



Office of the United Nations in Swaziland

**Public Financial Management System
Government of Swaziland**

March 2007
This report contains 16 pages
UNDP report.doc

Contents

1	Abbreviations	1
2	Bibliography	2
3	Introduction and objective	3
4	Summary of reports obtained	4
4.1	ADB	4
4.1.1	Country Strategy Paper for 2005 – 2009	4
4.1.2	Appraisal Report on the Mbabane Bypass Road Project	4
4.2	Asian Development Bank	4
4.3	CIDA	4
4.4	DFID	4
4.5	Economist Intelligence Unit	4
4.6	IMF	5
4.7	World Bank	6
4.7.1	Swaziland Public Expenditure Review	6
4.7.2	Governance indicators	8
4.7.3	Urban Development Project (UDP)	9
5	Risk checklist	10
6	Appendix – Governance indicators	12

1 Abbreviations

ADB	African Development Bank
CIDA	Canadian International Development Agency
DFID	Department for International Development
EC	European Commission
EU	European Union
IA	Implementing Agency
IMF	International Monetary Fund
PFM	Public Financial Management
PFMS	Public Financial Management System
UN	United Nations
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
World Bank	International Bank for Reconstruction and Development

2 Bibliography

Appraisal Report - Mbabane Bypass Road Project	ADB	October 2003
Country Strategy Paper - Swaziland 2005 - 2009	ADB	January 2005
Swaziland	CIDA	November 2006
Swaziland Country Profile	DFID	July 2004
Southern Africa Regional Plan	DFID	February 2006
Country Report	Economist Intelligence Unit	January 2007
The Kingdom of Swaziland - Staff Report for the 2005 Article IV Consultation	IMF	January 2006
Country Procurement Assessment Report – South Africa	World Bank	February 2003
Millennium Development Goal - Swaziland Country Profile	World Bank	April 2004
PEFA Framework	World Bank	June 2005
Implementation Completion Report - Loan of US\$29m to the Kingdom of Swaziland for the Swaziland Urban Development Project	World Bank	October 2005
Swaziland Public Expenditure Review - Strengthening Public expenditure Policy and Management for Service Delivery and Poverty Reduction	World Bank	August 2006
Lending Summary	World Bank	October 2006
Swaziland Country Brief	World Bank	March 2007
Institutional and Governance Review - Governance Indicators	World Bank	March 2007

3 Introduction and objective

The United Nations (the UN) is represented in Swaziland by seven United Nations Agencies. The UN is committed to simplifying ways of doing business in the countries in which it is represented and to co-ordinating its efforts in supporting development needs in each country. For this purpose the United Nations Development Group (UNDG) has been formed.

The UNDG is looking at ways funds are released to its partners and at co-ordinating with existing local processes where appropriate. This should lead to a harmonised approach of cash transfers per country and will improve the management of UN funds.

To achieve the UNDG aims in this respect, the UN is conducting an audit in each country to appraise government systems, capacity and the Auditor General's role in government. The UNDG requires an assessment of Swaziland's Public Financial Management System (PFMS) to enable it to assess strengths and weaknesses and areas for capacity development. This will lead to establishing appropriate cash transfer procedures that coordinate with the PFMS and provide assurance on the public audit capacity in monitoring implementing partners' receipt of such funds.

The objective of the assessment is to review PFM related work that has already been conducted by the UN and its development partners and to report upon the findings in a concise format.

The scope of the assessment is limited to reports relating to PFM in Swaziland prepared by the UN agencies and development partners. It was requested that these reports are to be no more than five years old to ensure current relevance of information.

KPMG obtained reports using the guidelines in the terms of reference. Not all of the reports have been prepared for Swaziland. Those reviewed are listed in the Bibliography.

KPMG has also worked at various times with the Government of Swaziland on projects concerning audit of specific funds, forensic investigation, technical assistance to implementing agencies, computer systems and human resources.

The assessments in this report are limited to information obtained in the official documents reviewed.

4 Summary of reports obtained

4.1 ADB

4.1.1 Country Strategy Paper for 2005 – 2009

Focus on Government's development agenda with ADB moving towards a results-based management framework.

