Report No.: 103060

# PROJECT PERFORMANCE ASSESSMENT REPORT

## MALAWI

## FINANCIAL MANAGEMENT, TRANSPARENCY, AND ACCOUNTABILITY PROJECT
## (IDA-3734A, IDA-37340, TF 90947)

**March 9, 2016**

**IEG Human Development and Economic Management Department**
*Independent Evaluation Group*

## Currency Equivalents (annual averages)

*Currency Unit = Malawi Kwacha (MK)*

| | | | | | |
|---|---|---|---|---|---|
| 2003 | US$1.00 | MK 89.50 | 2010 | US$1.00 | MK 150.77 |
| 2004 | US$1.00 | MK 108.55 | 2011 | US$1.00 | MK 151.05 |
| 2005 | US$1.00 | MK 121.25 | 2012 | US$1.00 | MK 270.40 |
| 2006 | US$1.00 | MK 138.00 | 2013 | US$1.00 | MK 326.00 |
| 2007 | US$1.00 | MK 140.61 | 2014 | US$1.00 | MK 392.50 |
| 2008 | US$1.00 | MK 140.51 | 2015 | US$1.00 | MK 440.00 |
| 2009 | US$1.00 | MK 142.55 | | | |

## Abbreviations and Acronyms

| | |
|---|---|
| CoA | Chart of Accounts |
| COTS | Commercial off the shelf |
| DC | District Commissioner |
| DCA | Development Credit Agreement |
| DHRMD | Department of Human Resources Management and Development |
| DISTMIS | Department of Information Systems and Technology Management Services |
| ERP | Enterprise Resource Planning |
| FIMTAP | Financial Management, Transparency, and Accountability Project |
| FROIP | Financial Reporting and Oversight Improvement Project |
| GOM | Government of Malawi |
| GWAN | Government Wide Area Network |
| HR | Human Resources |
| HRMIS | Human Resource Information System |
| ICB | Implementation Competitive Bidding |
| ICR | Implementation Completion Report |
| ICT | Information and Communication Technology |
| IDA | International Development Association |
| IEG | Independent Evaluation Group |
| IMF | International Monetary Fund |
| MCC | Millennium Challenge Cooperation |
| MDAs | Miniseries, Departments, and Agencies |
| MGDS | Malawi Growth and Development Strategy |
| MOF | Ministry of Finance |
| NAO | National Audit Office |
| ODPP | Office of the Director for Public Procurement |
| PAC | Public Accounts Committee |
| PAD | Project Appraisal Document |
| PDO | Project Development Objective |
| PEFA | Public Expenditure and Financial Accountability |
| PER | Public Expenditure Review |
| PETS | Public Expenditure Tracking Survey |
| PFEM | public finance and expenditure management |
| PIU | Project Implementation Unit |
| PPAR | Project Performance Assessment Report |
| PSIP | Public Sector Investment Program |
| P2P | Procure to Purchase |
| QAG | Quality Assurance Group |
| RBM | Reserve Bank of Malawi |

## Fiscal Year

Government: June 1 – June 30

| | | |
|---|---|---|
| Director-General, Independent Evaluation | : | Ms. Caroline Heider |
| Director, Human Development and Economic Management | : | Mr. Nicholas York |
| Manager, Country Program and Economic Management | : | Mr. Mark Sundberg |
| Task Manager | : | Mr. Moritz Piatti |

# Contents



This report was prepared by Moritz Piatti. Ali Hashim authored the FMIS appendix, which was drawn on extensively. The team visited Malawi in June – July 2015. The report was peer reviewed by Michael Stevens and panel reviewed by Iradj Alikhani. Yezena Yimer provided administrative support.

# Figures



# Tables

# Principal Ratings

### Malawi Public Sector Management Program Support Project

| | *ICR** | *ICR Review** | *PPAR* |
|---|---|---|---|
| Outcome | Moderately Satisfactory | Moderately Satisfactory | Moderately Unsatisfactory |
| Risk to Development Outcome | Significant | Significant | High |
| Bank Performance | Moderately Satisfactory | Moderately Satisfactory | Moderately Unsatisfactory |
| Borrower Performance | Moderately Satisfactory | Moderately Satisfactory | Moderately Unsatisfactory |

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEGWB product that seeks to independently verify the findings of the ICR.

# Key Staff Responsible

| *Project* | *Task Manager/Leader* | *Division Chief/ Sector Director* | *Country Director* |
|---|---|---|---|
| Appraisal | Robert L. Floyd | Brian David Levy | Darius Mans |
| Completion | Ross Worthington | Anand Rajaram | Luiz A. Pereira da Silva |

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To prepare a Project Performance Assessment Report (PPAR), IEG staff examine project files and other documents, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

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***Risk to Development Outcome:*** The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High, Significant, Moderate, Negligible to Low, Not Evaluable.

***Bank Performance:*** The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

***Borrower Performance:*** The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for borrower performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

# Preface

This Project Performance Assessment Report evaluates the Financial Management, Transparency, and Accountability Project to Malawi, which was approved by the Board on March 6, 2003, for US$27.4 million with a closing date of March 1, 2008. The project was restructured in July 2006 and the closing date was extended in September 2007, to September 1, 2009. Additional financing of US$1.8 million was provided through a Trust Fund. The project followed two previous public sector reform projects, the Institutional Development Projects I, and II, which had run from the end of 1994 to 2001.

The original objectives of the operation were “to improve the effective and accountable use of public expenditures.” At restructuring, the objectives were modified to “improve civil service and public expenditure management.”

This report presents findings based on a review of the Project Appraisal Documents, the Implementation Completion and Results Reports, Implementation Completion and Results Review, aides-memoires, International Monetary Fund (IMF) and World Bank reports, and other relevant materials including a number of publically available studies by various donors. An Independent Evaluation Group (IEG) mission visited Lilongwe during June 28- July 10, 2015 to interview government officials, the staff of the World Bank, staff of the IMF, and other development partners and stakeholders. Bank staff members, donor representatives, and other information providers were also interviewed at the World Bank’s headquarters in Washington, DC and by telephone (see Appendix H for the complete list of persons interviewed).

The assessment aims to review whether and how the operation achieved its intended objectives. The report provides additional evidence and analysis of relevant and comparative data for a more complete picture of the outcomes and factors that influenced them. By covering the period between 2011 and mid-2015, it offers an opportunity for broader lessons and a longer time perspective, as well as reflection on the sustainability of policy reforms and long-term factors that facilitated outcomes. The work was carried out in parallel to an assessment of a Public Sector Reform Program in Zambia, which allows for a comparison of a similar reform program.

This assessment is part of a larger body of Public Sector / Governance evaluations in Africa and East Asia that will feed into a synthesis report to draw lessons on the cross-country experience. The reports provide a dedicated appendix on the design, implementation, and use of Financial Management Information Systems, which have been at the core of the reform programs.

Following standard IEG procedures, a copy of the draft report was sent to the relevant government officials and agencies for their review and comments. No comments were received.

# Summary

The Bank extended its support to Malawi in public financial management and civil service reform during difficult circumstances. At the time, Malawi was one of the poorest countries in the world with 75 percent of the population living on less than US$1.25 a day. Human development indicators were dismal. More than half of the children in the poorest wealth quintile were stunted, only half fully immunized, and 63 percent reported a malaria episode in the last year. The under-five mortality rate at 223 per 1,000 live births was amongst the highest in the world and of those children that did survive past the age of five, only 58 percent could expect to complete primary school.

In this context, sound economic management, and the effective and accountable use of public resources is paramount to improve economic and social conditions. The project aimed to achieve this through investing in Financial Management Information Systems (FMIS), strengthening public financial management processes and accountability institutions, and developing the capacity of the civil service.

During the lifecycle of the project considerable progress was made. An FMIS was successfully set up and rolled out, and now covers the majority of the budget. Core modules are fully functioning with sufficient ex-ante commitment controls in place. Spending units are able to produce detailed budget execution reports on request. A Human Resource Management Information System (HRMIS) including an establishment control module was implemented and rolled out, which now forms the backbone of civil service management. A large number of staff were trained under the project including on accountability and transparency, public finance, auditing, procurement, and local government financial management. A tracer study concluded that the trainings were effective and that the majority of beneficiaries remained in relevant positions.

However, the underlying supporting public finance environment was not conducive for effective use of the FMIS, leading to disappointing results. Despite commitment controls being in place, processes were frequently ignored or bypassed. Spending units were reported to maintain an off-FMIS registry and upload funding limits on an as-needed basis. There is evidence that spending units generated local purchase orders and payment vouchers simultaneously, using pro-forma invoices despite directives to the contrary. Commitments were regularly processed outside the system. Over time this resulted in the accumulation of large payment arrears, which were estimated at 9.2 percent of GDP in 2014. Limited compliance with the PFM legal framework and internal controls posed a high risk to the development objectives at project end. An example of risks materializing is the embezzlement of about US$32 million known as the cashgate scandal. Regarding civil service reform, the number of public servants has increased rapidly over the evaluation period raising questions about the sustainability of the overall public wage bill. Further, significant loopholes in the HRMIS internal control environment remain (including the possibility to introduce ghost workers), which pose risks and undermine the effectiveness of the system.

Little progress has been made with regards to strengthened accountability. The time lag between end of fiscal year and receipt of external audit reports by the legislative has

significantly increased in recent years, which undermines the legislative's ability to hold Controlling Officers accountable. Based on information collected in July 2015, external audit reports were more than three years late. Furthermore, the National Audit Office reports directly to the Ministry of Finance, which undermines the independence and integrity of the office. This situation is exacerbated by weaknesses in the Auditor's capacity to undertake forensic and technical audits, and the Parliament Accounts Committee's ability to interpret results. There is also scarce evidence to suggest that audit recommendations are followed up.

Efficacy is rated modest reflecting on the one side achievements with regards to setting up systems and training staff. On the other, the disregard to existing systems and procedures compounded by inadequate accountability mechanisms meant that progress did not translate into better public financial management outcomes. Efficiency was rated modest given the high per-user cost of the FMIS, project resources employed on a system that was later abandoned, and various delays in implementation. Furthermore, operating costs were high and there were foregone benefits due to poor implementation of systems and procedures developed under the project. Substantial relevance, modest efficacy, and modest efficiency result in an overall outcome rating of Moderately Unsatisfactory.

There remain high risks with regards to the development outcomes that were achieved. There is at present a considerable push for changing the FMIS platform, which could undermine some of the hard won gains of FMIS systems implementation. To put a new system in place could take a long time with uncertain results. Much of the human capacity that was built and accumulated over the last decade would be lost and a whole new set of technical skills would need to be developed. During the transitional period, the reform focus would be diverted to the change in the software platform rather than institutions and the overall public finance environment. Perceived benefits of changing the FMIS provider should be carefully weighed against these significant risks and potential setbacks. Other risks pertaining to the operation include the continued potential to introduce ghost workers, and insufficient capacity and independence of the external audit office.

Bank performance was rated Moderately Unsatisfactory reflecting flaws in quality at entry and shortcomings in supervision, especially prior to restructuring. In particular questionable technical advice was provided with respect to the original FMIS platform and legal covenants pertaining to procurement staffing were broken. Further, supervision in the early years suffered from high TTL turnover. Restructuring was appropriate and made the operation more streamlined and realistic. Supervision and engagement with the government and other donors improved. The Bank became more responsive, and addressed prior implementation bottlenecks such as procurement support and expedited "no objection" letters. However important problems remained throughout implementation such as an inadequate M&E framework and insufficient attention to the mitigation of risks.

The operation became effective just before elections and borrower performance suffered initially from lacking commitment, engagement, and frank dialogue, which contributed to poor quality at entry. At restructuring, government and implementing agency performance improved however, providing the necessary political capital and administrative support for more effective implementation. Nevertheless, the government did not sufficiently recognize the weak internal control environment, which has resulted in the breakdown of the accountability chain. Going forward, the government appears focused on the replacement of the FMIS provider rather than the underlying factors for why it failed in the first place. On balance, borrower performance was rated Moderately Unsatisfactory.

Malawi's poor progress with economic and social outcomes can in part be attributed to ineffective and inefficient public expenditure management. Functioning systems in the absence of an enabling environment have failed to produce the desired results. Reforming the underlying systemic PFM issues will be necessary to benefit from the systems that are already in place today.

The project offers a number of important lessons, some specific to Malawi and others that are broader and generalizable. These are summarized below.

**Public financial management reform:**

- A functioning FMIS alone is not sufficient to achieve good public financial management. To be effective there must be clear commitment from the Ministry of Finance that all transactions are routed through the system, such that all expenditures are subject to the FMIS automated, ex ante, internal controls. Practically, this means that no payment instructions (cheques/vouchers) issued outside of the system should be honored. Significant political capital is needed to overcome resistance from people who may have vested interests. The breakdown of the accountability chain that led to a major corruption episode was chiefly because of a disregard of existing systems and processes rather than a technical failure of the FMIS.
- It is important to channel donor funds through the FMIS, which is possible whilst retaining their own accounting mechanisms and fiduciary safeguards.
- Changing an FMIS platform carries substantial risks. It is costly, time consuming, the change provides no guarantee of eventual functionality and fit, human capacity will be lost and needs to be rebuilt, and during the transitional period the reform focus will be on technical issues rather than underlying PFM environment. In light of this, the problems with the existing FMIS provider should be thoroughly diagnosed, and all options considered including upgrades of the existing system. The decision on the way forward should be based on what system can best fit the country needs with minimum disruption, local capacity considerations, and competitive pricing. The Malawi experience of switching systems in the early 2000s should critically inform the current reform dialogue.
- Having a single systems platform for central, district, and human resources transactions is preferable for systems integration and efficiency.
- Recurrent investments in both software and hardware are required to keep FMIS fully functional, safe, and up to date. The lack of adequate maintenance in Malawi led to a deterioration of the system, with long outdated software, insufficient capacity to manage the transaction requirements, and exposing the system to various security risks.

**Sequencing:**

- It is important to take advantage of synergy and linkages between parallel TA and policy reform operations.
- Oversight agencies function best when they are both capable and independent.
- Proactive project management helps enhance developmental impact. In the case of this operation, the first restructuring was initiated as soon as problems became apparent, even if the conclusion of the process took too long. However, MTR was initiated too late. Its impact would have been greater if it had been triggered by another factor such as disbursements nearing 50 percent.
- M&E, complemented by periodic complementary assessments strengthens project implementation. Project implementation should be based on a needs assessment, prioritized and derived from a sound M&E framework. Tracer studies should be an integral part of the M&E framework to assess effectiveness of the program and justify continued investment in capacity building. A complementary Public Expenditure Tracking Survey exercise that could have strengthened service delivery was initiated but not made available.

**Implementation:**

- Frequent changes in the Bank team are counterproductive. It has been observed in several Bank projects that when some key members of the Bank team who were involved in the design of a project continue on the team during implementation, this contributes significantly to a successful implementation of the FMIS and achievement of project development objectives.
- Effective project implementation requires good procurement capacity. Any Bank operation which lacks procurement capacity could benefit from assistance of another project unit that is already successfully implementing. The Bank should carefully considering the consequences of breaking effectiveness conditions.

Nick York
Director
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# 1. Background and Context

1.1 This Project Performance Assessment Report (PPAR) reviews the World Bank's Financial Management, Transparency, and Accountability Project (FIMTAP) in Malawi. The project was approved on June 2, 2003 and closed on September 1, 2009, 18 months behind schedule. The World Bank, through the International Development Association (IDA), provided a credit for US$27.4 million. Additional financing of US$1.8 million was made available through a Trust Fund.

***Poverty and Social outcomes***

1.2 In 2003 Malawi was one of the poorest countries in the world. 75 percent of the population lived on less than US$1.25 a day, which was significantly higher than the Sub-Saharan Africa average at the time (58 percent), and comparable to countries such as Sierra Leone, Madagascar, and the Democratic Republic of Congo. In addition, there were profound inequities in access to assets, services and opportunities across the population. (WDI 2015)

1.3 Human development indicators were similarly dismal. For children of the poorest quintile, the under-five mortality rate stood at 223 per 1,000 live births, 57 percent were recorded as stunted, only half fully immunized, and 63 percent had experienced an episode of malaria in the last year. Of those children that survived past the age of five, only 58 percent could expect to complete primary school. HIV prevalence was alarming at 15 percent in the 15-49 age group. (WHS 2003, NSO 2005) This is also reflected in the latest UN's Human Development Index that positions the country at 170 out of 187 countries and territories.[1]

1.4 Public service delivery was pressured by a rapidly growing population. The population growth rate at about 3 percent continues to be among the highest in the world and exerts pressures on service delivery, which is already overstretched. (WDI 2015) Family planning is not an option to many, with contraception access rates of no more than 50 percent across all wealth quintiles. (NSO 2005).

***Economic and Fiscal Management***

1.5 In this context, sound economic management, and the effective and accountable use of public resources is paramount in order to improve economic and social outcomes. By 2003 the government underwent numerous PFM reform efforts. Reform of budget preparation was already a World Bank supported policy actions under structural adjustment credits in the mid-1980s. This was followed by the introduction of a Medium-Term Expenditure Framework (MTEF) in 1995, a cash budgeting system, the initiation of a Financial Management Information System (FMIS) in 1996, and cash management improvements in 2000. (Durevall and Erlandsson 2005; Fölscher et al., 2012).

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[1] See Human Development Reports. In 2003 the corresponding figure was 165 out of 177 countries, reflecting stagnant progress over a decade. Human Development Report 2004.

1.6 However, progress in PFM reform during the 1990s was slow due to unfavorable political conditions. The Muluzi government, which was reelected in 1999 oversaw a decline in the quality of fiscal management, increasing corruption, inadequate checks and balances, and generally declining standards of public management. At the end of the Muluzi administration economic growth was well below regional averages at a sluggish 2 percent, annual inflation was in the double digits, interest rates remained high at 30 percent, and the real exchange rate had sharply depreciated. (South African Institute of Internal Affairs 2004; Booth et al. 2005; Fozzard and Simwaka 2002; Fölscher et al. 2012; Rakner et al. 2004).

1.7 The already fragile fiscal situation suffered from adverse weather conditions and was exacerbated after the IMF suspended its program in response to inadequate government commitment to the Poverty Reduction and Growth Facility's targets. Many bilateral and multilateral donors providing Budget Support followed suit and suspended their aid. To bridge the funding gap the government increased domestic borrowing, pushing already high interest rates further up. Within three years, the government's total debt stock more than doubled, and by 2003 the domestic interest bill reached 9.1 percent of GDP corresponding to an unsustainable 40 percent of domestic revenue. This increase in debt was accompanied by less transparent forms of financing such as the accumulation of arrears; the consequence of poor budget execution and control processes. Further, approved budgets and budget outturns were askew, both in level and composition. In particular the budget performance of non-wage recurrent expenditures was poor and operational and maintenance was inadequately funded – a problem that persists until today. Given these circumstances, the Medium-Term Expenditure Framework (MTEF) provided little guidance with regards to expenditure allocation within a sustainable fiscal framework. (PEFA 2005, World Bank 2007).

