ineffective, and that bank reconciliations are not up to date. This creates an untenable situation for budget execution and, given uncertainties in SACU revenues, introduces substantial fiscal risk for the Government. Expenditure data of line ministries will continue to be created in TAS, and interfaced into the new IFMIS at the center. As a second phase, line ministries will then be connected to the IFMIS in a phased manner, determined by budget control priorities, and connectivity and capacity development activities.

#### IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		x	
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

#### V. Financing (in USD Million)

Total Project Cost:	8.64238886	Total Bank Financing:	0
Financing Gap:	0		
<b>Financing Source</b>			<b>Amount</b>
Borrower			5.00178886

**VI. Contact point****World Bank**

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