

IN BRIEF...

Support to Financial Management

Sida is assisting the Government of Kenya to implement reforms targeted at improving financial operations. The assistance is given in conjunction with the World Bank and British Department for International Development (DFID), through the Ministry of Finance.

Specifically, Sida—The Swedish International Cooperation Agency—is funding the implementation of a software for the Integrated Financial Management and Information System (IFMIS) that will improve public financial management and ensure transparency and accountability in overall government operations. This is not an IT Project. It is important to recognise this as a business project directed towards good governance.

Background

According to the Swedish Country Strategy for Kenya, democracy and human rights is a priority for the social and economic development of the Country. One important objective of support to Kenya is thus the strengthening of democratic, transparent and accountable governmental institutions. IFMIS strives to achieve this objective by strengthening Kenya's public financial management.

Kenya has been in a steady social and economic decline for the past decade. A number of internal and external factors have been attributed to this decline. However, neighbouring countries operating within almost identical environment have achieved

high and relatively stable growth in the same period. Poor governance in the public sector, including weak internal controls that enable corruption to thrive, has been identified as the single most important cause of economic stagnation and resultant poverty.

The Kenyan Auditor-General and other independent observers have reported numerous cases of mismanagement and corruption. Resources intended for poverty reduction activities, such as services provision and infrastructure development, have been diverted to other uses. A combination of factors—including poor systems, mismanagement, corruption and economic stagnation—have therefore reinforced each other and resulted in slow economic growth, reduced investment flows, poor donor support and increased poverty.

Public Financial Management

Historically, financial management in Kenya has been poor and systems have been stand-alone and fragmented. The fragmented systems have been weak in information delivery and compliance has been low. As a result, pending bills (Government current liabilities)

have escalated to unmanageable levels and overspending has been significant. Procurement processes have been inefficient and in many instances the probity of contracts awarded has been severely criticised. The financial system has therefore been a major obstacle in effective planning, budgeting and implementation of government programmes.

The flow of donor funds, including Swedish development assistance, has also been severely affected by the weak financial system. Costing of activities and programmes has not been possible under existing systems and therefore the linkage between inputs and outputs in plans and Budgets is difficult to establish. In general, compliance, transparency, accountability and good governance are hindered by the lack of effective systems, procedures and processes.

By supporting the Ministry of Finance to implement IFMIS, Sweden is attempting to overcome the widespread corruption, which has also been a serious obstacle to social and economic development in Kenya and has led to most development partners choosing alternative channels for aid disbursements and significantly reducing their support to the Country. For the same reasons, the level of Swedish support is also much lower than it was previously. This is a way of clearly showing Swedish disapproval of corruption. However, instead of refraining from channelling its support

through the government apparatus, Sweden is participating in various ways, including dialogue, to find solutions to the problem. The Integrated Financial Management and Information System is a revolutionary process that will not just improve financial management but also expose government operations to increased scrutiny.

Sida has supported the Ministry of Finance in Kenya since the 1980s and has influenced some changes in financial management especially since 1999 when most of the funds provided by Sweden for projects started to be channelled via the Ministry of Finance directly to commercial banks in the districts. The dialogue with the Ministry of Finance is continuing and is leading to further improvements which will benefit everyone, including other donors.

IFMIS

When fully implemented, IFMIS will offer efficient and streamlined processes, whilst strengthening controls. Procurement under IFMIS will be fully transparent and all transactions and approvals will be embedded within the system. Streamlining the procurement process will remove bottlenecks in the implementation of government programme and donor funded projects. Value For Money in procurement will be facilitated, providing significant tangible, financial return on the investment in IFMIS. IFMIS will enable effective cash management, and expenditure controls, at the pre-commitment stage. This in turn will facilitate improved management of liabilities. Improved revenue analysis features will provide

revenue trends and targets by collection source, which will increase revenue collections.

Providing authorised users with on-line access to financial information and transaction details will assist financial decision making and enable timely and continuous audit, rather than the current practice of all auditing being undertaken after the completion of the final month's accounts. This will speed up the auditing and publishing of GOK's Annual Financial Statements.

Reporting capabilities will be strengthened in terms of timeliness and flexibility of analysis. It will be possible to make on-line queries, publish formal reports and provide information to users in spreadsheet format for off-line modelling and analysis. Easy to read web pages will provide information customised to individual manager's needs. Statements of Expenditure and reimbursement claims will be automated, speeding up the mobilisation of donor funds and donor funded projects.

IFMIS will accommodate the budgeting processes of Governments and Government Departments. It will provide enhanced modelling features, to model various proposed budget scenarios, with a view to optimising resource prioritisation and allocation. Providing the mechanism for costing activities and outputs/objectives will enable the dissemination of budgets based on sectoral priorities and objectives. Providing focus on core programmes including poverty reduction interventions are key objectives of IFMIS.

High levels of automation will streamline processes and facilitate greater levels of compliance. Visibility of all

transactions will promote transparency, accountability and good governance.

Sida is responsible for the software and training at a total cost of SEK 22 million. The World Bank is contributing SEK 14.4 million for hardware, including computers and other accessories, as well as training in bookkeeping. British Department for International Development (DFID), is providing SEK 10 million for technical assistance and is participating in a review of the regulations and legislation. Computerisation will facilitate the budget work as well as planning, bookkeeping and audits.

Linkages to Other Reforms

In recent years, Kenya has embarked on a comprehensive economic recovery programme. A new Government elected in 2002 has identified corruption, inefficiency and wastage as key problems. IFMIS will support the ongoing reforms, including procurement reforms and the MTEF reforms. It will also interface with other systems, including the Human Resources and Payroll, and Public Debt Systems. IFMIS will replace all the current fragmented financial systems. It is probably the most important finance project currently in process and will help the government to create the necessary conditions for socio-economic growth.

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Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.



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