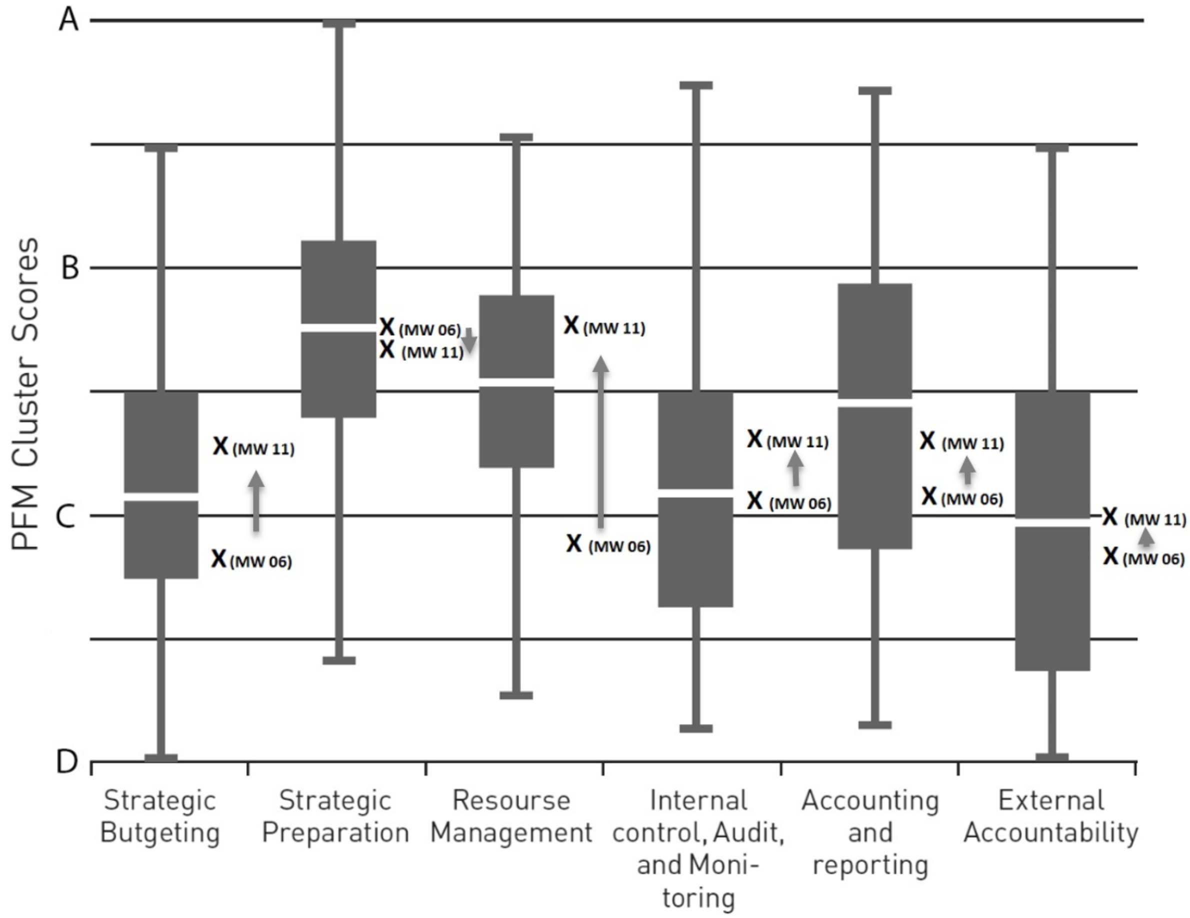
1.8 Since then some progress in key PFM areas was made. Plotting the Malawi 2006 and 2011 public expenditure and financial accountability (PEFA) scores against the scores of the 100 countries[2] in the De Renzio et al (2012) study puts progress in perspective. The grouping of PFM areas follows the budgeting cycle as per Andrews (2010). These are: (a) strategic budgeting; (b) budget preparation; (c) resource management; (d) internal control, audit and monitoring; (e) accounting and reporting; and (f ) external accountability.[3] The box and whisker chart compares average scores and their distribution across these six clusters. The box in the plot represents the spread of scores of the 100 countries, within the second and third quartile. The line through the box represents the median value. Minimum and maximum values are presented as outliers by the whiskers. Progress has been made in in Strategic Budgeting, where overall Malawi in 2011 scores close to the third quartile, which is mostly driven by annual and comprehensive debt sustainability analyses. Resource management also improved, and Malawi raised its standing from below second quartile to close to third quartile. This was driven by improvements in revenue administration, transfers to the treasury, and debt management mechanisms. Less progress was achieved in Internal Control and Accounting and Reporting. Progress was less pronounced and at times reversed in budget preparation and external accountability. The latter suffered from inadequate and late information provided by the Accounting Generals Office, little to no evidence of follow up to

[2] Two thirds of the assessments were carried out between 2008 and 2009. Only 42 of the 100 assessment reports had been made publicly available and 24 were still at a draft stage.

[3] Appendix B provides a detailed account of PEFA scores by categories and dimensions.

audit recommendations, limited scope of the audits, continued lack of independence and capacity of the National Audit Office, and insufficient oversight capacity of parliament. (PEFA 2011; Fölscher et al 2012).

**Figure 1.1. Malawi PEFA Progress in Relation to Other Countries**




*Source:* De Renzio et al. (2012); Fölscher et al. (2012); and IEG calculations.

### *World Bank Engagement*

1.9 The World Bank engaged in this difficult setting through the FIMTAP, the objective of which was *"to improve the effective and accountable use of public expenditures through capacity building and institutional strengthening for budget implementation and oversight and increased transparency of government institutions."* In particular the project was designed to improve financial management and accountability institutions. Central to the financial management goal was support to the ongoing development of FMIS and the supporting environment. Strengthening accountability institutions included the Public Accounts Committee, the Budget and Finance Committee, the external audit function, and the internal audit. Separately the project made financing available for a training facility to improve human capacities especially in expenditure management across ministries. Key PFM and civil service reforms were also supported under parallel policy lending operations including the 2001 Fiscal Restructuring and Deregulation Program, the 2004 Fiscal

Management and Acceleration Program, the 2008-2010 series of Poverty Reduction Support Credits, and since project closing the 2013 Rapid Response Development Policy Grant, and the 2013 Economic Recovery Policy Operation. FIMTAP components were in part reinforced and complemented through policy actions including support for a medium term pay policy, personnel audits and HRMIS review, submission of timely audit reports to parliament, revision of budget classification, and validation of outstanding payment arrears. A detailed list of relevant policy actions is provided in the datasheet of Appendix G.

### *Political and Governance Situation*

1.10 Shortly after project effectiveness in 2003 the political landscape changed. In May 2004 Bingu wa Mutharika was designated successor of the Muluzi government, and was subsequently democratically elected.[4] He reshuffled the Cabinet, and appeared to present a clear stance against corruption and on the need for governance and economic reform. Thereby Mutharika alienated many with vested interest within his party. He eventually formed his own party while in office and governed with a minority in Parliament. During his first five years in office his government took many steps to improve fiscal discipline and governance, which restored the confidence and support of international donors. The reform program covered a wide array of PFM functions and was based on a substantive body of analytical work including Country Fiduciary Assessments, Public Expenditure Reviews, and PEFA Assessments.[5] The four PFM reform plans adopted by the government during this period were the 2003 Financial Accountability Action Plan, the 2006 Public Financial and Expenditure Management (PFEM) Action Plan, the 2010 Revised PFEM Action Plan, and the 2011-2014 PFEM Reform Program. (Fölscher et al., 2012) The comprehensive reform program by PFM cluster and associated PEFA indicators over the evaluation period are outlined in Appendix B.

1.11 Following the reelection of President Mutharika in 2009, and his subsequent parliamentary majority, the focus on public finance reform somewhat waned. While the implementation of FMIS continued to be rolled out, budget planning was done with limited policy focus, and significant off-budget project funding was conductive to the accumulation of arrears. In 2013 about US$32 million were misappropriated, a consequence of the lacking internal control environment, the possibility of collusion and manual data manipulation, bank reconciliation failure, a disregard to the PFM legal framework and a culture of impunity.[6] (IMF 2014; Fölscher et al., 2012; World Bank 2013) Notwithstanding the above, the government was of the opinion that the FMIS failed to prevent this episode, and initiated discussion for the procurement of a new system. The tendering process is currently under way and is largely supported by the follow up Bank project.

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[4] In 2002 Bakili Muluzi proposed an amendment to Malawi's constitution that would have allowed him to run for a third term. This was abandoned in the face of demonstrations and vigorous opposition from the legislature and courts. He handpicked his successor Bingu wa Mutharika who subsequently also won the elections.

[5] These include macro-fiscal planning, FMIS, budget calendars, classification, budget / policy links, budget documentation, revenue administration and tax collection, cash management, debt management, procurement, payroll management, aid management, internal audit, commitment controls, payment systems, accounting standards and chart of accounts, accounting and reconciliation procedures, financial reporting and external audits.

[6] Appendix D provides a more detailed account on PFM factors leading up to the “cashgate” scandal.

# 2. Objectives, Design, and Relevance

## Objectives

2.1 The project appraisal document (PAD) states the objective of the Financial Management, Transparency and Accountability Project (FIMTAP) as *"to improve the effective and accountable use of public expenditures through capacity building and institutional strengthening for budget implementation and oversight and increased transparency of government institutions."* (PAD p.1) Similar in wording, the Development Credit Agreement (DCA) states the objective of FIMTAP as *"to assist the Borrower to improve the effective and accountable use of its public expenditures through capacity building for strengthened budget implementation and increased transparency of the Borrower's institutions*." (DCA p.13) For the purposes of the evaluation the original objective is broken down into: (1) improve the effective use of public resources; and (2) improve the accountable use of public resources. Reference to capacity building relates to the activities funded by the project.

2.2 In 2006 the operation was restructured, including an amendment of the objective. The revised DCA stated the new project's development objective as *"to improve civil service and public expenditure management for better allocation and utilization of public resources."* (Revised DCA, p.17). This is broken down into: (1) improve civil service management; and (2) improve public expenditure management. Better allocation and use of public resources are considered as higher level objectives, as reflected in scope of activities and made evident by the revised results framework.

2.3 Following OPCS guidelines a split rating is applied. As 25 percent was disbursed at restructuring, the weights applied for original and revised objectives are 25 percent and 72 percent respectively. Original objectives are assessed against the entire lifecycle of the project.

## Design

2.4 At appraisal the operation encompassed four components.[7] (1) Strengthening Accountability Institutions; (2) Improving Financial Management; (3) Human Development; and (4) implementation support to the FIMTAP Secretariat. These first three are discussed below:

2.5 **Strengthening Accountability Institutions**, through capacity building and institutional strengthening of the Public Accounts Committee (PAC), the Internal Audit, and External Audit. Further, this component aimed at institutionalizing voluntary performance contracting of Permanent Secretaries, as well as Heads of Departments. Lastly, the program aimed at piloting a Public Expenditure Tracking Survey in a number of select districts (PAD p. 27-37).

[7] Costing by components is provided in table 3-1.

2.6 **Improving Financial Management.** The operation aimed at strengthening Financial Management through support of the design and implementation of the Financial Management Information System (FMIS). This included significant technical assistance, software and hardware purchase, as well as training activities. Secondly, the component aimed at strengthening the Government Wide Area Network (GWAN), which is the electronic infrastructure to enable FMIS among other things. This included a fiber optic expansion, provision of uninterruptible power supply units and generators, system protection, and building management capacity to oversee use, standards, and maintenance. Further, the component was integrated into a broader government information and communication technology (ICT) strategy.

2.7 **Human Capital Development.** The operation set up a training fund to support the Department of Human Resource Management and Development (DHRMD) on broad capacity building measures focused on public expenditure management across ministries. Based on needs assessments undertaken by the DHRMD, areas would include financial management, procurement capacity, records management, information technology, strategic management, data analysis, project management, leadership skills, and human resource management. Further, the fund would support training institutions in Malawi to participate in the execution of the component. The government committed to student evaluations, which would provide inputs to revision of the training plan on an annual basis.

2.8 **FIMTAP Secretariat.** This component financed the project management unit that was to focus on coordination of implementation, financial management, procurement, monitoring and evaluation and reporting.

2.9 **At restructuring** in 2006 a number of changes were made to the existing components, the most prominent of which was a significant reduction of scope of FMIS related activities. Sub-components dropped included capacity building for the PAC, the Parliamentary Budget Committee, and support for the National Audit office, expenditure and performance tracking by the National Economic Council. Most of these were instead supported by the Millennium Challenge Cooperation (MCC). The large portion of FMIS roll-out costs were provided by the government directly. Instead, new activities were added to the project including rightsizing of senior public service staffing levels, rationalization of foreign missions, implementation of a new Human Resource Information System (HRMIS), provision of economic policy support to the Minister of Finance, support for the implementation of procurement reforms, and the establishment of a Performance Incentive Facility.

2.10 The project was restructured a second time in 2009 to reallocate funds and extend the closing date. The design was somewhat simplified as the sub-component of rationalization of senior public servants was removed. This was a low priority activity in the project with limited funds attached. Over the lifecycle of the project the allocation to implementing support doubled, which is in part due to increased fragmentation of activities during restructuring, such as the inclusion of non-core PFM components (e.g. reforming foreign missions). This is discussed in more detail under Efficiency in Chapter 4.

## Relevance of Objectives

2.11 The original objectives were **highly** relevant given country conditions, notably its poor social sector outcomes (as documented above), as a necessary intermediate step to improving the quality and efficiency of public service delivery. A 2006 Public Expenditure Review (PER) pointed to a number of PFM bottlenecks including allocative inefficiencies and lacking controls that constrained the effective delivery of services. With regards to fiscal management, budget credibility was poor with large deviations both in terms of level and composition across spending agencies, which was in part driven by political ad-hoc considerations and inaccurate revenue forecasting. (World Bank 2007) Notable in particular are deviations by vote, and the underspending of Development Expenditures, while Other Recurrent Transactions (ORTs) were disproportionately high (see table 2.1). Furthermore, the PEFA (2005) found insufficient control in budget execution, and lacking a multi-year perspective in fiscal planning. Expenditure policy and strategic budgeting was thus weak, transparency and predictability lacking, and external control and legislative scrutiny insufficient.

2.12 Considering the above, the objectives of assisting the borrower to improve the effective and accountable use of public resources was highly relevant to address the immediate needs in public financial management and to address bottlenecks in the delivery of key services in a highly resource constrained environment.

**Table 2.1. Deviation of Approved Budget by Votes (Recurrent Expenditures) and Economic Classification in 2004/05**

| *Ministries, Departments, and Agencies* | *Deviation* |
|---|---|
| **OVERSPENDING** | |
| Unforeseen Expenditure | 337% |
| Accountant General's Department | 319% |
| Ministry of Information | 191% |
| Malawi Prisons | 173% |
| Office of the President and Cabinet | 156% |
| Malawi Policy Services | 150% |
| Malawi Defense Force | 130% |
| National Assembly | 125% |
| **UNDERSPENDING** | |
| Human Resources Management and Development | 77% |
| Ministry of Local Government | 66% |
| Ministry of Economic Planning and Development | 64% |
| National Audit Office | 41% |

| | |
|---|---|
| Economic classification (over and underspending) | |
| Current Expenditures (total) | 151% |
| Wages and Salaries | 108% |
| Other Recurrent Transactions | 155% |
| Development Expenditures (domestic) | 28% |

*Source:* Government of Malawi (2004), World Bank (2007).

2.13 The objective was also closely aligned with the government and Bank strategy at the time of entry and closure. Aside from this project, the Bank further supported PFM reforms through development policy lending, which underscores their importance. In all four above-mentioned PFM reform plans improved allocation, use, and accountability was a key priority. Furthermore, the project objective was reflected in Pillar I "Strengthening Economic Management and Accountability" of the Country Assistance Strategy (CAS) covering the period 2003-2006. The objective at restructuring and closure reflects the CAS Outcome #4 on Good Governance covering the period of 2006-2012, which has a particular focus on civil service reform. Furthermore, the objective remains highly relevant at time of the present assessment. Theme 3 of the current CAS covering the period of 2013-2016 stresses mainstreaming Governance for enhanced development effectiveness." The latest CAS also makes provisions for a follow up PFM project, which is currently under implementation.

2.14 The objective was highly complementary to institutional reform arrangements for banking government funds and processing expenditure and receipt transaction, which was primarily supported by the IMF. The public expenditure interventions as supported by FIMTAP would be significantly more effective once banking arrangements are under full stewardship of the Reserve Bank of Malawi (RBM). Over the lifecycle of the project significant progress was made establishing a Treasury Single Account (TSA).[8]

2.15 After restructuring the objective was reduced in scope to (1) strengthen civil service management; and (2) strengthen public expenditure management. Expenditures on personnel emoluments made up between 5 percent and 8 percent of GDP (IMF 2009; IMF 2012; World Bank 2015). The public wage bill grew steadily, and was the largest share of recurrent public expenditures in the government budget (see fiscal table in Appendix G). Inefficiencies in civil service management (including absenteeism, gatekeeping, and informal privatization) were reportedly a significant constraint to public service delivery and limited human capacity an impediment to the effective management of public expenditures (World Bank 2006; Fozzard and Simwaka 2002). Strengthening public expenditure management remained highly relevant for much of the same reasons as outlined in the paragraphs above. Notably however, the revised objectives did not explicitly target the strengthening of accountability functions anymore, as key activities such as support to the parliament and the National Audit Office were dropped. The PFM literature points to the importance of strengthening the control environment and oversight institutions,[9] and more continuous support would have been

[8] The PEFA indicator related to the extent of consolidation of Cash balances PI-17(ii), Malawi scored an A in 2008 and 2011. Appendix F provides a detailed assessment on the government banking arrangements.

[9] See Andrews (2010); Renzio de, et al (2010); and Lawson (2012).

warranted, as eventually made evident from the cashgate scandal (see Appendix E). This would also have complemented upstream policy reform from the PRSCs 1-3 (see Appendix G for a detailed list). Capacity building for oversight institutions was only partially addressed by other donors.[10] Furthermore, accountability was a key building block across the government PFM reform programs, as well as the Country Assistance Strategies. On balance, relevance of the revised objectives is rated **Substantial**.

2.16 Relevance of objectives is rated **Substantial,** reflecting High relevance at entry and Substantial relevance after restructuring.

## Relevance of Design

2.17 Relevance of design at entry was **Substantial.** The lending instrument was appropriate and complementary to parallel policy lending operations as well as support from other donors. The project design at entry had a plausible results chain with components and planned activities closely linked to the specific development objectives. While the operation entailed a high number of activities, these were reinforcing, complementary and well sequenced. Even though the design was complex, it was not excessively so.

2.18 The *effective use of public expenditures* was likely to benefit from strengthened budget preparation, planning, improved capacity in financial management, investments in the FMIS infrastructure, and subsequently better internal controls and budget execution. Less credible was the link to improved allocation of expenditures. Supporting the MTEF and investments in strategic plans was an important element, but revenues were substantially understated with resulting under programming of expenditures. Further, the *accountable use of public resources* was likely to benefit from strengthened internal control mechanisms through FMIS and internal audits, improved oversight capacity of the National Audit Office (NAO), and better engagement of the PAC and Budget Finance Committee.

2.19 The project focused on strengthening downstream processes such as execution, monitoring, and accountability before investing heavily into budget preparation and medium-term planning exercises.[11] This was well sequenced as in the absence of a basic budget execution system which is capable of recording all expenditure and receipt transactions according to a standard Chart of Accounts (CoA) the implementation of advanced budget preparation methodologies could at best be of limited benefit. The project also recognized that it was necessary to improve basic financial management processes, internal controls, and accountability mechanisms**,** while at the same time putting in place the requisite equipment and skills. However, the project would have benefited from addressing more directly the role

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[10] This includes: US$3.9 million from DfID, CIDA, the EC, and the MCC for capacity building for Parliamentary committees; US$17 million from the MCC for capacity building for FMIS, the Office of the Director of Public Procurement.(ODPP), the National Audit Office, Ministry of Finance, and the Malawi Revenue Authority; Euro 2 million from the EC for public expenditure management and budget related projects, including support for the Central Internal Audit Unit and the National Audit Office; and US$2 million from UNDP for support of the ODPP and the Lilongwe Government Wide Area Network.

[11] It is important to note in view of subsequent difficulties with the Malawi FMIS that even with the original CODA application there had been an effort to tighten internal financial controls by the use of double passwords and a clear division of responsibilities and systems access among accounting cadre and controlling officers. This is discussed in more detail in Appendix C.

of Controlling Officers under the law for managing their votes, reporting to the Ministry of Finance (MOF), and being themselves accountable for following financial regulations.

2.20 Relevance after restructuring remained **Substantial**, although for different reasons. The project development objective benefited from becoming more process oriented, which made the results chain more direct and attributable. These intermediate outcomes conceivably contributed to the higher level objectives of better allocation and use of resources. In particular improved public expenditure management is a more downstream and modest objective than the original objective of improved effective use of public expenditures, while still plausibly contributing to the higher level objective of improved allocation and use of expenditures. Downsizing expectations was appropriate, especially given the more modest engagement in FMIS. The results chain remains by and large plausible: the development of strategic plans in coordination with the MTEF is likely to improve on expenditure management and eventually allocation of public resources. However, improved allocation of resources would have also benefitted from more realistic revenue projections, the underestimation of which proved an obstacle to good budget performance (see Appendix G). A functioning FMIS with improved budget execution through sufficient ex-ante internal control mechanisms is essential to expenditure management, likely to improve the credibility of the budget, which subsequently impacts allocative efficiency as well as the use of resources.

2.21 *Improved civil service management* was critically supported through strengthening the HRMIS, including payroll and establishment controls. Further, an exhaustive training program, and institutionalizing performance contracts were likely to contribute directly to the objective. While rightsizing senior public service staffing levels was potentially important, the added component was very small and thus unlikely to contribute significantly to the objective. Arguably it complicated the operation unnecessarily. Similarly, rationalizing foreign missions was an important aspect of civil service management, but may better have been addressed in a trade and competitiveness program.

