

# INTEGRATED SAFEGUARDS DATA SHEET

## CONCEPT STAGE

**Report No.:** ISDSC1177

**Date ISDS Prepared/Updated:** 05-Feb-2015

**Date ISDS Approved/Disclosed:** 09-Feb-2015

### I. BASIC INFORMATION

#### A. Basic Project Data

Country:	Ghana	Project ID:	P151447
Project Name:	Ghana: Public Financial Management Reform and Improvement Project (P151447)		
Task Team Leader(s):	Ismaila B. Ceesay		
Estimated Appraisal Date:	24-Mar-2015	Estimated Board Date:	21-May-2015
Managing Unit:	GGODR	Lending Instrument:	Investment Project Financing
Sector(s):	General public administration sector (100%)		
Theme(s):	Public expenditure, financial management and procurement (100%)		
Financing (In USD Million)			
Total Project Cost:	45.00	Total Bank Financing:	45.00
Financing Gap:	0.00		
Financing Source			Amount
BORROWER/RECIPIENT			0.00
International Development Association (IDA)			45.00
Total			45.00
Environmental Category:	C - Not Required		
Is this a Repeater project?	No		

#### B. Project Objectives

16. The project development objective (PDO) is ‘to improve fiscal policy management, financial control and reporting’. The project will contribute to enhancing fiscal discipline, strategic allocation of resources, and service delivery efficiency through strengthened systems and procedures and targeted capacity building.

#### C. Project Description

The Bank's PFM engagement in Ghana focuses on strengthening the institutions and re-enforcing accountability and fiscal management for better aggregate fiscal discipline and improved service delivery. The rationale for strengthening institutions and systems is that they are a necessary condition for effectively implementing the Government's macro-fiscal and socio-economic policies. The GIFMIS project, which has focused on financial management systems and frameworks, has closed on December 31, 2014. This proposed project seeks to consolidate the reforms started under GIFMIS as well as broaden the focus in support of implementation of priority activities as contained in the GoG Interim PFM Reform Strategy

The preliminary description of the proposed project, as outlined below, provides a basis for supporting the set of reform actions required in the public financial management and related cross-cutting policy areas in Ghana. This is consistent with the government-led PFM reform agenda, which will be finalized by end February, 2015. Based on the interim strategy developed by the GoG and the results of the Bank identification mission in December 2014 during which the Government provided a list of its PFM Reform priorities, the description of the proposed project was developed. The authorities have undertaken to prepare a "consultation" draft of a strategy by end-February, 2015, taking into cognizance the salient comments from development partners on the interim strategy.

The proposed project will be designed to (i) address the pre-requisites for sustained reform across the PFM system; (ii) ensure momentum gained through the GIFMIS project is maintained and the next phase of development of the broader system is completed effectively; and (iii) broaden the reform process beyond the areas addressed by the GIFMIS program. In relation to (iii), the Government's PFM reform strategy (once it is formally approved) will be supported by the project, based on selective priorities and taking cognizance of the division of labor between development partners. The financial design of the proposed project will recognize existing and planned interventions of various development partners, and the government itself, across the spectrum of PFM and seek to complement these within a well sequenced framework.

The proposed project would be implemented through three components over a four-year period, at an estimated total cost of about US\$45 million. Since each of the components will contribute to more than one of the project outcomes, and there will be interdependencies between components (for instance, a strengthened IFMIS will contribute to improved budget planning and management by the MoF as well as to improved transparency and accountability), these linkages will be taken into account in project management and the monitoring and evaluation (M&E) framework for the project.

#### Component 1: Enhancing Budget Credibility (US\$ 6.8 million)

The objective of this component is to improve the credibility of the national budget.

The key challenge for GoG over the next few years will be to dramatically improve budget credibility. Lack of budget discipline and consequent lack of transparency and credibility mean that the budget is not a good guide to the real intentions of fiscal policy. Most observers, analysts, as well as budget administrators and managers, see this as the most critical area needing improvement. Failure in this area spills over to nearly all aspects of fiscal management. The unreliability of the initial budget appropriations leads to poor cash forecasting and cash and debt management and undermines efforts made to establish PBB. Equally it weakens the potential for a better predictability of resource flows to service delivery agencies against their annual programs of work. Importantly,

also, is the matter of fiscal risks to the budget arising from SoEs and other autonomous government agencies. Strengthening the monitoring of these enterprises and agencies and assessing the exposure of the Government's budget to the contingent liabilities – explicit and implicit – of these entities will be critical area of support under the component.