4.1.2 Appraisal Report on the Mbabane Bypass Road Project

The Appraisal Report on the Mbabane Bypass Road Project was prepared before the project started.

It was specified in this report that the Auditor General should appoint external auditors to audit the project under ADB guidelines.

4.2 Asian Development Bank

No reports or comments on Africa.

4.3 CIDA

CIDA does not maintain or significant assistance programme in Swaziland. No long term projects are planned.

Assistance in 2003 – 2004 totalled \$1.55.

4.4 DFID

The DFID bilateral programme has been progressively reduced and is now only GBP1m per annum.

The DFID regional plan focuses mainly on South Africa. There is no mention of Swaziland and there is no assessment of government of Swaziland capacity. The report focuses on jobs and growth, health and security.

4.5 Economist Intelligence Unit

The report focuses on political and economic factors beyond the scope of the requirements of this review. However, the general tone of the comments is pessimistic and relates to governance and lack of political will. It indicates that political factors cannot be separated from governance.

4.6 IMF

Swaziland is a member of the IMF but has not drawn upon its loan facilities. Country Reports were prepared in January 2006 and January 2007 by IMF Staff Representatives. There is no Fiscal Transparency Review for Swaziland.

The 2006 report covers the economy of Swaziland and highlights areas of considerable concern to the IMF.

These areas include:

- Fiscal deficit rising annually, mainly due to salary costs of civil servants. This policy is not sustainable.
- Cash flow problems, which affect the private sector adversely, are due to accumulated structural fiscal imbalances.
- Weak controls on expenditure.
- Lack of effective control on expenditure commitments of the line ministries
- National statistics
- Corruption
- Inefficient Public Enterprises
- Lack of fiscal discipline

Swaziland is also susceptible to external ‘shocks’ such as exchange rate volatility (linked to the South African Rand), drought, textile import quotas into the USA and EU and decline in SACU receipts.

Internally, Swaziland is facing problems with the effect of the HIV/AIDS epidemic, particularly in the younger, economically active population and the support issues for AIDS orphans.

The IMF has advised on a balanced budget for 2006/7 (which has been adopted).

It has also advised on a ‘right sizing’ exercise for the Civil Service and tightening controls on Civil Service expenditure.

Other improvements or intentions noted by the IMF are involvement of the Central Bank of Swaziland in strengthening reserve management, enactment of key legislation in the financial area, improvement in statistics and the anti corruption drive.

The 2007 report covers similar issues. There have been improvements in financial regulation but other indicators have deteriorated. These include:

- Perceived corruption
- Preferential access for sugar exports
- Perception of governance – downward movement in doing business rankings

However, the report concludes that Swaziland has embarked on structural reform. Attempts are being made to downsize the civil service and a computerised commitments system has been introduced.

4.7 World Bank

4.7.1 Swaziland Public Expenditure Review

The Public Expenditure Review was requested by the Ministry of Finance to assist in identifying problems. The report covers fiscal stability, social issues (mainly education and health) and selected issues in public expenditure management and control.

Whilst Government does set goals, there are major gaps between goals and outcomes:

- Fiscal policy
- Social expenditure policy
- Public expenditure management

The major problems identified are:

- Oversized civil service with excessive salary bill
- Lack of transparency and accountability.
- Lacking good-practice procurement, planning and budgeting
- Corruption which has been identified by government but little action taken
- Poor control and abuse of public expenditure.

The report concludes that credible action is needed and that the fiscal crisis could be reversed.

- Budget

Budgeted expenditure has escalated rapidly, more than doubling in the past six years. This indicates lack of budget discipline, inadequate macro economic framework and implementation thereof, escalating budget ceilings and over optimism on donor funding. It is considered that the budget time frame is too short for well documented submission and approval.

The Ministry of Finance does not have sufficient authority to impose discipline on budget requests. Supplementary budgets exacerbate the problem. This leads to cash flow constraints.

The macro-economic framework is over simplified, understaffed and under-resourced. This leads to weak projections with wide margins of error.

There are significant deviations between budget and actual expenditure indicating weak monitoring. The overruns are noted but no action is taken. Current expenditure overruns are at the expense of capital projects.

Fiscal and other statistics require improvement and are not consistent with IMF's manual.