2.22 The logical framework, as per PAD Annex 1, and results framework of the restructuring paper were by and large vague and weakened the chain of logic. Specifically, the project development objective (PDO) indicators were not well defined and attributable. Furthermore, effectiveness of public expenditure was not measured through potential indicators such improvements in budget allocation and protection of priority expenditures, and outturn compared to the budget. The intermediate outcomes were more closely related to activities, even if rather output oriented. At restructuring the operation missed the opportunity to include PEFA indicators in its results framework although an assessment had been finalized shortly before. A more in depth assessment of the M&E design, including the relevance of indicators is provided in chapter 7.

2.23 On balance, notwithstanding shortcomings in the results framework, relevance of design is rated **Substantial.** Prior to restructuring, it was well designed, and sequenced. Developing, and rolling out an FMIS, building capacity, and strengthening accountability makes for a relevant, confined and well-designed operation. After restructuring the scope of the operation was rightly reduced, though complexities were introduced that detracted somewhat from the operations focus. The quality of outcome and performance indicators accompanying the operation were lacking and only improved moderately after restructuring.

# 3. Implementation

3.1 The project was approved by the Board on March 6, 2003 and declared effective on June 2, 2003. The operation was restructured twice: a first order restructuring in July 2006 that required board approval of the new PDO, indicators, and targets; following the mid-term review a second order restructuring in February 2009 that included a reallocation of funds and extension of the closing date. A Trust Fund of US$ 1.8 million was made available to the operation in December 2007. A mid-term review was held in May 2008. The estimated cost of the project at appraisal was US$27.4 million, with Bank financing of US$23.7 million and borrower financing of US$3.7 million. Due to exchange rate fluctuations between the SDR and the US$ the envelope of Bank funds to the project increased to US$26.5 million after the first restructuring and to US$27.7 million after the second. The actual cost at closing was US$30.2 million, of which the Bank financed US$29.2 million and the Government of Malawi (GOM) US$1.0 million. In response to a request from the government, the project has been approved for retrofitting in accordance with the Malawi Country Financing Parameters which eliminates the need for further counterpart financing[12]. The Bank disbursed US$7.6 million of the credit prior to restructuring, an equivalent of 25 percent of total lending. A breakdown of the project cost by component is provided in the table below[13].

3.2 Project implementation started during the campaign for the 2004 general elections, at which time there was little political momentum in favor of reform and an unreceptive civil service to the proposed activities under FIMTAP. Further, there were significant procurement delays in the first 18 months due to (i) a lack of a procurement specialist in the Project Implementation Unit (PIU)[14]; (ii) inadequate knowledge of World Bank procurement procedures by the beneficiary agencies; and (iii) slow follow up by the Bank on processing no-objection requests from the FIMTAP Secretariat due in part to frequent changes of task team leader.[15]

**Table 3.1. Project Cost by Component (US$ million)**

| | ***Appraisal estimate*** | ***Actual*** | ***Percentage of appraisal*** |
|---|---|---|---|
| Accountability and Public Service Management | 6.2 | 6.3 | 101.6 |
| Improved Financial Management | 12.6 | 11.4 | 90.5 |
| Human Development | 3.1 | 5.2 | 167.7 |

[12] Much of the FMIS was funded by Government but this expenditure is not included as project cost.

[13] Some of the figures presented in the ICR were incorrect and were rectified here based on available information.

[14] This was an effectiveness condition that was met. However, this person either never took up the position or left it soon after. Even though there was a legal covenant whereby this position should be throughout implementation, by all accounts the Bank team did not enforce this provision.

[15] At the time of restructuring the project had a succession of five TTLs.

| | | | |
|---|---|---|---|
| Project Management | 1.8 | 4.2 | 237.2 |
| Performance Incentive Facility | n/a | 0.3 | n/a |
| Other (Trust Fund) | n/a | 1.8 | |
| Total | 23.7 | 29.2 | 119.0 |

*Source*: World Bank (2003); World Bank (2006); World Bank (2010).

3.3 Project implementation started during the campaign for the 2004 general elections, at which time there was little political momentum in favor of reform and an unreceptive civil service to the proposed activities under FIMTAP. Further, there were significant procurement delays in the first 18 months due to (i) a lack of a procurement specialist in the PIU;[16] (ii) inadequate knowledge of World Bank procurement procedures by the beneficiary agencies; and (iii) slow follow up by the Bank on processing no-objection requests from the FIMTAP Secretariat due in part to frequent changes of task team leader.[17]

3.4 Under the previous Bank project, the Institutional Development Program 2 (IDP2), the government had purchased CODA Financials and customized it to Malawi requirements. Detailed pilot testing of the software had been carried out over 2000-2002. The upgraded version was launched in pilot sites, and its functionality verified and considered ready for roll-out by World Bank staff prior to negotiations of FIMTAP. The long time taken for customization and testing the FMIS software under IDP2 and in the earlier years of FIMTAP, without sufficient progress in its implementation seemingly led to the loss of confidence of the Accountant General and uncertainty over whether the process would yield a workable solution despite some encouraging results during the pilot phase. This in turn undermined the commitment and support from top management in the Ministry of Finance (MOF), who decided to abandon the customization and enhancement of the application and procure EPICOR, an entirely new second generation application software package. This decision was taken after a visit of a high level MOF team to Tanzania where this software was being used.

3.5 The new procurement was proposed by government to be on a sole source basis, which was deemed incompatible with Bank procurement guidelines. The government then decided to purchase the software from its own resources. All further work related to the original FMIS application and training of staff for its use was suspended and the government embarked on a new systems implementation exercise based on the new instrument. This raises a question whether continued investment in customization and enhancement of the original application was the appropriate route to follow. Instead it may have been better to switch software platforms to take advantage of the new technology available at the very start of FIMTAP in the early 2000's. The Quality Assurance Group (QAG) noted that "*The CODA Financials, had been installed under a previous Bank project, IPD2, and updated prior to FIMTAP commencing. The Accountant-General came to the view that an FMIS based on CODA Financials could never work satisfactorily, and sought to switch to the EPICOR*

[16] This was an effectiveness condition that was met. However, this person either never took up the position or left it soon after. Even though there was a legal covenant whereby this position should be throughout implementation, by all accounts the Bank team did not enforce this provision.

[17] At the time of restructuring the project had a succession of five TTLs.

*system utilized by Tanzania. Bank staff urged the GoM to stick with the existing software, and arranged for CODA to fly a team to Malawi to fix all outstanding problems…Who was right is beside the point. What happened is that the Bank was unable to retain the confidence of the client on a critical technical issue at the heart of the project."* (QAG 2008 para 16).

3.6 In light of lack of implementation progress the government and the Bank decided to restructure the project in November 2004, which was only completed in July 2006. The reasons given for this time lag were delayed approval by the Bank due to the frequent changes in TTLs, a request for an audit due to suspicion of financial irregularities in procurement,[18] and the government proposing additional subcomponents late in the restructuring process, such as the inclusion of a Human Resource Management Information System (HRMIS) and addition of foreign missions. The operation subsequently benefitted from additional financing through a dedicated Trust Fund of US$ 1.8 million, which became effective in December 2007.

3.7 The mid-term review (MTR) was originally scheduled for June 2005, but was postponed to April 2008 to allow for an adequate implementation period following project restructuring based on which the performance could fairly be assessed. However, this also meant that there was limited scope for substantial changes once the project was approaching closure (at MTR about 75 percent of the Credit had been disbursed and a substantial part of the funds were already committed). The MTR concluded that restructuring had put the project back on track, most components were progressing at a satisfactory pace, and that disbursements had increased significantly after the initial delays. It also recommended an amendment to the DCA due to some changes in government priorities and project operations. This included dropping the retrenchment subcomponent as officers had either retired, resigned or died; increasing the maximum award under the performance incentive facility to US$10,000 as US$5,000 would not meet the cost of the training or training equipment; and an increase in the performance indicator training target from 100 to 1,000 as more funds became available, and training was held locally / regionally rather than internationally. (World Bank 2008).

3.8 Subsequently the operation was restructured for a second time to take into account the recommendations of the MTR,[19] provide for a further reallocation of funds, and extend the project closing date until September 1, 2009. A breakdown of the reallocation of funds is provided in the table below. Notable is the overestimation of operating costs. This may in part be due to implementation cost savings of the retrenchment sub-component.

3.9 **Safeguards compliance.** None of the safeguards policies were triggered as per PAD and restructuring documents. No fiduciary issues were identified during project implementation. In 2005 the country director requested the World Bank's Internal Audit Department (IAD) to conduct an audit for FIMTAP on the suspicion of financial irregularities associated with the FMIS component. The audit itself was never undertaken.

[18] No irregularities were identified.

[19] See restructuring paper 2009, p.3.

However IAD's preliminary investigations concluded no fiscal irregularities, but several instances of financial management lapses in relation to the FMIS.

**Table 3.2. Reallocation of Funds (US$ million)**

| | *Original Allocation* | *Reallocation 2006* | *Trust Fund 2007* | *Reallocation 2009* |
|---|---|---|---|---|
| Goods | 4.0 | 5.5 | 6.0 | 7.7 |
| Consultant's services audits and training | 14.1 | 13.2 | 14.3 | 14.5 |
| Operating costs | 2.6 | 5.9 | 6.1 | 6.5 |
| Refunding PPF | 0.6 | 0.3 | - | 0.3 |
| Unallocated | 2.4 | 0.9 | - | - |
| Subprojects | - | 0.5 | - | 0.5 |
| Severance payments | - | 0.3 | - | - |
| **Total** | **23.7** | **26.6** | **28.4** | **29.5** |

*Source:* World Bank (2010).

# 4. Achievement of the Objectives

***Original project***

## Objective 1. Improved effective use of public expenditures

4.1 The improved effective use of public resources was to be achieved through enhancing financial management systems, building planning and budgeting capacity, and investing in human capital. The credit supported refinements and improvements to technical specification of the existing FMIS. Arrangements were made for technical assistance, further hardware and software purchase as well as the provision of various training modules. The expected outcome of this was that a functioning FMIS would provide the information needed by controlling officers to develop better budget estimates and control spending. As a corollary, improved budget execution through adequate ex-ante internal control mechanisms would improve the credibility of the budget, which impacts allocative efficiency and ultimately enhances the effective use of public expenditures. Capacity constraints to effectively implement PFM reforms were recognized and the operation complemented support with building critical skills in the areas of financial management, auditing, accounting, management, and information technology.

4.2 After the government abandoned the original platform, the World Bank significantly scaled-down its support to the FMIS. The government consequently pursued the implementation of a second generation FMIS with its own resources. The World Bank limited its support to the Government Wide Area Network (GWAN), the provision of generators, and some technical support. To complement the government's efforts, the Bank however retargeted support to budget preparation and planning through the development of annual strategic plans, strengthening the Medium-Term Expenditure Framework, and training of planning officers in ministries, departments, and agencies (MDAs) in developing budget estimates and aligning strategic plans with budget development processes, thus addressing allocative efficiency issues.

**Outputs**

4.3 **FMIS.** The FMIS was launched in five pilot sites (Agriculture, Health, Finance, Education, and the Accountant General). Training regarding project management, IT and CODA Financials was provided, and office equipment such as computers and printers were procured and distributed. The system was not rolled out because of the government's decision to change the system platform to a second generation application. The adoption of a new system led to most investments in the financials software upgrades and trainings becoming redundant.

4.4 To strengthen the FMIS, FIMTAP made provisions for a physical GWAN, which was designed as the electronic infrastructure to support numerous intranet / internet capable functions. Under the project, with parallel support of UNDP and the Millennium Challenge Cooperation (MCC) the GWAN was upgraded and significantly expanded. Amongst other things, electricity was provided through back-up generators, nine government buildings in Lilongwe City were connected, and network security was strengthened. Most enhancements for the network and its management structures were completed at project end in 2009 and the associated target of "GWAN fully functional and secure," though very vague, can be considered achieved. A more comprehensive picture of the support to GWAN under the project is provided in Appendix C. Under the Financial Reporting and Oversight Improvement Project (FROIP) follow-up operation and support from USAID the GWAN was again significantly refurbished including replacements of the fiber cables and network equipment. Today the GWAN serves as a reliable backbone for the operation of government information systems.

4.5 The operation built government capacity for strategic planning. Core planning teams comprising ten officers each, were constituted and trained in strategic planning. In total 234 officers were trained against a target of 220. Additionally, 150 local government officials attended workshops for the training of trainers in order to transfer strategic planning skills to the local assembly staff. Templates for plans were developed and standardized across MDAs, and plans were developed for 22 MDAs. Strategic plans were aligned on the one hand to the Malawi Growth and Development Strategy, and on the other to the budget development process directly. These plans were reported to have been used for the sectoral budget allocations in their respective institutions. At the time of the present assessment the original strategic plans had expired. In the ministries visited, a new strategic plan had been subsequently developed using mostly government resources. These were broadly based on the original template. This indicates that capacity to develop plans had indeed been built and was maintained. Further, government ownership of strategic plans appears to be high. Line ministries develop Medium-Term Expenditure Frameworks that are based on the priorities identified in their respective strategic plan, and clearly reflect objectives, sub-objectives, and targets.

4.6 **Capacity Building.** The project included support to the Malawi Capacity Building Facility,[20] and thereby provided trainings at various levels on resource and expenditure management. The Malawi Capacity Building Facility has provided to about 1,500 civil servants both long-term and short-term training including accountability and transparency, public finance, auditing, project management, procurement, and local government financial management. This exceeds the initial target set for 100 staff, and the revised target of at least 1,000 staff trained.[21]

4.7 A credible[22] evaluation of short-term training (GOM 2008) found the program to be effective. Attendance rates were high, and a survey results indicate that most participants had a better attitude about their job following the training, and were subsequently able to take on more responsibilities. Furthermore it is reported that 92 percent of the participants were able to apply the skills, indicating that the training was indeed relevant. In particular the assessment notes that "participants are now able to evaluate tender documents, develop and review strategic plans, and observe principles of natural justice in decision making" (GOM 2008 p.15). Short-term training participants were predominantly from the Ministry of Local Government and Rural Development, followed by Agriculture, and Education. However, despite their important role regarding allocative efficiency and use of resources, the National Audit Office, the Accountant General's office, the Statutory Corporation, and the Parliament had very few participants (3 percent or less each). Further there was a gender imbalance, with only 28 percent of participants being female. No information was available on the share of women in the public service to put this in perspective.[23]

4.8 Various long term training scholarships were provided under the program, as well as supported by other partners including the Malawi government Scholarship Fund, and the Commonwealth Scholarship and Fellowship Plan. Overall 337 beneficiaries obtained degrees between 2005 and 2011. Of the 337, two thirds were male and one third female. The majority (87 percent) were sponsored for a master's degree, 8 percent for a doctorate and the remaining 5 percent for a bachelor's degree. The Central Internal Audit (CIA) unit received most trainings, followed by the Office of the Director for Public Procurement (ODPP), the National Audit office with 91, 70, and 45 beneficiaries respectively (GOM 2009). A tracer study (GOM 2013) finds that the majority of long-term Training beneficiaries returned and remained at the public service after receipt of their degree. By 2013 312 beneficiaries were still in the public service, representing 92 percent. The study's survey concludes that 92 percent of recipients were able to use the skills acquired during training, and beneficiaries noted that the degrees had contributed to the advancement of their careers as evidence by their promotion to higher posts. A more detailed account of the various training courses and their effectiveness is provided in Appendix D.

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[20] The Malawi Capacity Building Facility is a public training facility that is managed by the DHRMD.

[21] Targets were surpassed as significantly more resources were allocated toward this, and much was conducted in-house allowing cost savings and greater participation.

[22] Based on IEG's review.

[23] IEG recognizes the importance of gender balance. This was not however explicitly mentioned as an objective or outcome indicator.

4.9 Performance and outcome and progress indicators only provide a partial picture of contributions to the PDO. Progress is difficult to discern due to their vague nature, and lack of baselines and targets. A list of indicators is provided in Appendix G. The indicator of adequate capacity built to maintain expenditure management reforms and improvements is vague, but significant progress had indeed been made with regards to the quality of financial data from the FMIS. The mission verified that spending units could produce detailed expenditure reports at any point in time. Samples are provided in Appendix F. Progress against the indicators was thus made. However, problems remain with the indicator of reduced FMIS reconciliation lag time (IMF 2013).

**Outcomes**

4.10 The operation did not include outcome indicators that would adequately measure effective use of public expenditures. The indicator that "ministry strategic plans are used to guide funding priorities in budget discussions between all line ministries and [the Ministry of Economic Planning and Development] and MOF" was partially achieved, as ministries developed and used strategic plans in line with the Malawi Growth and Development Strategy (MGDS), but their quality varied and costing estimates were at times rudimentary. The PEFA of 2011 notes that "sector strategies are of varying scope and comprehensiveness with costing representing less than 25 percent of primary expenditures" (PEFA 2011, p.34). Further, where costing was available, it was unclear to what extent estimates were considered by the MOF during budget preparation. Other shortcomings include plans reflecting limited prioritization or discussion of policy trade-offs and spending plans reflecting a needs basis and historical trends, rather than being prioritized against a resource constraint. (PER 2013) While a "C" in the associated sub-indicator PI-12 (iii) is an improvement from a "D" at project appraisal (see table 4-1), significant shortcomings remained 10 years later (see Appendix B for more detail on PEFA performance). Further the PER (2013) points to significant allocative inefficiencies, which are in part driven by inaccurate revenue projections (see fiscal table in Appendix G).

4.11 There has been significant progress in expenditure management over the lifecycle of the operation. The use of public resources has improved due to a relatively successful implementation of the FMIS, though challenges remain. All transactions related to the government budget at the HQ and regional centers are reportedly processed through the FMIS system. This was confirmed by various Directors of Finance such as that of the Office of the Cabinet, the Department of Human Resources, and the Ministry of Health. These departments were able to produce a budget execution report at any point in time that gave budgeted amounts, the revised budget, the funds released, the commitments and the expenditures to date by line item for all cost centers reporting to them. Samples of these are provided in Appendix C.

4.12 The wider roll-out of FMIS should have made the accumulation of payment arrears less likely. In general, where FMIS is in place, it enables the operation of a commitment/payment system and a funds control system that does not permit the creation of a local purchase order without approved estimates and available funds. However, in practice Malawi accumulated a large stock of payment arrears over time that is inadequately reported, monitored, and managed by the government in an effective and transparent manner. The IMF

(2014) estimates that the stock of arrears at MK155 billion in May 2014 (about US$390 million), an equivalent of about 9.2 percent of GDP.[24] Factors that have led to this include:

- FMIS functionality for commitment planning that is meant to record and manage appropriation, and funding limit at line item level is not being used. MDAs maintain an off-FMIS registry and upload funding limits on an as-needed basis;
- MDAs generate LPOs and payment vouchers simultaneously, using pro-forma invoices despite directives to the contrary;
- In case of development expenditure where release is based on submission of certified work invoices, LPOs are processed only after work/service has been delivered and certified.
- Direct payments are made through instructions issued by ST to the Reserve Bank of Malawi bypassing FMIS and the central payment office
- Commitments are regularly processed outside the system through issue of manual LPOs as vendors ignore the mandatory requirement of an FMIS generated LPO;
- Multi-year commitments are poorly monitored or controlled; and,
- Budget execution reports submitted by MDAs that record the release, commitments and expenditure against the budget appropriation are FMIS generated and do not include the LPOs processed manually outside the system. As a result, the MOF only has a partial picture of the total commitments entered into by MDAs.

4.13 On the upside, program managers at various levels of government interviewed for this assessment reported that FMIS provided significant managerial value. At the Ministry of Health for example it was noted that the system allowed the team to track outputs and actual expenditure figures allowing them to monitor program costs accurately. Furthermore, the system enabled them to determine which outputs could not be delivered due to insufficient funding. The value of FMIS by program managers is thus perceived as more than merely an accounting tool, as it allows them to better manage their day to day activities. The mission obtained sample copies of these reports for these ministries, which are attached at Appendix C.

4.14 The PEFA assessments note that there have been some improvements in multi-year fiscal forecasting between 2006 and 2008, which facilitates more strategic expenditure allocation decisions. The 2008 PEFA attributes this to the reintroduction of the Public Sector Investment Plan (PSIP) into the budget system and the development of three year functional forward ceilings. (PEFA 2008) The assessment at 2011 however concluded that this link was inconsistent and not functional, and that forward approved ceilings are not consistently updated and provided to Ministries, Departments, and Agencies (MDAs) to inform the new fiscal year's ceilings. (PEFA 2011; Fölscher et al., 2012). Further, both revenue projections and cost envelopes were consistently off by about 3 percent of GDP compared to outturns (see Appendix G) over the time period, making actual progress in functional mid-term planning difficult.