Medium term expenditure commitments are currently not consistent with forecasts of resource availability. Wage and salary payments comprise an unsustainably high percentage of the overall budget and these crowd-out other important expenditures that support economic growth, diversification and service delivery. This suggests that significant budget restructuring is necessary to provide an enabling environment that facilitates effective policy implementation.

Taken in isolation, IT systems will have little impact. Policy, legal frameworks, procedures (including procedural manuals), discipline, human capacity and, most importantly, incentives must all be aligned in order to produce sustained reform. The GIFMIS follow-on project, given its limited available resources, will focus on those activities that: complete the development and roll-out of the various system components; create improved linkages between these systems and other PFM systems; and provide support to the Government's own efforts to reform policies, procedures and human capacity. The proposed project will, of course, need to complement the intended programs of GoG and other DPs, and avoid duplication with these.

The GoG has in place a fiscal decentralization and composite budgeting project, led jointly by MoF and Ministry of Local Government and Rural Development. The project design will seek to identify areas in which this project can be supported and reinforced, particularly through the roll-out of GIFMIS functionality to MMDAs. As decentralization is a complex reform, it should be designed to align authority, responsibility and accountability within MMDAs and provide incentives for effective revenue mobilization, resource management and service delivery. At this point in the reform process, it would be useful to conduct a review of the process and how well it is meeting the principles listed above. This review could provide assurance that current activities are appropriately targeted and indeed provide guidance for the on-going reform process.

#### Sub-component 1.1: Strengthening budgetary and macro-fiscal planning and forecasting

The objective of the sub-component is to ensure the GoG has comprehensive and accurate forecast data on all aspects of the budget upon which to base budget decisions.

The project will provide resources to finance technical assistance, capacity building consultancies, and training, in the implementation of the following core activities:

- Revenue and expenditure forecasting – building on current developments to improve the accuracy of multi-year forecasts and integrate these more closely with the development of budget strategy;
- The development and implementation of a more robust system of MDA forward expenditure estimates – in conjunction with PBB reform;
- Public investment planning and appraisal – strengthening processes to ensure effective evaluation and whole-of-Government prioritization of projects before they enter the budget process (including ensuring that funding priority is given to the completion of existing projects);
- Sector strategies & costing – enhancing the policy base for budgeting by ensuring that sector strategies are well developed, consistent with national priorities, and resource limitations. This may include support for training and capacity building, and further development of Hyperion to support this process;

## Sub-Component 1.2: Strengthening budget framework and formulation

The objective of the sub-component is to support GoG sustain reform measures designed to close the gap between Budgeted and Actual expenditure through strengthening the budget process and framework for the national budget.

Under this sub-component, the following activity areas will be supported through technical assistance, consultancies, capacity building, software licenses for systems roll-out, computer hardware.

- PBB: supporting the on-going implementation of program based budgeting and enhancing the management of programs and sub-programs. This will include:
  - change management and capacity development for: MDA senior management and program/sub-program managers; budget department analysts; line ministers and the Cabinet - each of which will perform different roles in a program based budgeting system;
  - ongoing review and improvement of program structures and the relevance of performance indicators and targets; and
  - progressively moving to appropriation and management of the budget onto a program basis;
  - further development of Hyperion input screens to allow direct input of program and sub-program budgets;
- implementing a more aggregated budget classification to accommodate the strategic focus of PBB and simplify the warrant release process;
- ongoing work to extend the coverage of the budget to all central and sub-national government agencies (including MMDAs, SFs).

## Sub-Component 1.3: Fiscal risk management and reporting

The objective of the sub-component is to establish an early identification and mitigation of factors that represent a potential risk to the budget out-turn.

The following activity areas shall be financed, through technical assistance consultancies, capacity building, provision of hardware and monitoring software where required.

- Review and revise financial Legislation and Regulations to ensure legislation clearly provides authority and procedural guidance which is consistent with good practice and current reforms (e.g. program based budget);
- Support (including TA) to MoF to strengthen its framework for identifying, analyzing and treating fiscal risks as part of its budget strategy; including:
  - Review of Fiscal Decentralization/Composite Budget objectives, and how well these are currently being met – review should provide some focus on how best to balance the efficiency of centralized budgeting and accounting with the autonomous status of MMDAs;
  - SOE monitoring and reporting – particularly as it enables early identification of contingent risk.

## Component 2: Strengthening Financial Control and Accountability (US\$34.5 million)

The objective of this component is ‘to contribute to the more effective operation of control, accountability and internal oversight mechanisms’.