- Computer system

The computer system is old and slow. It cannot cope with a commitment system but the EU is assisting with the implementation of a commitment control system.

- Internal audit

Internal audit is considered to be weak and lacks independence. Quality and skills of the staff need to be upgraded. Audit skills for procurement processes are deemed to be particularly weak.

Only 70% of the government accounts have been audited.

Of the queries raised, the percentage of answers has been

55%	2001/2
74%	2002/3
70%	2003/4

- Procurement

The procurement regulations are outdated (1975).

There are no standard documents, the Tender Board members lack training on procurement, the source of supply list is weak and often published late and there is no independent procurement regulating entity.

There is a perception of widespread corruption.

- Payroll

Payroll is a major item on government's budget but its integrity is in doubt. There are significant differences between the establishment register and the computer payroll database. The age of the computer system makes it difficult to reconcile the two.

4.7.2 Governance indicators

The governance indicators used by the World Bank are:

- Voice and accountability – political, civil and human rights
- Political instability and violence – likelihood of violent threats to, or changes in, government including terrorism
- Government effectiveness – competence of the bureaucracy and the quality of public service delivery
- Regulatory quality – incidence of market-unfriendly policies
- Rule of law- quality of contract enforcement, the police, and the courts as well as the likelihood of crime and violence
- Control of corruption – exercise of public power for private gain, including both petty and grand corruption and state capture

The information was obtained for Swaziland by polling

The indicators have been printed in graphical format (appendix 1) with comparatives for Swaziland over 4 years (2002 to 2005) and for Swaziland versus the regional average.

Regionally, Swaziland is perceived as being more favourable in dimensions of political stability/no violence, rule of law, regulatory quality and control of corruption. These are still below the 50th percentile. It is perceived as worse in voice and accountability and government effectiveness (in the lowest quartile).

In terms of a timeline, Swaziland is perceived to have deteriorated in all dimensions since 2002. Again, voice and accountability and government effectiveness are very low, in the lowest quartile.

4.7.3 Urban Development Project (UDP)

The UDP commenced in 1996 and was completed in 2005 with a satisfactory outcome and likelihood of sustainability.

It involved both government and various implementing agencies (IA).

The main conclusions of the report are:

- Decisions were slow to be taken by both government and IAs due to lack of capacity, lack of political will and lack of community co-operation.
- Government adopted recommendations for a transparent and formula derived fiscal transfer system.
- There were measurable increases in effectiveness and efficiency in government and its IAs. However, government is still highly centralised causing delays in IAs decisions and capacity to raise revenue.
- Loans denominated in USD were found to be a problem due to volatility of the currency. It was recommended that loans be denominated in ZAR (on par with the Swaziland currency) in future.
- Government procedures are slow with key decisions not being taken timeously. Government committed to honour remaining funding requirements for the UNDP.
- A good working relationship between the World Bank team and government was established with close co-operation between the parties.
- All conditions of the loan were consistently met by Government.

5

Risk checklist

Checklist for Determining Risks Related to Swaziland's PFM

No.	Indicator	High Risk	Significant risk	Moderate Risk	Low Risk	No info
1	The annual budget contains all significant government expenditures, including relevant donor contributions	Inadequate framework, detail and time for preparation and debate.				
2	Budget and performance	Major overruns and frequent supplementaries with no action taken to control overruns.				
3	To what extent are internal controls and financial procedures adhered to?		Ministry of Finance has insufficient authority to control expenditure. Widespread perception of corruption.			
4	Bank reconciliations					No information in reports reviewed.
5	Transfer of cash resources					No information in reports reviewed.
6	Reporting of cash and asset position to Government	Systems are inadequate.				



No.	Indicator	High Risk	Significant risk	Moderate Risk	Low Risk	No info
7	External audit/the auditor general (supreme audit body)	Insufficient resources in AG dept and line ministries. Less than 70% coverage.				
8	Follow up action to audit reports	70% responses to audit queries.				

6 Appendix – Governance indicators

The data was extracted from the World Bank Worldwide Governance Indicators.

The charts show Swaziland compared to Sub-Saharan Africa and Swaziland on a timeline from 2003 to 2005.