[24] This was estimated at the May 1, 2014 interbank exchange rate of 1:392.5 US$ to MK. GDP was estimated at US$4.3 billion in 2014 (World Bank World Development Indicators).

4.15 An MTEF was introduced in the late 90s, and went through various reform cycles[25] in order to provide a more effective link between forecasting, planning and budget processes. A recent World Bank study classifies Malawi's MTEF as a level 2 medium term budget framework[26] meaning it specifies spending agency expenditure ceilings based on a compromise between top-down resource availability from the MTFF and bottom-up resource priorities to finance sector spending plans. (World Bank 2013b) However, while core elements of a level 2 MTEF are in place there remain significant challenges to realizing an integrated policy led medium-term budgeting process. These include further refining the macro-fiscal framework, making the budget comprehensive of all government expenditure, strengthening linkage between policy priorities and expenditure planning, and achieving better integration between current and capital spending programs. (World Bank 2013)

4.16 The link between investment budgets and forward looking recurrent expenditure estimates supports allocative efficiency and thus effective use of public expenditures. However, no PEFA improvements have been recorded in this dimension over the lifecycle of the project - it has consistently been rated "D" (see table 4.1). Instead of unified approach, the preparation of the PSIP is done in parallel to the development of recurrent spending proposals. Thus, limited consideration is given to recurrent costs arising from investments or the trade-off between the two. (PER 2013)

**Table 4.1. Select PEFA Scores on Policy-based Budgeting**

| ***PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting*** | ***2006*** | ***2008*** | ***2011*** |
|---|---|---|---|
| (i) Multi-year fiscal forecast and functional allocations | C | A | C |
| (ii) Scope and frequency of debt sustainability analysis | B | A | A |
| (iii) Existence of costed sector strategies | D | C | C |
| (iv) Linkages between investment budgets and forward expenditure estimates | D | D | D |

*Source:* PEFA 2006, PEFA 2008, PEFA 2011.

4.17 Furthermore, the budget was insufficiently comprehensive, including large off-budget expenditure items, which hinders well informed decisions regarding the allocation of the budget. Estimates for off- budget donor support[27] is collected by the Debt and Aid Management Division in the MOF. In FY13 these made up almost half of the entire development budget, and up to 76 percent in some sectors such as Health and Irrigation and Water Development (see table 4.2). This raises significant stewardship concerns, and restricts the government's ability to prioritize resources against need. This is a concern, given that only about half of externally financed project expenditures are reflected in the PSIP, with large variations across sectors. (PER 2013) It also makes duplication of activities possible,

[25] Fiscal Restructuring and Deregulation Program.

[26] The study differentiates between a medium term fiscal framework (level 1); a medium term budgeting framework (level 2); and a medium term performance framework (level 3).

[27] Off-budget donor support refers to donor programs that bypass the Government budget entirely.

allows for "double dipping,"[28] which puts stress on the already stretched counterpart's absorptive capacity and wastes resources.

**Table 4.2. Development Expenditure and Share of off Budget Financing for 2012/13**

| *(MK billions)* | *Domestic* | *DP budgeted* | *Total budgeted* | *Estimated DP off-budget* | *Grand Total* | *Off-budget as share of total* |
|---|---|---|---|---|---|---|
| Agriculture and Food Security | 1.1 | 13.2 | 14.3 | 1.9 | 16.2 | 11.7% |
| Irrigation and Water Development | 1.4 | 2.8 | 4.2 | 13.4 | 17.6 | 76.1% |
| Education, Science, and Technology | 5.1 | 4.4 | 9.5 | 6.9 | 16.4 | 42.1% |
| Health | 3.5 | 0.3 | 3.8 | 12.8 | 16.6 | 77.1% |
| Roads Authority | 12.2 | 0 | 12.2 | 16.5 | 28.7 | 57.5% |
| Other MDAs | 14.7 | 17.5 | 32.3 | 12.8 | 45 | 28.4% |
| Total | 38 | 38.3 | 76.2 | 64.3 | 140.5 | 45.8% |

*Source:* World Bank 2013 adapted.

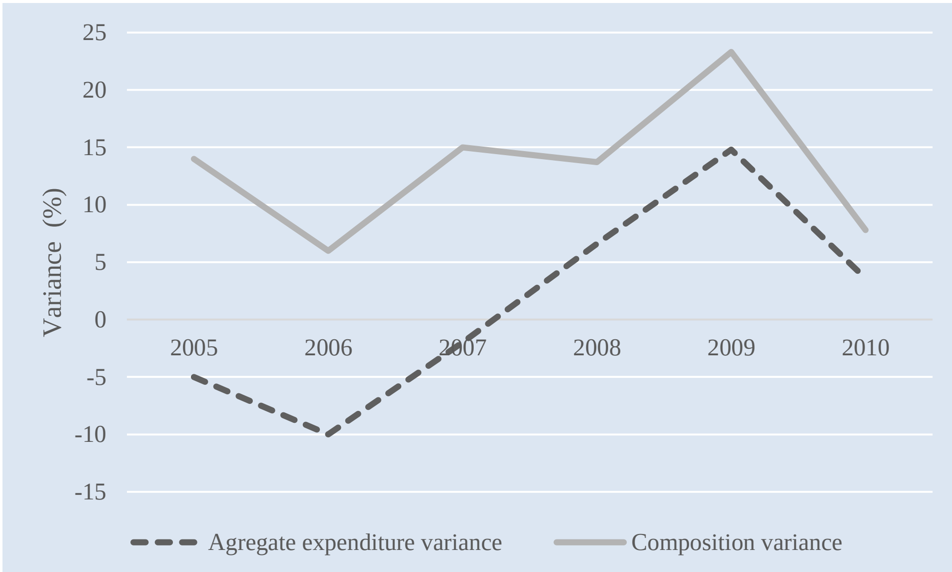
4.18 A tight macroeconomic and fiscal framework with large non-discretionary budget outlays (e.g. personnel, transfers, fertilizer subsidies) constrains the government's ability to fund new initiatives. In this environment strategic policy based budget planning is difficult. While over the medium term there is scope for reallocating resources to higher priority programs, there is little evidence that this has indeed been the case.

4.19 The Parliament's ability to effectively scrutinize budget execution and ensure that the budget is executed in line with its stated priorities remains limited. Deviations between approved budgets and actual revenues and expenditures are significant, which effectively undermines the legislative role of Parliament in approving the annual budget law. Further, there is considerable expenditure composition variance undermining the credibility of the budget as an indicator of resource allocation in line with policy priorities. It suggests that there is only a weak link between in-year cash management decisions and policy priorities insofar as these are reflected by the original budget. (PEFA 2008, PEFA 2011) The trend of these over the project cycle is displayed in figure 4.1 below.[29] Some countries facing similar difficulties (e.g., Uganda in the 1990s and more recently) party dealt with this problem by protecting priority expenditures, which does not appear to be the case in Malawi.

[28] E.g. staff attending the same training multiple times offered from different sources.

[29] Aggregate expenditure variance as per PEFA PI-1 is the difference between actual primary expenditure and originally-budgeted primary expenditure (in other words, with debt service charges excluded, and also expenditure on projects with external financing). Composition variance as per PEFA PI-2 refers to the deviations in composition of expenditure out-turn compared to the original approved budget.

**Figure 4.1. Trend of Aggregate Expenditure Variance and Composition Variance**




*Source:* PEFA 2008, PEFA 2011.

4.20 Finally, a **Public Expenditure Tracking Survey** (PETS) could most credibly and directly provide insight on the objective of "improved effective use of public expenditures." The ICR reports that the operation sponsored surveys in the districts of Mzimba, Mchinji, Zomba, and Chikwawa to follow the flow to the intended beneficiaries in the rural communities, as reflected in the annual budgets. However, neither the report nor summary findings were made available to the evaluation team. The Malawi Civil Society Education Coalition financed a PETS in 2012, which was revealingly titled "Down the Drain" (CSEC 2013). Surveys were conducted in 5 districts at primary schools, the District Commissioner's (DC) office, and for the District Education Manager. The report found that more than half of the schools did not receive any teaching and learning materials through the budget allocation of the District Education Manager. Further, despite the allocation of funds, the PETS reveals that none of the sampled primary school received funds for bursaries. In summary, the report notes that "the PETS reveals a situation where a significant proportion of education sector financing is not reaching the targeted beneficiaries. Public money allocated to the Malawi education budgets seem to missing the target and not all the funds are producing the outputs."

4.21 On balance, this objective is rated **Modest.** Some outputs regarding expenditure management and capacity building were achieved. Sector plans were and continue to be developed. Capacity for doing so has been built and was retained. However, there is insufficient evidence to suggest that there have been real improvements in the effectiveness of public spending. The 2011 PEFA at project closure brings this to the point: "the expenditure planning and resource prioritization processes have not been properly aligned with the priorities expressed in the MGDS, nor has the PSIP worked as intended as a guiding instrument for investments in the sectors. In particular, the sectors have been experiencing a lack of coherence between their internal planning processes and the annual budget process managed by the Ministry of Finance" (PEFA 2011, p.11).

## Objective 2. Improved accountable use of public expenditures

4.22 The operation originally intended to improve the accountable use of public expenditures through strengthening accountability institutions such as the National Audit Office (NAO) and oversight of the Parliament. While much of these were to be achieved through improved organizational and human capacity, strengthening the internal control environment through FMIS investments was considered an important building block to achieving this objective.

4.23 After the PDO was restructured, improved accountable use of public resources was not included explicitly as it was in the original PAD. Respondents suggested that in the revised statement accountability was subsumed under improved use of public resources. After restructuring support to oversight institutions was largely dropped, and the operation instead focused on internal audit capacity, procurement, and performance contracting.

### Outputs

4.24 **Parliamentary oversight.** Little was achieved with regards to strengthening the Public Accounts Committee (PAC) or the Parliamentary Budget Committee (PBC). As progress of this component was slow, the Bank dropped all activities during restructuring. By the time of restructuring no capacity development planning had been done, one workshop had been held for junior parliamentary staff and 2 senior staff had attended general management courses outside Malawi. No work had been done on building the capacity of key parliamentary oversight committees, and no resources or equipment was provided to support their functions. While the legislative does debate the budget law, the capacity for doing so is weak, and challenges to the overall budget strategy are rare. Legislative scrutiny of the annual budget law is rated D+ in the latest PEFA assessment. Further, legislative scrutiny of external audit reports is limited. Evidence of issuance of recommended actions by the legislature or implementation of previous recommendations by the executive is scant. This dimension is also rated as D+ by the PEFA assessment.

4.25 **Strengthening of the National Audit Office.** The cadre of auditors in the NAO was expanded under the project. Twenty officers obtained an Advanced Certificate in Auditing, 15 officers a Certificate in Information Technology and 30 officers underwent an induction course. Courses in change management and leadership skills were also provided. For more detail on capacity building see Appendix C. In addition the operation financed the construction of a training center, computers, and other supplies. The training center was used for audits in the initial years but was later transformed into office space.

4.26 However, the external audit function is significantly undermined by the failure of the Accountant General's Office to complete the annual accounts and financial statements within the statutory period after the end of year (4 months) and forward to the NAO.[30] While the

[30] The reports published by the MOF on its website are few and inconsistent.

2011 PEFA assessments scored an "A" in this dimension, and a "B" with regards to submitting audit reports to the legislative, this good practice has deteriorated in recent years considerably. At the time of mission the last audit reports submitted to legislative were more than three years delayed. Furthermore, the NAO as per Constitution (section 184(2)) reports directly to the Minister of Finance. This undermines independence, integrity, and contradicts international good practice. Further, the latest audit report was limited in scope, focusing mostly on procedural issues rather than systematic problems. The forensic assessment was particularly weak. Finally, follow up on audit recommendations was reported to be inadequate. Audit reports between 2008 and 2010 refer to problems in responses to management letters. This is part of a wider failing to hold heads of departments and ministries, as "Controlling Officers" accountable for the proper stewardship of their Votes. PEFA summary scores for this dimension are provided in the table below. A more detailed discussion is presented in Appendix B.

**Table 4.3. Scope, Nature and Follow up of External Audit**

| ***PI-26 Effectiveness of external audit*** | ***2006*** | ***2008*** | ***2011*** |
|---|---|---|---|
| (i)Scope/nature of audit performed | C | C | C |
| (ii) Timeliness of submission of audit reports to the legislature | C | D | B |
| (iii) Evidence of follow-up on audit recommendations | D | C | D |

*Source:* PEFA (2006), PEFA (2008), and PEFA (2011).

4.27 **Internal audits** were meant to improve expenditure effectiveness by providing more administrative control and earlier identification of potential issues. As already discussed above and in Appendix D, human capacity has been built.[31] Furthermore Internal Audit Committees were integrated into line ministries. By project end, 16 ministries[32] accounting for about 75 percent of the budget had functional Internal Audit Committees (IACs) that meet regularly and provide reports on internal audit committee activities to the NAO, Central Internal Audit Unit (CIAU) and the Treasury. This misses the target of functioning IACs established in all ministries.

4.28 The functionality and effectiveness of internal audits is limited however. No progress in PEFA scores has been made in this regard since 2006, despite low starting points (see table 4.2) while some progress noted in 2008 has been reversed. Furthermore, management response to internal audit recommendations has also been limited. The PEFA (2011) notes that "evidence of management response to audit reports is weak. In most instances audit committees are not functioning and where they do meet their role is compromised and not well understood."

[31] Officers were encouraged to become affiliated with the Association of Chartered Certified Accountants. Ten finished the ACCA diploma increasing the total number of officers with this advanced qualification to 16 during the project cycle. An additional ten officers also passed the ABE exams and another two qualified as internal audit technicians.

[32] These include: Education, Health, Agriculture, Local Government, Transport and Public Works, Natural Resources and Environmental Affairs, Home Affairs, OPC, Gender, Water, Foreign Affairs, Home Affairs, Lands, Housing and Surveys, Labor and Social Development, Disability and Justice.

**Table 4.4. PEFA Assessment on Effectiveness of Internal Audit**

| *PI-21 Effectiveness of internal audit* | *2006* | *2008* | *2011* |
|---|---|---|---|
| (i)Coverage and quality of the internal audit function | C | C | C |
| (ii)Frequency and distribution of reports | C | B | C |
| (iii) Extent of management response to internal audit findings | D | C | D |

*Source:* PEFA (2006), PEFA (2008), and PEFA (2011).

### Outcomes

4.29 CPIA ratings on transparency, accountability, and corruption was on par with Zambia and above the regional average. In 2012 however Malawi ratings plummeted significantly and have remained well below comparator countries since (see figure 4.2). The control of corruption perception index[33] shows a similar picture. While in the earlier years, both Malawi and Zambia appear to be making significant headways, Malawi has lost ground in the last three years and performs now markedly worse than its neighbor.[34] In 2013 Zambia was in the 45$^{th}$ percentile of countries, and Malawi 15 percentiles lower. Malawi's 2013 ranking was close to the position it was in 2005, undoing much of the progress from earlier years (see figure 4.3).

4.30 During the years leading up to 2011 there was a general perception of governance and corruption improvements which correspond to improving government commitment to PFM reforms. This perception however plummeted when the cashgate scandal surfaced, through which about US$32 million where misappropriated. This exposed a severe breakdown in the accountability chain. The IMF (2013) noted the cashgate points to a "breakdown in internal control, lack of managerial oversight, possibility of collusion and sharing, poor bank reconciliation, and a limited regard to the PFM legal framework including a culture of impunity." Further, while security measures were in place in the FMIS, the system was unable to flag some problems. This was in part due to sharing of passwords, insufficient integration of the NAO, and the ability to erase data entries ex-post. Appendix E provides a more detailed discussion on the contributing factors to this system failure.

[33] CPIA ratings assess the quality of a country's policy and institutional framework. The Control of Corruption indicator captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. Percentile rank indicates the country's rank among all countries covered by the aggregate indicator, with 0 corresponding to lowest rank, and 100 to highest rank.

[34] A parallel PPAR was conducted for Zambia, which has undergone a similar reform program.

**Figure 4.2. CPIA Rating on Transparency, Accountability, and Corruption**

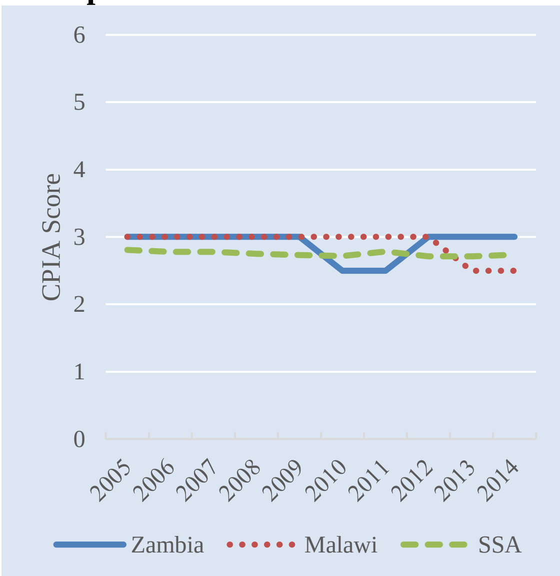
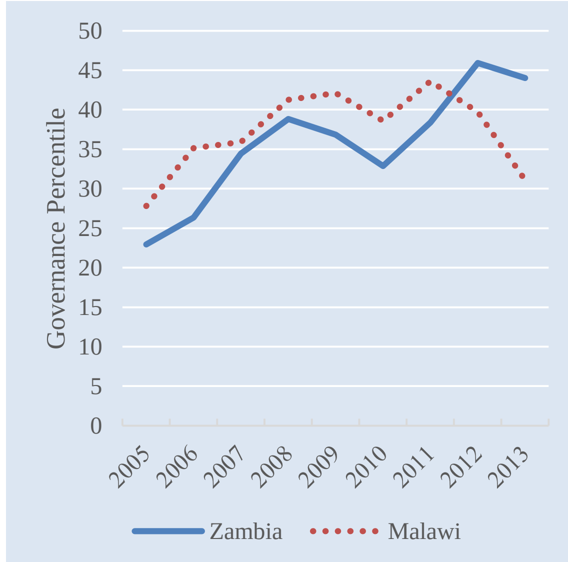



**Figure 4.3. Control of Corruption Perception Index by Percentile**




*Source:* World Bank CPIA database and Worldwide Governance indicators.

4.31 While FMIS was frequently blamed for the problem, the fault does not lie with system but its use and the underlying enabling environment. An audit commissioned by the National Audit Office of Malawi (NAO 2014) after the cashgate scandal has noted: "During an unannounced ad hoc IT security audit, the auditors' inspection of the firewall configuration indicated that the firewall settings had been changed to permit any outside connection. The password controls had been disabled, and the connections to the FMIS servers, that should have been routed through the network firewall, had bypassed the firewall. This represents a fundamental weakening of the internal control framework such that it would allow a situation similar to cashgate to occur again."

4.32 Indicators as per original logical framework were scant and difficult to use as the means to assess progress towards the objective. The indicator of accountability institutions expanded role and prominence is vague and difficult to measure. Nevertheless, given delays in the completion of annual accounts and financial statements, lack of independence by the NAO, limited capacity in Parliament, and lack of managerial oversight and poor follow up on recommendations it is difficult to argue that sufficient progress has been made. While there was no target for the indicator that external audit reports are completed on time, the last available report to the evaluation team was from 2011 and thus outdated. Internal audit controls should facilitate improvements in internal controls. However, there appears to be little demand for internal audits by Controlling Officers and an insufficiently enabling climate for expenditure control to make these effective.

4.33 Given the stagnation in the relevant CPIA ratings and reversal in Governance indicators, poor record on PEFA scores, continued weakness in oversight institutions, and the weakening of the systems that facilitated the cashgate scandal, this objective is rated **Negligible.**

***Restructured project***

## Objective 1. Improved Civil Service Management

4.34 The objective of improved civil service management was introduced after restructuring in an effort to better align the objectives with project components and priorities of the government. The civil service reform component included strengthening the HRMIS to allow for better management and oversight of the civil service, and performance contracting to provide an incentive for better performance through increased pay. Furthermore, the revised operation sought to improve the civil service management by rationalizing senior public servants and foreign missions where appropriate.