A significant focus of this component is on completing the implementation of significant elements of the first GIFMIS project. This includes the completion of rollout of various modules to MDAs and MMDAs, broadening the coverage of general government entities, and strengthening the linkages between GIFMIS and other PFM systems. Achieving control outcomes would require the strengthening of the capacity of the internal auditors as well as changing their orientation more towards systems/risk based audits. Building the competencies of external auditors too in carrying out audits of the IFMIS systems will be critical to reinforcing assurances in the accountability process. Reviews of business processes and elimination of redundant processes, while strengthening the controls around them, will also be focus areas under the component.. In addition, the component will build upon the implementation of the Hyperion budget module, extend MDA accessibility to the budget preparation module, and link this module to systems that provide essential input to budget planning and strategy, as well as extend and consolidate the progress made on PBB reforms.

A key to budget credibility is the reliability of expenditure warrants as an indicator of cash availability. The warrant process needs to be more closely connected to cash forecasting and aligned, timely, with available cash during a particular reference period. Also essential is closer interfacing of procurement activities with the GIFMIS commitment controls.

The component has three sub-components as follows:

Sub-component 2.1: Strengthening financial management systems, controls, accounting and reporting

The objective of this sub-component is to support effective and efficient service delivery through clear procedures, controls, accounting and timely and relevant reporting.

Key activities to be financed under this sub-component, through procurement of hardware and software licenses, implementation services including consultancies, capacity building, ICT connectivity and infrastructure development, include:

- Review of the budget release and warrant process to: more closely align warrant approvals with cash forecasts (to assure cash releases for warranted expenditures); and improve the efficiency and timeliness of the process for improved predictability of resource flows to spending units;
- Financial management systems, controls, accounting and reporting, including:
  - expanding the functionality and completing the rollout of GIFMIS (i.e. extending GIFMIS connectivity to the MMDAs in the regions, including for P2P implementation) and thus expand the scope of systems-based commitment control across government finances beyond the MDAs;
  - consolidating accounting and reporting reforms, including update of the accounting manual, financial regulations, and the chart of accounts and budget classification.
- Build on the on-going development of internal audit activities (including moving from the current prepayment audit focus to ex-post auditing, focusing on risks and systemic issues).
- Procurement of hardware and software, implementation services, for setting-up the disaster recovery and business continuity center.
- Refurbishment of primary data center.
- Implementation of Phases 2 and 3 of the HRMIS as well as completing the implementation of the remaining aspects of Phase 1 HRMIS started during GIFMIS project.
- Roll-out of the Hyperion budget module to all 33 MDAs for budget preparation.

Sub-component 2.2: Cash and debt management



The objective of this sub-component is to strengthen the management of cash and debt with a view to minimizing net interest cost and ensuring cash is available to meet commitments and obligations for service delivery (thereby reducing arrears).

This sub-component will finance technical assistance and other consultancy services as well as capacity building under the following activity areas:

- Strengthen the management of cash and debt through GIFMIS reporting;
- Technical Assistance to assist the Government to improve its liquidity management and the predictability of budget releases to MDAs, MMDAs and statutory funds.
- Implementation of electronic bank reconciliation for the main treasury account as well as the sub-consolidated fund accounts;
- Continue work to broaden the coverage of the TSA.

#### Sub-component 2.3: Enhancing interface with Key PFM systems and processes

The objective of this sub-component is to ensure both human and technical interfaces between Budget and financial management and other key PFM systems and processes are optimized.

Activities covered under this sub-component, with the aim of establishing/strengthening linkages between key PFM systems, and to be financed through provision of technical infrastructure, capacity building, consultancy services, and ICT equipment and software include:

- Direct linkage of Hyperion Budget Module with Oracle Financials and HRMIS;
- Interfacing revenue systems (TRIPS for tax management, e-Monitor for non-tax receipts, GCMS for customs revenue management) with Oracle Financials;
- Integrating HR systems (HRMIS) with and payroll – the latter to be fed solely from the former;
- Interfacing e-procurement systems (funded outside the proposed project) with Oracle Financials; and
- Using Computer Aided Audit Techniques and other data generation and analysis modes (GAS and Internal Audit) to draw data from Oracle Financials/HRMIS/and Payroll to conduct ICT-based audits.

These activities will build on achievements of the GIFMIS project and/or compliment projects being undertaken by the GoG and development partners.

#### Component 3: PFM reform coordination and project management (US\$3.7 million)

The objective of this component is to establish and maintain a central coordination function in the monitoring of the governance arrangements under the PFM reform strategy as well as for implementation of the proposed project. The component will be implemented under three sub-components.

##### Sub-component 3.1: Project Management & Reform Coordination

The objective of this sub-component is to provide excellent leadership and management of the

overall reform program and to ensure the specific project objectives are met on time, on quality, and on budget.