### Outputs

4.35 **HRMIS.** The payroll system and establishment controls were significantly strengthened under the project. The operation financed the introduction and training of a new HRMIS, which is now comprehensive (including subnational government) and fully utilized. The Establishment module of the HRMIS maintains the Schedule of Established Offices for approved posts and associated grades allocated to each ministry or department. This module has been centrally implemented at DHRMD in HRMIS. Adjustments to the establishment in HRMIS can only be done by authorized officers within DHRMD. Ministries and Departments have access to their establishments in read only mode. This means that Departments should not be able to appoint or recruit without posts being open, as the payroll is linked to posts that are determined by authorized establishment.[35] Employee and payment modules have been fully implemented. Although the system supports biometric controls for unique identification of employees this functionality has not been activated due to capacity constrains but is currently under discussion. MDAs have full reading rights, and all payments are made through the FMIS. The indicator of "a HRMIS system operational in all ministries" can thus be considered full achieved. Furthermore, security controls with full audit trails are in place and the database is regularly audited. The intermediate outcome indicator "to improve payment systems and establishment controls to ensure conformity with budgeted public service establishments" was fully met, and payroll deviations were within 5 percent of their budgeted figure at project closure.

4.36 **Rationalizing foreign missions** that were no longer deemed necessary was intended to achieve a leaner and more effective diplomatic service. As a result four missions (Ottawa, Nairobi, Tripoli, and Paris) were closed and 15 serving officers were recalled. The government recalled an additional 37 staff from foreign missions world-wide, in association with a review of the staffing requirements of all missions especially in terms of the skills required in diplomatic, trade and commerce functions. To strengthen such functions, 25 staff from the Ministry of Industry, Trade, and Private Sector Development were trained in basic

[35] It remains possible to introduce ghost workers through to the inclusion of employees on the payroll from other cost centers over which controlling officers do not have oversight. (see GOM 2015).

trade and investment diplomacy, and subsequently posted to various missions. This restructuring was intended to refocus foreign missions from a diplomatic and aid driven focus to a more economically oriented foreign service. The indicator as per restructuring paper of "trade and commercial functions in at least four major foreign missions enhanced" is vague, but significant progress has been achieved. However, it cannot be established whether this has translated into increased trade and investment or some other measure of more effective economic relations.

4.37 **The retrenchment plan**, which only concerned a few dozen civil servants, was abandoned shortly before project closure as the identified officers had either retired, resigned or died.[36] The associated indicator and target are thus not meaningful. The component was in any event not significantly relevant to the achievement of the objective and financing for its implementation was limited.

**Outcomes**

4.38 The HRMIS has become an essential tool for the functional processes related to the management of the civil service. PEFA assessment ratings confirm this, with a strong performance over the years. In particular the degree of integration and reconciliation between payroll records and payroll data, as well as internal controls are very strong. Marked improvements in payroll audits were also recorded (see table 4.5 below).

**Table 4.5. PEFA Assessment on Effectiveness of Payroll Control**

| ***PI-18 Effectiveness of payroll controls*** | ***2006*** | ***2008*** | ***2011*** |
|---|---|---|---|
| (i) Degree of integration and reconciliation between payroll records and payroll data | B | A | A |
| (ii) Timeliness of change to personnel records and the payroll | B | B | B |
| (iii) Internal controls of changes to personnel records and the payroll | C | A | A |
| (iv) Existence of payroll audits to identify control weaknesses and/or ghost workers | C | C | B |

*Source:* PEFA (2006), PEFA (2008), and PEFA (2011).

4.39 A payroll audit carried out in 2008 identified 708 unoccupied positions (i.e. ghost workers), which have subsequently been deleted. Data from the audit was used to update the HRMIS for effective management of the payroll. Subsequent to the audit and a HRMIS review employee remuneration was started to be channeled through bank accounts. After conclusion of the payroll processing a file is sent to the FMIS system for consolidation. FMIS subsequently posts a payments file to RBM which processes payments to the commercial banks where employees hold their accounts. Despite some initial challenges resulting in payment delays all employees currently receive their salaries through electronic transfers to their bank accounts. This had a marked impact on procedural efficiencies,

[36] No safeguards regarding the retrenchment plan were triggered. Given that these were senior civil servants and the numbers were few this was unlikely to have led to significant unintended consequences. As the component was abandoned none materialized.

accountability and transparency, and importantly allowed for more access to finance for a large share of the population.

4.40 However, despite a functional HRMIS, the workforce grew significantly over the evaluation period.[37] The civil service increased by almost 70,000 staff between 2003 and 2015 from 101,000 to about 178,000 in 2015.[38] This is an increase of about 6,000 staff per year. The civil service growth rate averages about 5 percent annually, which is significantly higher than the population growth rate at 3 percent, which is already amongst the highest in the world (see table 4.6). As a share of GDP, wages have increased by about 3 percentage points over the period of 2008 and 2015 from just under 6 percent to more than 9 percent in 2014[39] (see figure 4.4). This is driven predominantly by the growth of the workforce, rather than wages and raises questions about the sustainability of the overall public sector wage bill.

**Figure 4.4. Trend of Wages as Share of GDP**

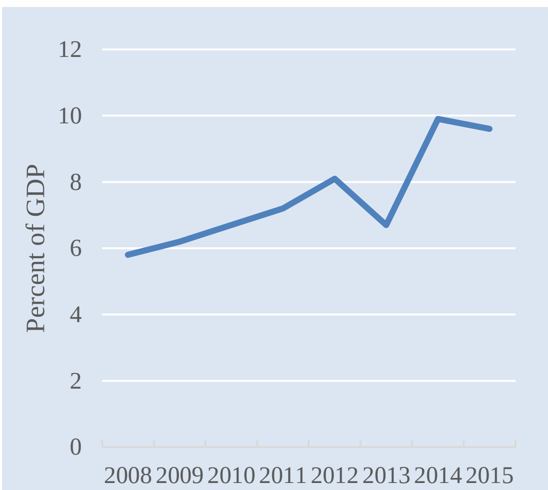



**Table 4.6. Growth in Wage Bill and Number of Civil Servants**

| Year | No of civil servants | Wage bill / GDP | Civil servants / population |
|---|---|---|---|
| 2009 | 114,157 | 6.2% | 0.75 |
| 2010 | 116,258 | 6.7% | 0.74 |
| 2011 | 129,814 | 7.2% | 0.8 |
| 2012 | 131,588 | 8.1% | 0.79 |
| 2013 | 167,300 | 6.7% | 0.98 |
| 2014 | 173,000 | 9.9% | 1.02 |
| 2015 | 177,870 | 9.6% | 1.05 |

*Source:* IMF Article IV 2009, IMF Article IV 2012, World Bank 2015c.

4.41 A recent payroll audit report (GOM 2015) however pointed out to a number of remaining issues and risks. These include: it remains possible to introduce ghost workers through to the inclusion of employees on the payroll from other cost centers over which controlling officers do not have oversight; there is a failure to validate payroll events, as a result of which unauthorized changes can be introduced; only junior staff are processing salaries, which allows for potential for abuse through political and social pressure, especially given an inappropriate segregation of duties; payroll transactions are insufficiently monitored

[37] A HRMIS with an establishment control module will only ensure that no payroll payments are made to staff not on the authorized establishment list. It will not limit the numbers of staff being put on the list. However, the matching of staff positions with actual personnel on the payroll will prevent ghost workers and should therefore reduce the total number of staff employed.

[38] Some of this may be driven by decentralization which tends to increase staffing needs (e.g. more administrative staff per district albeit allowing for some savings at the center).

[39] Note, the 2015 figure of both wages and staff numbers is an estimate only.

and reconciled; and the interface between the payroll and other related system remains manual leaving room for error and mishandling. The audit concludes that internal controls are in place but insufficiently executed. Ensuring effective control issues is not prioritized by management and employees have been found to be insufficiently aware of their responsibilities.

4.42 A **Performance Management System** has been developed and implemented at the central level, the purpose of which was to incentivize performance through contracts and thus utilize personnel funds more effectively. At project end about 20,000 civil servants were enrolled. At the time of evaluation the scheme was fully rolled out to all cadres in the civil service and civil servants have developed their performance agreements in line with their work plans. Annual performance agreements are being prepared and are used as a basis for end of year performance assessment. A sample of a performance assessment is displayed in Appendix G. While these assessments are comprehensive, they do not carry any bearings on salary arrangements. Senior staff interviewed stated that performance was taken into consideration during promotion discussions. The evaluation team however found during field visits that at lower levels civil servants were more skeptical whether this was indeed the case. Additionally dispute resolution guidelines have been developed, and circulated. The evaluation team however found little evidence that these were actively pursued. The indicator of “annual performance reviews carried out for all public servants under contract” can be considered as achieved, even if the quality of its implementation appears uneven.

4.43 On balance improved civil service management is rated **Substantial**, despite shortcomings and risks. This reflects progress in implementing the HRMIS in an overall low capacity environment. However, the number of civil servants and the wage bill have expanded rapidly. Significant loopholes in the internal control environment remain, which pose risks and undermine the effectiveness of the system.

## Objective 2. Improved Public Expenditure Management

4.44 The implementation and roll out of FMIS already discussed above was seen as central to improve public expenditure management through upgrades in internal controls, improved budget execution, and a more efficient budgeting process. Under the restructured project the Bank scaled down its FMIS support and focused on the GWAN, procurement of generators, and limited technical support. Additionally the Bank provided support to capacity development in financial management, budget preparation, and various economic advisory services.

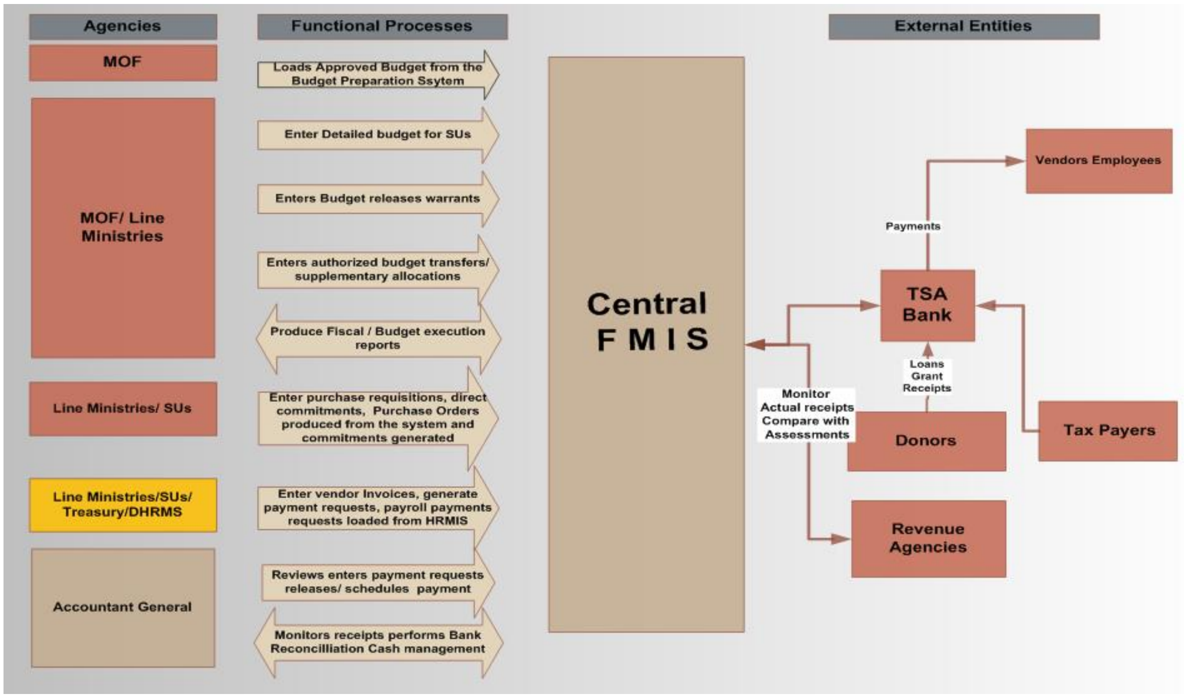
### Outputs

4.45 **Capacity Building.** The project included support to the Malawi Capacity Building Facility, and thereby provided trainings at various levels on resource management. This activity has already been discussed in depth under Objective 1 of the original project, and a detailed account of the various capacity building components and their effectiveness (GOM 2008; GOM 2013) can be found in Appendix D. Overall, progress was significant.

4.46 **FMIS.** System implementation was supported through the provision of computers and servers. The GWAN was upgraded and significantly expanded. Electricity was provided through back-up generators, and nine buildings in Lilongwe City were connected. Network security was strengthened. Most enhancements for the network and its management structures have been completed, and GWAN now serves as a reliable backbone for the operation of government information systems. Training for ICT management was provided under the project. Three officers were sent on longer-term training programs in key network management skills and 67 officers received short term industry standard information and communications technology courses including Microsoft Certified Engineer, Cisco certification, and network security training. The associated target of "GWAN fully functional and secure," though not quantified, can be considered to have been achieved. A more comprehensive picture of FMIS support is provided in Appendix C.

4.47 The new FMIS platform that was implicitly supported by the program is now the main tool that is used to support the government's budget execution process at the center and in sub-national governments in Malawi. The budget is prepared separately by a budget preparation system and is loaded into the FMIS at the start of the year by the budget department. All in-year changes to the budget are made directly in the system. Cash releases are also recorded by the MOF in the system. System implementation at the line ministry level covers the complete Procure to Purchase (P2P) cycle with all stages of the transactions recorded directly in the system. This includes the request for procurement. The Local Purchasing Order (LPO) is produced directly by the system and commits funds at the time it is raised by the system. The Goods Receipt Note (GRN) and invoice are recorded on receipt and the payment order is produced directly by the system against the line ministry bank account at a commercial bank. The core functionality of the central system is shown in the figure below.

**Figure 4.5. Malawi FMIS. Core Functional Processes and Information Flows**




*Source*: IEG.

4.48 **Procurement.** The operation set out to build institutional, organizational, and human capacity in public procurement to improve expenditure management. The ODPP was connected to the GWAN, and a website was developed to improve information flows between the ODPP and procuring entities. This would increase transparency and reduce prices through increased exposure to competition. In 2009 the ODPP was named the most transparent government body in Malawi by the Media Institute of Southern Africa. At the time of evaluation however the website was down and had reportedly been so for the past two years, which represents a shortage of funds and erratic cash flow were given as reasons. The reported upkeep of the site is around US$1,000 per month, and the loss to the government in terms of uncompetitive prices level is likely to outweigh this cost by orders of magnitude. Advertising in spending agencies and newspapers is likely to reach fewer people and thus make the process less competitive. Furthermore, newspaper advertisements tend to be expensive. No data was provided to the evaluation team on prices level for similar goods before and after the website stopped operating.

4.49 The ODPP trained 455 staff in public procurement principles and procedures, exceeding the target of 360. These were drawn from various MDAs most of whom served in the Specialized Procurement Units or the Internal Procurement Committees. In addition, with funding from the project, 20 staff of the PDOO completed an MA in procurement administration and another 50 received a certificate or diploma from the Malawi Chartered Institute of Procurement and Supply.[40] Furthermore, the ODPP facilitated an arrangement

[40] The Malawi Institute of Procurement and Supply was launched in 2009, and is the body responsible for the promotion and regulation of the procurement profession.

between the University of Bolton in the United Kingdom and the Malawi Institute of Management to locally offer a master's degree in supply chain management. An additional 20 staff were sponsored to attend this course, which is currently offered on a commercial basis and well subscribed.

**Outcomes**

4.50 Expenditure management, as defined by the processes governing budget execution, has improved due to a relatively successful implementation of the FMIS, though challenges remain. All transactions related to the government budget at the HQ and regional centers are reportedly processed through the FMIS system. This was confirmed by various Directors of Finance interviewed, including those from the Office of the Cabinet, the Department of Human Resources, and the Ministry of Health. These departments were able to produce a budget execution report in real time that gave budgeted amounts, the revised budget, the funds released, the commitments and the expenditures to date by line item for all cost centers reporting to them. Samples of these are provided in Appendix G.

4.51 The FMIS was found to have managerial value for spending agencies. At the Ministry of Health for example it was noted that the system allowed them to understand their resource envelope, plan accordingly, monitor cash flow, and strategically prioritize. It also allowed them to track program costs accurately. Furthermore, the system enabled the ministry to determine which outputs could not be delivered due to insufficient funding. This is noteworthy, as the FMIS is perceived by program managers as more than merely an accounting tool, as it allows them to better manage their day-to-day activities. The mission obtained sample copies of these reports for the ministry of health and other line ministries, which are also attached in Appendix G.

4.52 The systems users expressed their general satisfaction with the system, but stated that increased transaction frequency and the limited capacity of the servers have increased the processing time of the transactions. It has also reduced transaction throughput and increased the time for producing reports from the system. An upgrade to the system with improved functionality and capacity is currently available on the market, which would make a significant difference to system performance.

4.53 However, while donors do keep holding accounts with the central bank, and spending units access these from commercial bank accounts run on a zero balance basis, these are not channeled through FMIS. This would be possible, while continuing to ring-fence donor finance project funding, without changing financing modality to budget support.[41] Not using the FMIS is problematic as transaction coverage is therefore not fully comprehensive, and undermines the effectiveness of the system as a tool for budget management and execution. This is especially problematic for sectors that receive a large amount of off-FMIS funds that finance recurrent expenditures, such as health. Further, these potentially increase the risk of

[41] In Zambia, even though donors are not using zero balance accounts linked to holding accounts in the central bank, transactions to donor funding accounts are channeled through the FMIS by defining these accounts in the FMIS. This has the advantage that the overall expenditure reports will be inclusive of donor finance projects and thus give a more comprehensive picture of public expenditures.

arrears being accumulated and misappropriation of funds. The IMF (2013) recognizes this as an issue and provides specific recommendations on how to fill the gaps in coverage.

4.54 At the district level Serenic Navigator is used as the FMIS platform for budget execution, which is different from EPICOR at central and regional levels. The operation supported the launch of the local government FMIS in six pilot sites through training and the provision of equipment such as computers and servers. District reports are being collected, compiled, and uploaded into the central FMIS on a quarterly basis. Issues still remain related to the interface and transfer of data to the Central system. The PEFA 2011 reports that "The FMIS at central level is integrated with itself but not with the FMIS at local level." In addition, some line ministries such as the Ministry of Education expressed concern regarding the use of block grants. Reportedly, funds designated for a district are channeled through the DC, who can prioritize if budgets fall short of plans. This has caused some discontent among sector ministries that are now pushing for removing the funding from the ambit of the Ministry of Local Government. They would prefer an independent mechanisms for the sector department to manage these funds directly at the district level.

4.55 Despite the roll out of FMIS and commitment controls, payment arrears have accumulated and continue to undermine the effective use of public expenditures. This has been discussed in more detail above (see section 4, original objective 1). Effective implementation of a commitment control system requires more than just a functioning FMIS. It requires the commitment on part of MOF to enforce provisions of the legal framework and complementary changes in the processes of budget releases, execution of commitments with longer lead-in times, timely and accurate reporting of commitments against budget appropriations and budget releases. These issues were addressed in an IMF technical assistance reports that provided practical guidance on the establishment of an effective commitment control system.

4.56 The PEFA assessment recognizes that expenditure commitment controls are in place and could be relatively effective and comprehensive. However, it is also evident that there appears a general lack of and declining compliance with rules (see table 4.7).

**Table 4.7. PEFA Assessment on Effectiveness of Internal Controls**

| ***PI-20 Internal controls for non-salary expenditure*** | ***2006*** | ***2008*** | ***2011*** |
|---|---|---|---|
| (i) Effectiveness of expenditure commitment controls | B | B | B |
| (ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures | B | C | B |
| (iii) Degree of compliance with rules for processing and recording transactions | B | C | C |

*Source:* PEFA (2006), PEFA (2008), and PEFA (2011).

4.57 Regarding procurement, the ICR notes that monitoring of the implementation of the Public Procurement Act has been satisfactory, and that quarterly procurement monitoring reports are received from all public procurement entities. The Public Procurement Act became effective shortly after project inception when monitoring of implementation was sporadic.

4.58 The PEFA assessment at project end however rated public procurement poorly. An overall score of D+ is driven by the absence of reliable data for use of competitive procurement methods, poor public access to complete, reliable, and timely procurement information, and the lack of a provision to publish procurement plans and data on resolution of procurement complaints (see table 4.8). Progress in value for money and controls in procurement has been limited.[42] Poor performance is attributed to the lack of reliable data, poor procurement planning and record keeping, and procurement committees not having the skill to prepare specifications and bid evaluations. Insufficient political capital was invested to make inroads in this field. A series of policy lending operations missed the opportunity to provide complimentary support.

**Table 4.8. PEFA Assessment of Procurement in 2011**

| *PI-19 Competition, value for money, and controls in procurement* | *2011 Score* | *Explanation* |
|---|---|---|
| (i) Transparency, comprehensiveness and competition in the legal and regulatory framework | C | The legal and regulatory framework for procurement is organized hierarchically with precedence clearly established. There is no provision to publish procurement plans and data on resolution of procurement complaints |
| (ii) Use of competitive procurement methods | D | Reliable data is not available |
| (iii) Public access to complete, reliable and timely procurement information | D | The government lacks a system to generate substantial and reliable coverage of key procurement information and does not systematically make key procurement information available to the public |
| (iv) Existence of an independent system | B | The Procurement Review Committee consists of experienced professionals and exercises the authority to suspend the procurement process and issue binding decisions |

*Source:* PEFA (2011).

4.59 The CPIA score on public financial management gives a picture that's generally on par with the regional average, except for 2013 when the Cashgate scandal surfaced. However, during the last ten years there has been not been any notable progress, despite the set-up and use of a functioning and comprehensive FMIS (World Bank CPIA Database)

4.1 Overall improved public expenditure management is rated **Modest.** This reflects progress made in rolling out and implementing the financial management system, and building and retaining capacity across the civil service in financial management. However,

[42] PEFA assessments for the quality of procurement in 2006 and 2008 are available, but has been omitted due to changes in methodology. Further, the assessment predates the breakdown of the web portal, which would have negatively consequences on the ratings.

considerable challenges persist with the internal control environment, use of the systems, and willingness to abide by formal processes that have led to the accumulation of considerable arrears. Further, progress in procurement continues to lag.

## Efficiency

4.2 **Efficiency is rated Modest.** While some positive returns can be expected from improvements in public financial management, a functioning HRMIS system, capacity enhancement of staff, and efficiency gains from the closure of foreign missions, the project suffered from significant efficiency shortcomings.

4.3 The change in FMIS provider is a source of inefficiency in use of project resources. Substantial resources were spent on extensive customization of the CODA platform and FMIS system upgrades, including consultancies for functionality enhancements, capacity building, and piloting in key ministries. These efforts, capacity, and financial investments were lost when the government decided to buy another software instead.[43]

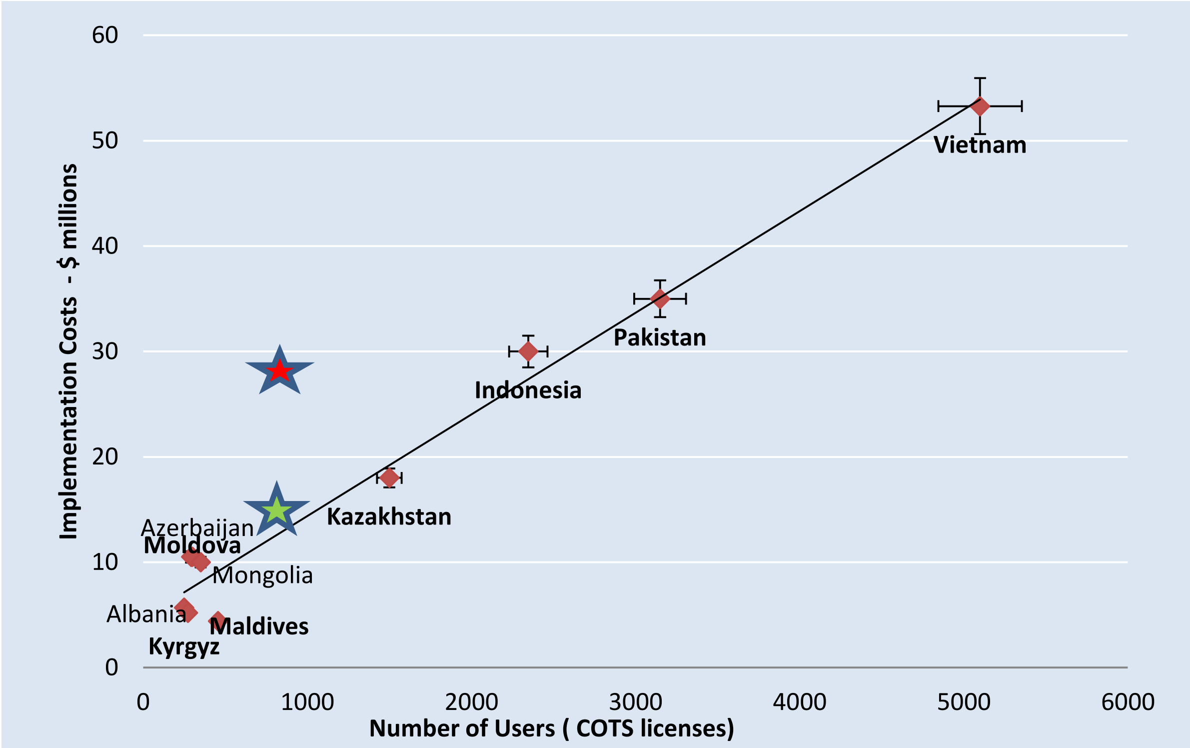
4.4 The per-user cost of the system that is currently in place is an outlier and higher than that of peer countries. Comparing the per user cost of ten countries with commercial off the shelf (COTS) packages, including implementation services, WAN/LAN networking and training, Hashim (2014) finds that the average implementation cost to be at about US$15,000. Malawi's system is an outlier at US$14.7 million for 800 users, which makes for US$18,375 per user. Figure 8 puts Malawi's system with and without the sunk cost of CODA investments on a scatter plot with similar countries for comparison. This excludes the costs of the GLOBE HRMIS, which was not available to the team. It should be noted that much of this, however was not financed by the Bank directly.

4.5 An implementation competitive bidding (ICB) process at the stage of appraisal would have been more appropriate. It would have invited more offers, put pressure on pricing of the suppliers, invited the second generation systems, and ultimately retained a better Bank - Client relationship. However, sole-sourcing may have also sped up the implementation process due to bypassing cumbersome and lengthy Bank procurement requirements that are not always best-suited to large IT investments (IEG 2013).

4.6 Different packages for the HRMIS and FMIS were chosen. While the GLOBE HRMIS is currently performing well, as an EPICOR module it would likely have been cheaper and easier to manage than as a separate stand-alone system. Furthermore, it also means that opportunities for integration between the financial and human resources (HR) modules were lost.

[43] The assessment acknowledges that some investments in CODA customization were prior to the operation and can thus be considered a sunk cost.

**Figure 4.6. FMIS Implementation Cost Plotted Against Number of Users**




*Source:* Hashim (2014) and authors calculations.

4.7 While there were no financial irregularities with project finances per se, the operation did not preempt a major corruption scandal, when in 2013 the state was defrauded of about US$32 million – about 0.75 percent of Malawi's annual GDP. It is thus doubtful that the objective of increased accountable use of public finances and investments into accountability institutions translated into net positive returns.

4.8 There have been operational inefficiencies that resulted in project delays, restructuring, and various extensions of the closing date. In particular it was noted that there were significant procurement delays in the first 18 months of the project mainly due to the absence procurement specialist in the Project Implementation Unit (PIU), inadequate knowledge of World Bank procurement procedures by the beneficiary agencies, and slow follow up on processing no-objection requests from the FIMTAP Secretariat. While a decision to restructure was already taken in November 2004, actual restructuring only came into effect in July 2006, 18 months after initiating the process, inflicting additional inefficiencies as the restructured project couldn't go ahead until finalized.

4.9 The operation suffered from high administrative costs that were not proportional to project size. Actual operational cost was US$4.27 million[44] (15 percent of total cost) and thus

[44] This may have been underreported. The second restructuring document prepared a few months prior to project closure projected operational expenses of about US$6.0 million. It is unclear what caused the discrepancy.

significantly higher than projected. The PAD planned for only US$2.2 million or 8 percent of total project cost.

Finally, while TA operations do not typically lend themselves to IRR calculations, the evidence provided above suggests that poor implementation and use of systems has resulted in significant foregone benefits. This in turn impacts and reduces the efficiency of the project.

## Ratings

4.10 As the operation's objectives were formally revised, the assessment of the outcome reflects achievement under the original objectives and the revised objectives. The weighting of results is by the percent disbursed before and after restructuring, which is 25:75 respectively.

4.11 Relevance of objectives before and after restructuring were respectively high and substantial reflecting close alignment to country needs, and Bank and government strategies throughout implementation (and to present day). On the downside, accountability was vital, but dropped at restructuring. Relevance of design was rated substantial before and after restructuring reflecting a well sequenced, complementary, and realistic approach, despite shortcomings in the choice of FMIS provider, and some complexity. The results chain was by and large credible, with activities feeding into expected outcomes. The results frameworks however, were relatively weak.

4.12 Efficacy was Modest prior to restructuring, reflecting modest progress in improving the effective use of public expenditures, and negligible progress in strengthening the government's accountability functions. At restructuring, objectives became more process oriented, with a more direct and clear link to project inputs. Civil service management benefitted from investments in HRMIS, performance management, and capacity building activities and was rated substantial, despite a rapidly growing wage bill and loopholes in the internal control environment, which pose significant risks and undermine the effectiveness of the system. Improvements in public expenditure management was rated Modest. Although an FMIS was set up and significant capacity was built, large arrears were built up reflecting inadequate use of the systems, a poor internal control environment and often disregard for financial management processes in place. Further, progress in procurement reform was slow.

4.13 Efficiency is rated Modest given the high per-user cost of the FMIS, project resources employed on a system that was later abandoned, and various delays in implementation. Furthermore, operating costs were high and there were foregone benefits due to poor implementation of systems and procedures developed under the project.

4.14 Substantial relevance, modest efficacy, and modest efficiency result in an overall rating of **Moderately Unsatisfactory**.

## Risk to Development Outcome

4.15 Risk to Development Outcome is rated **High**. There is a considerable push for changing the FMIS platform, which may challenge some of the hard won gains of FMIS systems implementation.[45] Other risks include a lacking control environment in the public finance system, the potential to introduce ghost workers, and an inadequate auditing system.

4.16 **Changing the FMIS platform**. After the cashgate scandal the responsibility for the fraud has partly been directed at the capacity of the software to adequately provide appropriate safeguards. There has since been increasing pressure to go back to the drawing board and procure a new system entirely. As of writing, the government has decided to use the developed systems specifications for a new international competitive bidding process for a new application software. If the bidding process results in a decision to change the application software platform yet again, this carries high risks:

- Bringing the FMIS system up to its current performance level could take 3-4 years (the time required to procure the application software through the ICB would take about 12-18 months; it would take another 9-12 months to parametrize it for GoM requirements and test its functionality; and another 12-18 months to roll it out to all sites and make them operational). This will depend on the choice of provider, but the above estimate is optimistic and could be longer if a sophisticated application software packages with multiple modules is chosen.
- Once the new system is operational, there is no guarantee of it functioning at its current level within a short time period. In fact, significant investments in human capacity would have to be made. Much of the expertise accumulated over the years in the use of the existing FMIS platform would be lost and a whole new set of technical skills will need to be developed.
- During the transitional period, the focus will be diverted to the change in the software platform rather than the overall control environment in which the software is to operate, which is critical. Given the government's position on blaming the system rather than the lack of enabling environment this risk is particularly eminent.[46]
- Similarly, in the interim period the current FMIS system would be viewed as only a temporary system to be eventually replaced. Critical upgrades required to improve its performance may thus not be carried out for the next five years exposing the public financial management system in the short run.

4.17 **Payment arrears** are undermining the effective use of public expenditures. The wider roll-out of FMIS should have made the accumulation of payment arrears less likely. However, in practice Malawi has accumulated a large stock of payment arrears over the years that is not reported, monitored, and managed by the government in an effective and transparent manner. Risk factors that continue to make the system prone to arrears accumulation include: (i) FMIS functionality for commitment planning that is meant to

[45] Following discussions with the Bank, IEG received assurances that the current system is no longer fit for purpose, and that replacement system would be no more costly than the upgrade of the current. IEG was noted this, but was unable to verify this independently.

[46] The FROIP follow up operation has recognized this risk at MTR and taken mitigating measures.

record and manage appropriation, and funding limit at line item level is not being used. MDAs maintain an off-FMIS registry and upload funding limits on an as-needed basis; (ii) MDAs generate Local Purchasing Orders (LPOs) and payment vouchers simultaneously, using pro-forma invoices despite directives to the contrary; (iii) development expenditure where release is based on submission of certified work invoices, LPOs are processed only after work/service has been delivered and certified; (iv) direct payments are made through instructions issued by the Secretary of the Treasury to the Reserve Bank of Malawi bypassing FMIS and the central payment office; (v) commitments are regularly processed outside the system through issue of manual LPOs as vendors ignore the mandatory requirement of an FMIS generated LPO; (vi) multi-year commitments are poorly monitored or controlled; and, (vii) budget execution reports submitted by MDAs that record the release, commitments and expenditure against the budget appropriation are FMIS generated and do not include the LPOs processed manually outside the system.

4.18 **The HRMIS** has become an essential tool for the functional processes related to the management of the civil service. This module has been centrally implemented at DHRMD. An establishment control module is in place, with adjustments only possible by authorized officers within the department. However, it remains possible to introduce ghost workers through to the inclusion of employees on the payroll from other cost centers over which controlling officers do not have oversight. Furthermore, there is a failure to validate payroll events, as a result of which unauthorized changes can be introduced. A recent audit (GOM 2015) also noted that payroll transactions are insufficiently monitored and reconciled and that the interface between the payroll and other related systems remains manual leaving room for mishandling and error. Internal controls for human resource management are in place but risks remain that can undermine the system if left unaddressed.

4.19 **The external audit function** is substantially undermined by the failure of the Accountant General Office to complete the annual accounts and financial statements within the statutory period after the end of year (4 months) and forward to the NAO. Further the NAO is insufficiently independent and continues to report to the Ministry of Finance. This is a fundamental flaw in the institutional set up of the accountability chain, which compromises the integrity of its oversight function.

4.20 Lastly, while the government has by and large been able to retain civil servants trained under the program, low levels of civil service remuneration makes this increasingly difficult.

# 5. Bank Performance

5.1 Bank Performance is rated **Moderately Unsatisfactory** reflecting the limitations with Quality at Entry and shortcomings in supervision, especially prior to restructuring. In particular the project was lacking some of the basic effectiveness conditions, and the team provided questionable technical advice. Supervision in the early years suffered from lack of candor, and high TTL turnover. Restructuring was appropriate and made the operation more streamlined and realistic. Supervision and engagement with the government and other donors improved. The Bank became more responsive, and addressed prior implementation bottlenecks such as procurement support and expedited “no objection” letters. However important problems remained throughout implementation such as a lacking M&E framework and insufficient attention being paid to mitigation of risks that materialized after the project closed. The quality of the ICR was also deficient which limits its potential as a learning instrument.

## Quality at Entry

5.2 At appraisal, the project objective was consistent with the Bank's CAS and the government priorities, and met the critical needs of the financial management sector. The Bank's contribution to the formulation and design of FIMTAP drew on lessons from its past involvement with institutional reforms in Malawi, international experience on budgetary reforms (including FMIS implementation), as well as the prevailing thinking on strategic sequencing of MTEF in the context of improved expenditure management, as discussed in the 2001 PER. Further, including capacity development modules and an accountability focus is in line with international good practice considerations. Together, this contributed to a relevant, confined and adequately focused project design.

5.3 However, the Bank should have considered the adoption of a second generation FMIS package that were already available at the time. With hindsight recommending an ICB instead of further customizing an outdated system may have been the better option. Furthermore, the results framework, indicators, and targets were lacking. Also, the procurement capacity of the Bank at entry was weak that subsequently led to various delays. Lastly, given the adverse political conditions at project inception and little reform momentum, the Bank may have benefitted from delaying engagement until after elections were over.

5.4 Quality at entry at restructuring improved. More experienced Bank staff were made available to the team, procurement and M&E specialists participated in design and facilitated quick implementation, and project design became more streamlined taking into consideration activities from other donors in governance and accountability.[47] In particular the Bank actively coordinated with the MCC and UNDP with regards to the set-up of the FMIS and GWAN. On the downside the project became more fragmented and complex with new components that were only moderately relevant such as retrenchment of civil servants and rationalizing of foreign missions.

5.5 In light of these factors, the overall quality at entry is rated **Moderately Unsatisfactory.**

## Quality at Supervision

5.6 Quality of Supervision was unsatisfactory, prior to restructuring. A QAG report noted that:

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[47] This includes: DfID, CIDA, the EC, and the MCC for capacity building for Parliamentary committees; MCC for capacity building for FMIS, ODPP, NAO, MOF, and the Malawi Revenue Authority; EC for PEM and budget related projects, including support for the CIA Unit and the NAO; and UNDP for support of the ODPP and the GWAN.

- "The quality of project supervision was a matter of concern. A Procurement issue (recruitment of a procurement specialist) is now affecting project procurement and causing implementation delays. The procurement specialist has yet to be recruited. The panel does not understand the reasons that led the Bank to declare the credit effective when a key effectiveness condition (the recruitment of a procurement specialist) had not been met. This was in particular the case for GWAN roll out.
- There was a lack of candor in reporting problems and is surprised to note that until December 2004 the project IP as well as DO were rated satisfactory. The panel wonders whether the Bank can effectively supervise this project given its complexity and poor preparation.
- Donor coordination appeared to have been lacking. This appears to have resulted in significant duplication of effort among donors.
- There was a high TTL turnover during the short implementation life of this project."

5.7 High turn-over of TTLs during the first three years of the project created a lack of continuity and ownership, thus disrupting the implementation. In addition, some staff were lacking operational experience, which made the restructuring process difficult.

5.8 The Bank advocated continuing with the original FMIS platform despite visible disengagement of the client. Eventually the Bank lost the client and thus its ability to effectively contribute to the FMIS reform process.

5.9 Recruitment of a procurement officer was an effectiveness condition that was certified as met by the team but the person recruited was not brought on board or did not stay very long (documentation is unclear). Furthermore, given that this function was important enough to be an effectiveness condition and a permanent legal covenant, the Bank team should have proactively ensured that it was filled if necessary through temporary measures.

5.10 The operation was appropriately restructured, and objectives became more cohesive, realistic, better aligned with project activities, and brought more clarity in its results framework. However, the revised project design missed opportunities. Project design became more complex, and the results framework still lacking adequate indicators, baselines, and targets. Furthermore, the MTR was likely programmed too late, with little bearings on project performance as it was close to project closure. Nevertheless after restructuring supervision improved, and the Bank team provided adequate supervision resources and worked more closely with GOM to support the restructure implementation. While "no objection" letters were a major bottleneck prior to restructuring this process was expedited and generally provided within a week. Furthermore, the then field-based TTL provided implementation support to the revised components and those which continued to underperform. The Senior Procurement Specialist provided targeted support through technical advice to the ODPP subcomponent. Coordination with donors was pursued more actively and activities streamlined. While some parallels were drawn to the Banks's policy operation engagement such as in accountability, this was missing in other areas. Most notably procurement reform would have benefitted from being covered by both instruments. Similarly, insufficient attention was paid to identifying and mitigating risks to outcomes, which subsequently materialized. Supervision after restructuring is rated Moderately Satisfactory with reservations.

5.11 Overall supervision is rated **Moderately Unsatisfactory** reflecting unsatisfactory supervision at entry and **Moderately Satisfactory** supervision at restructuring.

# 6. Borrower Performance

6.1 Borrower performance suffered from insufficient government commitment at project inception, and weak support during project implementation. Further, the government did not recognize the weak internal control environment and instead blamed technical systems issues for the breakdown of the accountability chain. This resulted in high risks going forward in addition to those that have already materialized. At restructuring, government and implementing agency performance improved however, providing the necessary political capital and administrative support for more effective implementation. On balance, borrower performance is rated **Moderately Unsatisfactory**.

## Government Performance

6.2 The government was initially lacking commitment to the project design as elections were approaching. There was a lack of frank dialogue and strong support and engagement by the GOM contributed to the original project's poor design and quality at entry. Once FIMTAP became effective, the FIMTAP Secretariat did not get the support from high government officials to move forward with implementation, and counterpart financing was not provided. Weak support created problems in staffing the project, including the recruitment of staff for procurement and M&E, which took place only after the project was restructured. Furthermore, the restructuring of FIMTAP was delayed in part due to government indecision on its scope and late inclusion of new components. However, fundamentally the government rightly identified the need for a second generation FMIS platform, even if the decision to sole-source it may have led to uncompetitive prices.

6.3 After restructuring, government performance improved. This may in part be due to the revised components that were less politically contentious. Especially core audit components (e.g. parliamentary oversight and external audit) were replaced with more administrative accountability functions such as internal audits. However, these were in part picked up by other donors,[48] and the Bank engaged through development policy operations instead. Also, a lot of funding was redirected for capacity building, which may have generated more political good will.