Key activities to be implemented under the sub-component through technical assistance consultancies, operational expenses in program and project coordination and management, procurement of goods, specialized training, and non-consulting services include:

- Priority emphasis on:
  - The creation of a sense of urgency for PFM reform. It is essential that MDAs and MMDAs realize and acknowledge that they have a big problem, and that change will be needed to address it. This will require engagement at the highest level, as well as with key stakeholders at various levels of the bureaucracy.
  - Once that sense of urgency exists, it will be necessary to move to the collective identification of critical problems that MDAs / MMDAs have with current PFM policies and practices; this will require the intensive use of data, and a participative approach in a series of workshops / seminars
  - The reforms that are contemplated will then need to be tailored in order to help address these specific issues in MDAs and MMDAs. This would be used as the platform to bring relevant changes to their practices, as well as a sense of ownership of the reforms. Barring this, the chance of the reforms actually being implemented by MDAs and MMDAs is very low.
- Provision of leadership of the project to ensure that all component managers and all stakeholders are fully aware of the objectives of the project and the interventions that it delivers.
- Oversee planning (including component work plans) of the project to ensure plans are consistent with the GSGDA and the GOG PFM Strategy and the Project's Appraisal Document as well as the project cost table.
- Detailed day to day monitoring and evaluation of the project at all levels and provision of quarterly progress reports on project implementation.

#### Sub-component 3.2: PFM Strategy Monitoring, Evaluation And Communication

The objective of this sub-component is to enhance PFM reform program performance through effective monitoring and quality feedback to the Program institutional coordination mechanism and stakeholders.

Activities to be supported under the sub-component with funding for sensitization and awareness, technical assistance consultancies include:

- Preparation of a robust monitoring and evaluation strategy and overseeing its implementation, including ensuring that appropriate data is available from each intervention in support of the overall PFM reform strategy.
- Supply of regular (half-yearly) progress reports on implementation of the PFM reform strategy. Prepare and routinely update a communications and change management strategy that compliments each intervention under the strategy.

#### Sub-Component 3.3: Project Financial Management and Procurement

The objective of this sub-component is to establish and maintain the fiduciary aspects of project implementation with enhanced accountability measures to ensure that project funds are used for eligible expenditures and procurements are conducted in a fair, transparent and competitive manner.

Support under the sub-component will include consultancy services for procurement activities (particularly in defining technical specifications), basic hardware and software goods. The key activities to be supported include:

- Management of all aspects of project financial management using GIFMIS as the primary accounting and reporting tool.
- Preparation of monthly financial reports for project management, quarterly interim financial reports for management and for submission to the Bank, and annual financial statements for audit within three months of year end.
- Setting standards, procedures and identifying the tools for procurement of goods and services under the project.
- Preparation and maintenance of a procurement plan for all project activities.
- Quality-assurance of all procurement transactions to ensure they meet the defined standards for integrity, equity and value for money, consistent with the Bank's guidelines.
- Incremental cost of project audit, including specialized audits - performance/procurement.

Project design will identify the management/governance structure for the project. Consideration will be given to: transitioning key positions from the management/governance structure of the GIFMIS project; ensuring the use of Government Systems to the greatest extent possible, including the use of GIFMIS for project accounting and reporting, and Government's own governance framework for the PFM Reform Strategy.

The project will not have a physical footprint or prepare activities that may have a physical footprint.

**D. Project location and salient physical characteristics relevant to the safeguard analysis (if known)**

The project will not have a physical footprint or prepare activities that may have a physical footprint. Therefore, no Safeguard Policies have been triggered.

**E. Borrowers Institutional Capacity for Safeguard Policies**

N/A

**F. Environmental and Social Safeguards Specialists on the Team**

**II. SAFEGUARD POLICIES THAT MIGHT APPLY**

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	



Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/ BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/ BP 7.60	No	

### III. SAFEGUARD PREPARATION PLAN

**A. Tentative target date for preparing the PAD Stage ISDS:** 10-Mar-2015

**B. Time frame for launching and completing the safeguard-related studies that may be needed.**  
**The specific studies and their timing<sup>1</sup> should be specified in the PAD-stage ISDS:**

N/A

### IV. APPROVALS

Task Team Leader(s):	Name: Ismaila B. Ceesay	
<b><i>Approved By:</i></b>		
Regional Safeguards Coordinator:	Name: Johanna van Tilburg (RSA)	Date: 05-Feb-2015
Practice Manager/ Manager:	Name: Renaud Seligmann (PMGR)	Date: 09-Feb-2015

<sup>1</sup> Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.