6.4 While the cashgate scandal happened after the project closed, the government has tended to blame FMIS failure for the breakdown in the accountability chain despite various reports indicating that it was rather the lack of an enabling environment. This constitutes the materialization of a significant risk, and may detract from the core issues in the reform program going forward.

6.5 On balance, government performance is rated **Moderately Unsatisfactory.**

[48] See section 3.

### Implementing Agency Performance

6.6 The implementing agencies were the FIMTAP Secretariat and the subcomponent units in the various ministries. Prior to restructuring there were significant problems, which were described in the preceding sections. These include poor M&E and procurement, various delays, poor communication with other donors resulting in the duplication of activities, and an inadequate communication with the Bank.

6.7 However, following restructuring there was a substantial improvement of the implementing agency performance in executing the project. Performance improved in key areas of procurement, M&E and financial management. The project maintained an adequate financial management system, monitored its budget regularly, with internal control arrangements that ensured the integrity of the accounting system and the information it generated. The quality of external audit, of financial monitoring and of the required quarterly and annual reports was reportedly adequate and produced in a timely manner.

6.8 The FIMTAP Secretariat was ineffective prior to restructuring. It lacked a procurement specialist, was unfamiliar with Bank processes, and monitoring and supervision was superficial. After restructuring performance improved. The Steering Committee met quarterly with the participation of Principal Secretaries for each component or subcomponent as appropriate. The Technical Committee met on a monthly base after restructuring to discuss operational issues.

6.9 Given the progress that had been made after restructuring Implementing Agency is rated **Moderately Satisfactory**.

## 7. Monitoring and Evaluation

7.1 **M&E design.** The M&E framework in the PAD was lacking. Indicators reflected mostly components outputs and were not outcome oriented. Indicators were insufficiently specific and often not measurable. As a result targets were either not provided, unclear, and / or difficult to quantify and monitor. Baseline data were generally unavailable. To give examples: it is unclear from the M&E framework, which indicator would monitor progress against the effective use of public resources. Some provisions were made to track improvement in the accountability institutions (e.g. external audit reports; internal audit controls) these were process oriented and are neglecting entirely corruption perception or actual misuse of funds. Given the time span of the project, indicators should have been more outcome oriented. Furthermore indicators were vague. For example requiring “external audit reports are completed on time” says little about the quality of the reports, and nothing on what “on time” constitutes. Similarly to “train a sufficient number of civil servants to maintain improvements and reforms made in expenditure management” is overly vague and cannot adequately capture progress in capacity building. Furthermore, there was no M&E specialist at entry, despite it being an explicit project effectiveness condition.

7.2 At restructuring M&E design was improved, and indicators become more specific, measurable, and contained more meaningful baselines and targets. The new design also introduced annual work plans, which were incorporated into quarterly reports. However some shortcomings remained: There were no indicators to adequately measure improved public expenditure management. Providing inputs to the budget development process based on strategic plans in coordination with the MTEF is merely an input –especially if it is not reflected in the final budget. Especially in an environment of lacking internal controls this is an insufficient proxy for improved allocation of resources. Further, there remains ambiguity regarding how use of public resources were to be measured, its baseline, and how improvements were to be tracked. It is unclear why the operation did not rely on PEFA indicators to measure progress, especially since an assessment had been conducted shortly before restructuring.

7.3 **M&E implementation** was minimal prior to restructuring. Thereafter an M&E Specialist was added to the project team which made a significant difference. An Annual M&E plan was produced and provided to the Bank for review and approval. Quarterly M&E reports were produced, detailing component and subcomponent performance against agreed annual work plans. Plans were revised at the end of each quarter to reflect actual performance. In case of disconnect between the agreed work plan and actual undertakings, the M&E Specialist and the Project Manager met with the relevant subcomponent manager to discuss how to address the apparent performance deficit. Further, the PETS and expenditure tracer studies were important complements to M&E implementation – even if the former does not appeared to have been made widely available.

7.4 On the downside, shortcomings in the M&E framework should have been apparent and resulted in improvement of indicators. This did not occur.

7.5 **M&E Utilization.** In addition, data collected from quarterly M&E reports were evaluated and used for decision making on the use of project resources, for instance the reallocation of funds between components and sub-components. The quarterly M&E reports were also the basis for allocating funds to high performing sub-components from the performance incentive facility. On the downside, there is no evidence that PETS were actively used to improve the allocation of public expenditures and service delivery.

7.6 While the M&E framework was lacking at project entry, the design and implementation and use improved after restructuring. The overall quality of M&E is rated **modest.**

# 8. Lessons

**PFM reform, including FMIS design and implementation:**

8.1 **A functioning FMIS is necessary but not sufficient to achieve good public financial management.** To be effective there must be clear commitment from the Ministry of Finance that all transactions are routed through the system, such that all expenditures are subject to the FMIS automated, ex ante, internal controls. Practically, this means that no payment instructions (cheques/vouchers) issued outside of the system should be honored. Significant political capital is needed to overcome resistance from people who may have vested interests. The breakdown of the accountability chain that led to a major corruption episode was chiefly because of a disregard of existing systems and processes rather than a technical failure of the FMIS. This should be treated as such. A focus on changing the FMIS platform may detract from the real underlying issues instead.

8.2 **Changing FMIS platforms carries substantial risks.** It is costly, time consuming, there is no guarantee of eventual functionality and fit, human capacity will be lost and needs to be rebuilt, and during the transitional period the reform focus will be on technical issues rather than underlying PFM environment. In light of this, the problems with the existing FMIS provider should be thoroughly diagnosed, and all options considered including upgrades of the existing system. The decision on the way forward should be based on what system can best fit the country needs with minimum disruption, local capacity considerations, and competitive pricing. The Malawi experience of switching systems in the early 2000s should critically inform the current FMIS reform dialogue.

8.3 **For FMIS to be effective it should be comprehensive of all government expenditures and operate in an environment of no idle balances.** In Malawi FMIS benefited from a rapid roll out to line ministries and regions with most expenditures being channeled through the system. Further, FMIS implementation benefited from parallel TSA reform, which pertains to the reach and effectiveness of the system. It is important to channel donor funds through the FMIS, which is possible whilst retaining their own accounting mechanisms and fiduciary safeguards.

8.4 **Having a single systems platform for all levels of government is preferable for system integration and efficiency.** In Malawi, systems were fragmented across levels of government and HR transactions, which was inefficient and diluted already weak implementation capacity.

8.5 **Recurrent investments in both software and hardware are required to keep FMIS fully functional, safe, and up to date.** The lack of adequate maintenance in Malawi led to a deterioration of the system, with long out dated software, insufficient capacity to manage the transaction requirements, and exposing the system to various security risks. This alienated stakeholders and led to mistrust of the system.

8.6 **Significant political ownership is needed to embark on expenditure management reform.** In Malawi the expenditure management and FMIS reform program only gathered momentum after a change in government and the procurement of a system that had the full confidence of the Accountant General and Minister of Finance.

**Sequencing:**

8.7 **It is important to take advantage of synergy and linkages between parallel TA and policy reform operations.** There is a need to closely integrate TA through investment lending with parallel policy actions through development policy lending. Even though the DPOs appear to have mentioned such a link as part of the design described in Program Documents, this is not mentioned in the project documents, notably the ICR – a shortcoming also noted in the case of other PFM operation reviewed by IEG. This undermines an important learning opportunity though better understanding of how policy reform may leverage and accelerate actions prepared through TA.

8.8 **Oversight agencies function best when they are both capable and independent.** In Malawi poor capacity and the lack of legal, administrative, and financial independence of the oversight agencies hinder their effectiveness. The reinforcement of PFM governance systems however was dropped once it became apparent that there was resistance to the establishment of independent oversight agencies. It should be recognized however that capable agencies, even when not fully independent, can fulfill an important role.

8.9 **M&E, complemented by periodic complementary assessments strengthens project implementation.** Project implementation should be based on a needs assessment, prioritized and derived from a sound M&E framework. Tracer studies should be an integral part of the M&E framework to assess effectiveness of the program and justify continued investment in capacity building. In Malawi a tracer study was able to show that most trained staff remained in the civil service in either an equal or superior capacity.

**Implementation:**

8.10 **Frequent changes in the Bank team is counterproductive.** The adverse effect of a change in government functionaries which often happens in many countries is compounded when the Bank team's composition also changes simultaneously, as was the case during the first two years of the Malawi project where 5 TTLs were changed over a short period of time – which probably could and should have been avoided. It has been observed in several Bank projects that when some key members of the Bank team who were involved in the design of a project continue on the team during implementation, this contributes significantly to a successful implementation of the FMIS and achievement of project development objectives (World Bank 2014).

8.11 **Effective project implementation requires good procurement capacity.** Effectiveness conditions and permanent covenants that were deemed essential at appraisal were ignored. As a consequence the quality at entry and readiness of implementation in the project suffered from significant procurement delays in large part because the PIU Procurement Specialist had not been hired and there was inadequate knowledge of World Bank procurement procedures by the beneficiary agencies. This deficiency could be mitigated by seeking assistance from other projects that are already successfully implementing.

8.12 **Some degree of complexity may be warranted under PFM projects as long as various components reinforce one-another.** This review concludes that even though initial project design was relatively complex this was justified by the need to achieve a critical mass of activities that would yield high development impact, giving the opportunity to experiment with different approaches.

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# Appendix A. Basic Data Sheet

## FINANCIAL MANAGEMENT, TRANSPARENCY, AND ACCOUNTABILITY PROJECT (FIMTAP) (IDA-3734A, IDA-37340, TF 90947)

### Key Project Data (amounts in US$ million)

| | *Appraisal estimate* | *Actual or current estimate* | *Actual as % of appraisal estimate* |
|---|---|---|---|
| Total project costs | 27.4 | 27.4 | 100.0 |
| Loan amount | 23.7 | 27.4 | 112.3 |
| Cancellation | 0.00 | 0.00 | 0.00 |

### Cumulative Estimated and Actual Disbursements

| | FY03 | FY04 | FY05 | FY06 | FY07 | FY08 | FY09 | FY10 |
|---|---|---|---|---|---|---|---|---|
| Appraisal estimate (US$M) | 0.5 | 8.9 | 14.2 | 18.8 | 22.0 | 23.8 | 23.7 | 23.7 |
| Actual (US$M) | 0.0 | 3.69 | 6.44 | 7.61 | 12.83 | 18.83 | 23.86 | 26.62 |
| Actual as % of appraisal | 0.0 | 41.5 | 45.4 | 40.5 | 58.3 | 79.5 | 100.7 | 112.3 |
| Date of final disbursement: February, 2010 | | | | | | | | |

### Project Dates

| | *Original* | *Actual* |
|---|---|---|
| Initiating memorandum | 03/21/2002 | - |
| Negotiations | 12/09/2002 | 12/09/2002 |
| Board approval | 12/20/2002 | 03/06/2003 |
| Signing | 04/15/2002 | 04/24/2003 |
| Effectiveness | 06/02/2003 | 06/02/2003 |
| Closing date | 03/01/2008 | 09/01/2009 |

## Task Team Members

| *Names* | *Title/Unit* | | *Responsibility/ Specialty* |
|---|---|---|---|
| | **LENDING** | | |
| R. Floyd | Task Team Leader | AFTPR | |
| D. Mphande | Financial Managemnt Specialist | AFTQK | |
| S. Dhingra | Procurment Specialist | AFTQK | |
| J. Nyirendra | Procurement Specialist | AFTQK | |
| R. Castro | Project Management | AFTPR | |
| N. Dinkin | Task Team Assistant | AFTQK | |
| D. Kianpour | SR. E-Government, Specialist | AFTQK | IFMIS |
| D. Masone | Operations Officer | AFTQK | M&E |
| | **SUPERVISION/ICR** | | |
| R. Worthington | Task Team leader | AFTPR | |
| S. Kofi Awanyo | Sr. Procurement Specialist | EAPPR | |
| S. B Chenjerani Chirwa | St. Procurement Specialist | AFTPC | |
| F. M. Chitalu | Financial Management Specialist | AFTFM | |
| T. Gebreiyesus | Lead Procurement Specialist | SARPS | |
| C. Kamwendo | Operations Officer | AFMMW | |
| P. M. Kayuni | Task Assistant | AFMMW | |
| F. Kanyerere Mkwandawire | Financial Management Specialist | AFTFM | |
| D. H. Mphande | Sr. Financial Management Specialist | AFTFM | |
| P. Palale | Public Sector Management Specialist | AFTPR | |
| G. J. Alwyn Van Der Linde | Lead Financial Management Specialist | AFTFM | |
| R. A. Yungu | Sr. Public Sector Specialist | AFTPR | |

**Staff Inputs (staff weeks)**

| Stage of Project Cycle | Staff Time and Cost (Bank Budget Only) | |
|---|---|---|
| | No. of staff weeks | USD Thousands (including travel and consultant costs) |
| **Lending** | | |
| FY03 | 26 | 148.25 |
| **Total:** | **26** | **148.25** |
| **Supervision/ICR** | | |
| FY03 | 5 | 24.31 |
| FY04 | 35 | 170.02 |
| FY05 | 35 | 151.75 |
| FY06 | 41 | 161.43 |
| FY07 | 46 | 218.10 |
| FY08 | 31 | 144.90 |
| FY09 | 22 | 0.00 |
| **Total:** | **215** | **870.51** |

# Appendix B. Targeted Reforms by PFM cluster and PEFA Achievements

This appendix provides an overview of the various reform areas by PFM cluster (see Fölscher et al. (2012) for more details). At the end of each sub-section the scores of the relevant PEFA dimensions are given as an indication for progress. Numerals are used to allow averaging out across dimensions.[49]

### Strategic Budgeting

Improved macro-fiscal forecasting capacity and coordination Improved domestic revenue forecasting, modelling and capacity to undertake the modelling. Prepare implementation plans for the MGDS in line with budget calendar

**Table B.1 PEFA Scores in Strategic Budgeting**

| ***Dimensions*** | ***2006*** | ***2008*** | ***2011*** |
|---|---|---|---|
| PI-12 (i) Preparation of multi -year fiscal forecasts and functional allocations | 2 | 4 | 2 |
| PI-12 (ii) Scope and frequency of debt sustainability analysis | 3 | 4 | 4 |
| PI-12 (iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure; | 1 | 2 | 2 |
| PI-12 (iv) Linkages between investment budgets and forward expenditure estimates. | 1 | 1 | 1 |
| Average Score | 1.8 | 2.8 | 2.3 |

*Source:* PEFA (2006), PEFA (2008), and PEFA (2011).

### Budget Preparation

*Budget Process:* Develop and implement an automated budgeting module that can link to FMIS; strengthened coordination of the budget process, improving the budget calendar; Develop budgeting manual for central government; Rationalize budget planning and approval processes linking national government and councils; harmonize Public Sector Investment Plan and budget procedures. *Budget Classification:* Budget classification reform implementing GFS2001 and output, activity and location coding; developing standard administrative coding for the identification of projects and cost centers. *Budget Documentation:* Disseminate Economic and Fiscal Policy Statements to Members of Parliament; Output-based presentation of the budget, backed by budget preparation software; Improve analysis in budget documentation of expenditure trends; ensure counterpart funding reflected in Budget.

[49] Numerical scores are applied to allow for averaging. The PEFA score “A” is given the highest value of “4,” and the PEFA score “D” is given the lowest value of “1.”

**Table B.2 PEFA Scores in Budget Preparation**

| *Dimensions* | *2006* | *2008* | *2011* |
|---|---|---|---|
| PI-11 (i) Existence of and adherence to a fixed budget calendar | 2 | 2 | 2 |
| PI-11 (ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent) | 3 | 3 | 4 |
| PI-11 (iii) Timely budget approval by the legislature or similarly mandated body (within the last three years) | 3 | 2 | 2 |
| PI-5 (i) The classification system used for formulation, execution and reporting of the central government's budget | 3 | 3 | 4 |
| PI-6 (i) Share of the listed information under PI-6 in the PFM PMF booklet in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met) | 3 | 3 | 4 |
| PI-8 (i) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations) | 3 | 4 | 4 |
| PI-8 (ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year | 2 | 3 | 2 |
| PI-10 (i) Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met) | 3 | 2 | 2 |
| D2 (i) Completeness and timeliness of budget estimates by donors for project support | 2 | 2 | 2 |
| PI-27 (i) Scope of the legislature’s scrutiny | NA | 3 | 3 |
| PI-27 (ii) Extent to which the legislature’s procedures are well-established and respected | NA | 3 | 2 |
| PI-27 (iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined) | NA | 3 | 1 |
| PI-27 (iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature | NA | 3 | 2 |
| PI-11 (iii) Timely budget approval by the legislature or similarly mandated body (within the last three years) | 3 | 2 | 2 |
| AVERAGE SCORE | 2.7 | 2.7 | 2.6 |

*Source:* PEFA (2006), PEFA (2008), and PEFA (2011).

## Resource Management

*Revenue Administration and tax collection:* Integrated tax administration; upgrade customs systems; reduce compliance cost of tax system; introducing e-banking arrangements for large tax payers and establishing a large tax payers unit; sector-based tax policies; monitoring of revenue collection institutions. *Cash management, debt management and guarantees:* development of a debt management strategy and domestic debt database and information management system; incorporate debt repayment through FMIS; further improvement in cash management including Implement automated system to provide more timely information to the Reserve Bank, allowing them to better manage cash flow and strengthen the Credit Ceiling Allocation System as a budget control mechanism. *Procurement:* new legislation and development of regulations decentralizing procurement, institutional reform including the establishment of an Office of the Director of Public Procurement, Independent Procurement Committees and procurement units in all entities, implementation of new system and capacity building; recentralization of aspects of procurement, including medical supplies, vehicles and general government stores. *Payroll controls:* Regular reconciliation of wage bill with personnel database; payroll audit, sanitation of the Human Resource Management Information System (HRMIS) and follow-up; review of processes, procedures and policies that affect payroll management and control; link the HRMIS to the FMIS.

*Aid management:* Development of a Development Assistance Strategy, donor database, Debt and Aid Policy, Standard project naming and coding comparing PSIP, Debt & Aid & Budget Division databases

**Table B.3 PEFA Scores in Resource Management**

| *PEFA Dimensions* | *2006* | *2008* | *2011* |
|---|---|---|---|
| PI-13 (i) Clarity and comprehensiveness of tax liabilities | 2 | 2 | 2 |
| PI-13 (ii) Taxpayer access to information on tax liabilities and administrative procedures | 2 | 3 | 3 |
| PI-13 (iii) Existence and functioning of a tax appeals mechanism | 2 | 3 | 3 |
| PI-14 (i) Controls in the taxpayer registration system | 2 | 2 | 2 |
| PI-14 (ii) Effectiveness of penalties for non-compliance with registration and declaration obligations | 2 | 3 | 2 |
| PI-14 (iii) Planning and monitoring of tax audit and fraud investigation programs | 2 | 2 | 1 |
| PI-15 (i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years) | 1 | 2 | NR |
| PI-15 (ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration | 1 | 4 | 3 |
| PI-15 (iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury | 2 | 1 | 2 |
| PI-17 (i) Quality of debt data recording and reporting | 2 | 4 | 4 |
| PI-17 (ii) Extent of consolidation of the government’s cash balances | 2 | 4 | 4 |

| | | | |
|---|---|---|---|
| D1 (i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body) | 1 | NR | 4 |
| D1 (ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates) | 1 | NR | NR |
| D2 (i) Completeness and timeliness of budget estimates by donors for project support | 2 | 2 | 2 |
| D2 (ii) Frequency and coverage of reporting by donors on actual donor flows for project support | 2 | 2 | 2 |
| D3 (i) Overall proportion of aid funds to central government that are managed through national procedures | 1 | 2 | 2 |
| PI-16 (i) Extent to which cash flows are forecast and monitored | 3 | 3 | 3 |
| PI-16 (ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment | 2 | 3 | 3 |
| PI-16 (iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs | 3 | 3 | 3 |
| PI-27 (iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature | NA | 3 | 2 |
| PI-17 (i) Extent to which cash flows are forecast and monitored | 2 | 4 | 4 |
| PI-20 (i) Effectiveness of expenditure commitment controls | 3 | 3 | 3 |
| D1 (ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates) | 1 | NR | NR |
| PI-19 (i) Transparency, comprehensiveness and competition in the legal and regulatory framework | 1 | NR | 3 |
| PI-19 (ii) Use of competitive procurement methods | 1 | 2 | 1 |
| PI-19 (iii) Public access to complete, reliable and timely procurement information | 1 | 2 | 1 |
| PI-18 (i) Degree of integration and reconciliation between personnel records and payroll data | 3 | 4 | 4 |
| PI-18 (ii) Timeliness of changes to personnel records and the payroll | 3 | 3 | 3 |
| PI-18 (iii) Internal controls of changes to personnel records and the payroll | 2 | 4 | 4 |
| PI-18 (iv) Existence of payroll audits to identify control weaknesses and/or ghost workers | 2 | 2 | 3 |
| AVERAGE SCORE | 1.9 | 2.8 | 2.7 |

*Source:* PEFA (2006), PEFA (2008), and PEFA (2011).

### Internal control, audit, and monitoring

*Non-Salary controls:* Review and revision of all internal control procedures; development of consistent financial procedures at national and local level; design and implement a comprehensive financial accountability compliance and enforcement strategy linked to the government wide performance management system; revised Treasury instructions; Local Authorities Model Financial Regulations; centralizing utility payments and develop FMIS for regular utility payments; passage and assent of provisions regarding enforcement and discipline. *Internal Audit:* Establishment of an Internal Audit Unit (first in the Office of the President and Cabinet (OPC), but later in the MOF; restructuring the internal audit service and staffing the new structure; development of legal framework and capacity building; establish system for timely internal audit reporting; development of internal audit strategic plan; revitalization of Internal Audit Committees. *Monitoring and oversight of fiscal risk:* Develop budget and expenditure database linked to FMIS to facilitate analysis of trends in budgets and implementation; harmonize framework for data capturing and databases for analysis and dissemination and national and local level to strengthen monitoring and evaluation; regular comparisons and analyses made of budget allocations against actual financial cash expenditures for planned and actual inputs, activities and outputs;

**Table B.4 PEFA Scores for Internal Control, Audit, and Monitoring**

| *Dimensions* | *2006* | *2008* | *2011* |
|---|---|---|---|
| PI-20 (i) Effectiveness of expenditure commitment controls. | 3 | 3 | 3 |
| PI-20 (ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures | 3 | 2 | 3 |
| PI-20 (iii) Degree of compliance with rules for processing and recording transactions | 3 | 2 | 2 |
| PI-21 (i) Coverage and quality of the internal audit function | 2 | 2 | 2 |
| PI-21 (ii) Frequency and distribution of reports | 3 | 3 | 2 |
| PI-21 (iii) Extent of management response to internal audit findings | 1 | 2 | 1 |
| PI-4 (i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock | 1 | NR | NR |
| PI-9 (i) Extent of central government monitoring of AGAs and PEs | 2 | 2 | 3 |
| PI-9 (ii) Extent of central government monitoring of SN government's fiscal position | 1 | 4 | 2 |
| AVERAGE SCORE | 2.1 | 2.5 | 2.3 |

*Source:* PEFA (2006), PEFA (2008), and PEFA (2011).

### Accounting and reporting

*Accounting standards and systems:* Generally Accepted Accounting Practice included in legal framework; capacity building in financial records management throughout GOM; updating and reconciling accounting records. *FMIS:* Design, piloting, roll-out and capacity building for an Integrated Financial Management Information System (covering all institutions at national and local level as the main mechanism for integrated accounting, cash management, payment controls and financial reporting with further modules added; development of secure, government-wide area network and live linkages; inclusion of Development Account Part I in FMIS; revised treasury instructions. *Bank reconciliations:* Enforcing regular bank reconciliations. *Reporting:* Development of functional reporting relationship between the Accountant General and the Heads of Accounts in each ministry; strengthen and produce timely financial reporting; summary financial reports to show Part I and Part II progress compared to budget; reviewing and revising reporting requirements of local government; establish quarterly monitoring reports of budget implementation; summary financial reports to show the actual costs of implemented outputs and activities, to be done after the output-based budget is incorporated into the Chart of Accounts.

**Table B.5 PEFA Scores for Accounting and Reporting**

| ***Dimensions*** | ***2006*** | ***2008*** | ***2011*** |
|---|---|---|---|
| PI-22 (i) Regularity of bank reconciliations | 3 | 4 | 1 |
| PI-22 (ii) Regularity of reconciliation and clearance of suspense accounts and advances | 3 | 3 | 1 |
| PI-24 (i) Scope of reports in terms of coverage and compatibility with budget estimates | 2 | 2 | 2 |
| PI-24 (ii) Timeliness of the issue of reports | 3 | 4 | 4 |
| PI-24 (iii) Quality of information | 2 | 3 | 3 |
| PI-25 (i) Completeness of the financial statements | 1 | 2 | 2 |
| PI-25 (ii) Timeliness of submission of the financial statements | 2 | 4 | 4 |
| PI-25 (iii) Accounting standards used | 2 | 2 | 2 |
| PI-4 (ii) Availability of data for monitoring the stock of expenditure payment arrears | 3 | 1 | 1 |
| PI-7 (ii) Income/expenditure information on donor-funded projects which is included in fiscal reports | 3 | 4 | NR |
| PI-8 (iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories | 1 | 3 | 4 |
| PI-9 (i) Extent of central government monitoring of AGAs and PEs | 2 | 2 | 3 |
| PI-9 (ii) Extent of central government monitoring of SN government's fiscal position | 1 | 4 | 2 |
| PI-10 (i) Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met) | 3 | 2 | 2 |
| PI-23 (i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of | 1 | 1 | 1 |

| | | | |
|---|---|---|---|
| which level of government is responsible for the operation and funding of those units | | | |
| AVERAGE SCORE | 2.1 | 2.7 | 2.3 |

*Source:* PEFA (2006), PEFA (2008), and PEFA (2011).

**External accountability**

*Scope and nature of external audit:* Reform of legal framework to establish the powers and duties of an independent Auditor General, the role of the Public Audit Commission, National Audit Office and Public Accounts Committee; institutional restructuring of the NAO; review and modernization of audit approach; establish system for timely external audit reporting; procurement of management systems and tools for auditing automated systems; introduction of Performance Auditing; building capacity of the National Audit Office. Legislative scrutiny and follow-up of external audit reports: Institutional Strengthening of the Parliamentary Public Accounts Committee; Training for MPs, Cabinet and media on political oversight of public finance management; training of local government finance committees.

**Table B.6 PEFA Scores for External Accountability**

| *PEFA Dimensions* | *2006* | *2008* | *2011* |
|---|---|---|---|
| PI-26 (i) Scope/nature of audit performed (incl. adherence to auditing standards) | 2 | 2 | 2 |
| PI-26 (ii) Timeliness of submission of audit reports to legislature | 2 | 1 | 3 |
| PI-26 (iii) Evidence of follow up on audit recommendations | 1 | 2 | 1 |
| PI-28 (i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years) | 1 | 1 | 2 |
| PI-28 (ii) Extent of hearings on key findings undertaken by the legislature | 2 | 4 | 3 |
| PI-28 (iii) Issuance of recommended actions by the legislature and implementation by the executive | 2 | 2 | 1 |
| AVERAGE | 1.7 | 2.0 | 2.0 |

*Source:* PEFA (2006), PEFA (2008), and PEFA (2011).

# Appendix C. Financial Management Information Systems: Design, Implementation, and Utilization

Work on the Malawi FMIS has taken place under three projects: (i) the second Institutional Development Project (IDP2) which ran from June 1994 to June 2001 and supported the design of a system to ensure accurate and timely flow of critical financial management information and fiscal data; (ii) the Financial Management Transparency and Accountability Project (FIMTAP) which ran from May 2003 to September 2009 and sought to update the existing CODA platform and roll the system out; and (iii) the Financial Reporting and Oversight Improvement Project (FROIP), which was approved in Dec 2012 and is expected to be completed by June 2016. Over this 20 year period the total ICT related investment under these projects has been around US$15 million.[50] In addition the government has spent about as much from its own resources.[51] These figures give an idea of the scale of the investment in terms of funding and time that has been expended on the Malawi FMIS.

FMIS related activities have involved work in three related areas:

(i) Design and Implementation of the Core Financial Management information System (FMIS) itself, including the implementation of a FMIS at the local government level;
(ii) Expanding the scope of the information systems to include core Human Resource management functionality- the HRMIS;
(iii) Improvements in the telecommunications infrastructure, the GWAN supporting a country wide systems network.

This appendix discusses developments in each of these areas with respect to design, implementation, and utilization. It does not discuss subnational systems, presented in the main text of this report.

**Financial Management Information System (FMIS)**

The key sector issues in the early 2000s related to expenditure management and accountability, particularly budget discipline, and a paucity of financial management capacity in the public service. Budgetary resources were spread thinly, with continuing pressure to over-spend, while there continued to be large variations between planned and actual expenditures, excessive virement, and non-compliance with financial rules and regulations. This was compounded by poor incentives and inadequate capacity in the public sector which hampered the government's ability to effectively and efficiently carry out critical functions. These issues had been highlighted inter-alia, in the 2001 Malawi PER and the 2002 CFAA.

In this context, the implementation of a FMIS was considered key to the government's effort to modernize Malawi's public financial management system and improve expenditure management. It was envisaged that the FMIS would significantly improve overall quality and timeliness of the government's fiscal and financial data by facilitating transaction reporting

[50] FMIS data base 2014- maintained by Cem Dener.

[51] The exact amount of Government financed investment is not readily available. However the amount cited has been estimated in view of the fact that the HRMIS and the second phase of the FMIS based on EPICOR has been Government financed.

and accounting; automating processes such as cash management, commitment control, receipts and payments; and gradually help in introducing accrual accounting.

The evolution of the FMIS can be seen to have three phases over the 20 year period that it has been under implementation. These are discussed below.

***FMIS - Phase I – CODA and its customization***

Under the IDP2, the government purchased the CODA financials software and customized it to Malawi requirements. This included removing below-the-line accounts from operational budgets and improving the interface between the payroll and personnel. The customization also addressed gaps in the budget and accounting procedures and improved internal controls.

Detailed pilot testing of the CODA software had been carried out over 2000-2002. The upgraded version of CODA Financials was launched in the pilot sites thereafter and its functionality was verified by World Bank staff prior to negotiations. At the start of the FIMTAP project the system was considered ready for roll-out to line ministries and sector departments.

FIMTAP originally intended to make any additional enhancements as may be necessary and then rollout the CODA application across the government. With this intention it provided financing for:

- Consultancies for further enhancement of systems functionality, including the development of the budget recording and commitment control modules and strengthening of the cash management, check reimbursement and receipts business processes.
- Hardware, equipment, software licenses, training, user license fees for CODA Financials, financing for the primary implementation and maintenance contracts.
- Building the government's capacity to manage the ongoing development of FMIS including a detailed training plan for the training of trainers and end users for the pilots and rollout. A new management structure for FMIS was instituted during project preparation with a full time IMFIS manager and a staff of five full time accountants and IT specialists.

The FMIS component was to be managed by the Office of the Accountant General (AGD), while DISTMS (Department of Information Systems and Management services) would have responsibility for the IT support necessary for the implementation of the FMIS.

**Comments on FMIS Design:** In the phase which covered the IDP2 and the earlier years of the FIMTAP, it was recognized that to reap the greatest benefits from a FMIS it is necessary that the focus be placed on improving financial management processes, internal controls,[52] and accountability mechanisms, while at the same time putting in place the requisite equipment and skills. Accordingly, these projects focused initially on core budget execution processes and planned for these processes to be in place and functioning and stabilized before embarking on the implementation of non-core modules such as fleet management.

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[52] It is important to note in view of subsequent difficulties with the Malawi FMIS, which are discussed later, that even with the CODA application there had been an effort to tighten internal financial controls by the use of double passwords and a clear division of responsibilities and systems access among accounting cadre and controlling officers.

Notwithstanding the above, in view of the extensive customization required for the CODA application, which belonged to the first generation accounting software systems on the market and had limited functionality, it appears that the initial choice of the application software package was made without carrying out an assessment of the extent to which the package could meet the government's needs. It is also possible that since the application software packages available at the time were mainly designed to meet commercial requirements and had not yet incorporated the functionality required in government systems (such as budget and commitment control), that this choice was typical of the options available in the market at that time.[53]

Another important aspect of the project design was that it explicitly recognized the importance of correct sequencing of reforms. The PAD for the project noted: "Increasingly, reforming governments are focusing on building the credibility of the annual budget process by focusing on downstream processes such as execution, monitoring, and accountability. FIMTAP supports this strategic shift towards building systems and strengthening institutions that improve budget implementation, before investing more heavily in elaborated medium-term planning exercises." This is in contrast with reform initiatives in several other African countries at this time which placed a very strong emphasis on upstream budget preparation work instead of the downstream budget execution systems despite the fact that these systems were either nonexistent or quite limited (e.g. Zambia). In the absence of a basic budget execution system which is capable of recording all expenditure and receipt transactions according to a standard CoA the implementation of advanced budget preparation methodologies would at best be of limited benefit.

Finally, concurrent to the implementation of the FMIS, work was also being done by the IMF on the institutional arrangements for banking government funds and processing expenditure and receipt transactions (Treasury Management) as laid out in the budget management law. An IMF mission has reported on the status of government banking arrangements and the improvements that are required.[54] It is noted that even though there is a multiplicity of bank accounts which could be further streamlined, all these accounts are either at the Central Bank or with commercial banks which act as fiscal agents for the Central Bank and operate on a zero balance basis. This means that the amount of idle balances in the system outside the purview of the Central Bank is minimized. This is also reflected in the PEFA PI-17 (ii) ratings for 2008 and 2011 where Malawi scores an "A."

### *FMIS – Phase II- Change of the Software Platform to EPICOR*

The long time spent on the customization and testing of the software under IDP2 and in the earlier years of FIMTAP, without adequate operationalization took its toll on the Accountant General's confidence that the customization process would yield a workable solution, despite the positive results of the pilot testing. This in turn had an effect on the commitment and

[53] It is only in the early 2000s that even leading financial management packages such as Oracle Financials and SAP began to adapt to and offer Government functionality as standard features after the publication of a Joint Bank and IMF document which detailed these requirements. Treasury Reference Model, Ali Hashim and Bill Allan, World Bank Technical Paper No: 505, 2001.

[54] IMF (2014).

support from top management in the MOF and they decided that it may be better to abandon the customization and enhancement of the CODA application and procure a second generation application software package. This decision was taken after a visit of a high level MOF team to Tanzania where EPICOR which was one of the second generation packages that had come on the market, was being used.

The new procurement was proposed to be on a sole source basis. After a refusal of the Bank and other donors to finance this change especially since the procurement was to be on a sole source basis and against procurement guidelines, the government decided to do so from its own resources. All work related to the CODA application and training of staff for its use was suspended and the government embarked on a new systems implementation exercise based on EPICOR.

**Comments on the change of the software platform:** Whilst the enhanced CODA application would probably have been able to meet GoM immediate requirements (in view of the results of the pilot testing noted above), it is difficult to fault the government from a management point of view. This so since, by the time FIMTAP was being prepared, in the early 2000s a second generation of accounting systems software, the so called Enterprise Resource Planning (ERP) applications which encompassed more complete functionality had already become available. Some of these packages had also been enhanced to meet government specific requirements. Therefore much of the enhancement that had been carried out to the CODA application would not be required (It may be mentioned that CODA has also evolved since then and in 2010 after merger with another software company it is marketed as a second generation package Unit4.[55] However, this was several years later than its competition.).

So a question does arise whether the continued investment in customization and enhancement of the CODA application in FIMTAP was the best route to follow. Instead it may have been better to switch software platforms to take advantage of the new technology available at the very start of FIMTAP in the early 2000's. This question has also been discussed in a QAG QER report dated June 25, 2008. (QAG 2008)

> *"The CODA Financials, had been installed under a previous Bank project, IPD2, and updated prior to FIMTAP commencing. The Accountant-General came to the view that an FMIS based on CODA Financials could never work satisfactorily, and sought to switch to the EPICOR system utilized by Tanzania. Bank staff urged the GoM to stick with the existing software, and arranged for CODA to fly a team to Malawi to fix all outstanding problems. They also warned the government that the EPICOR system, designed originally for small to medium size companies, would not meet expectations and would be expensive to maintain. Who was right is beside the point – the Accountant-General of Tanzania is known to be a strong advocate of EPICOR, and the GoM may have been swayed by her advocacy. What happened is that the Bank was unable to retain the confidence of the client on a critical technical issue at the heart of the project."*

[55] In 2008, UK-listed accounting software company, CODA was purchased by Unit 4. In 2000, Unit4 had merged with the Norwegian ERP software house Agresso Group ASA and the company name was changed to Unit4Agresso. In 2010, Unit4Agresso rebranded, changing its main company name to Unit4.

With the benefit of hindsight, perhaps the best route for the Bank to follow would have been to insist that the government also look at other second generation ERP options that had become available at the time, instead of insisting that they continue with the CODA application. With this insistence the Bank team also lost the opportunity to argue that the change of the software platform should be made after a detailed comparison of functionality of all available second generation packages with government requirements to minimize future customizations which would entail additional costs and time. This missed opportunity has continued to haunt the Malawi FMIS to-date.

**EPICOR Systems Implementation:** Following its decision to switch software platforms from CODA financials to EPICOR, the government entered into a contract with the Tanzanian company Soft tech which was the sole representative of EPICOR in Africa, to implement the new software in Malawi. Despite repeated requests to provide the details of this contract including its cost; these were not provided to the present mission.

The Epicor based FMIS has now been rolled out to all line ministries and departments and to the regional centers (Zomba, Mzuzu, and Blantyre). The System has been implemented in a centralized architecture with the central servers located in Lilongwe.

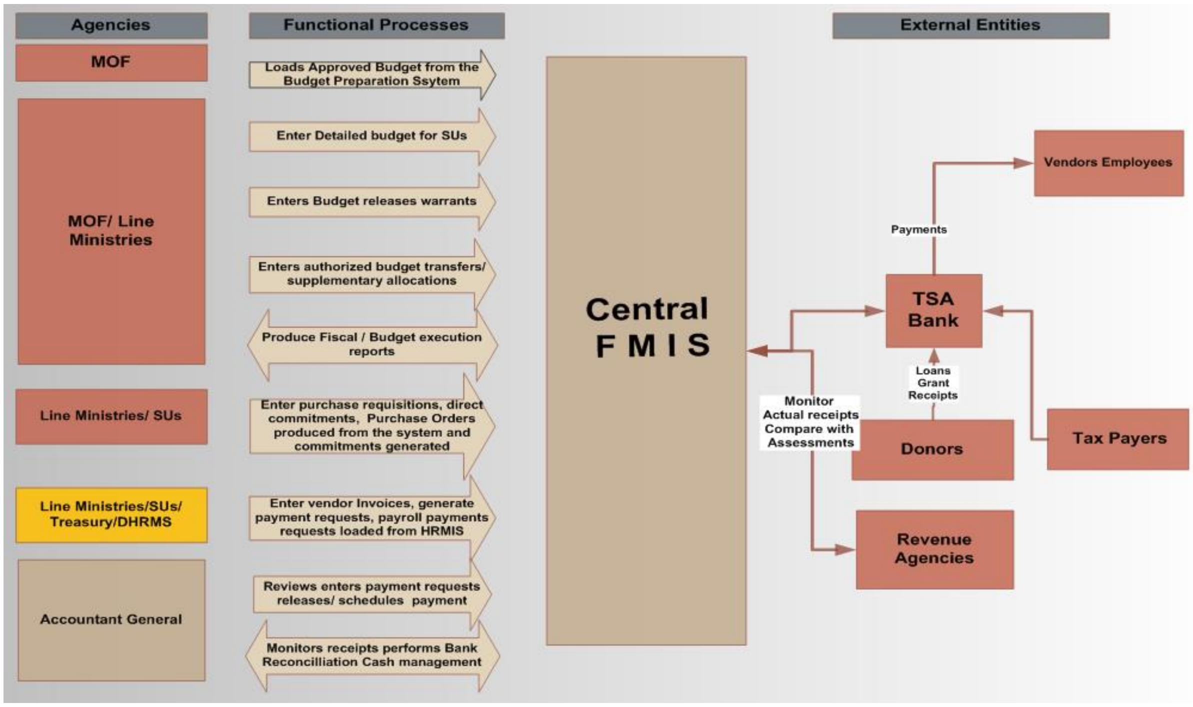
A back-up and disaster recovery site with a duplicate platform has been completed and is connected and operational at a separate location with funding from USAID. Line Ministries in Lilongwe have been connected via a government wide area network - the GWAN discussed separately below. Earlier the provincial HQs were to be connected via VSAT. However they are now connected via an optic fiber link thereby removing potential problems of latency and delays caused by a satellite based link. Line ministry offices at the headquarters and the provincial HQs use the system to process all transactions. There are at present about 800 users connected to the system.

**FMIS at the Local Government Level.** The rollout of a FMIS to local assemblies was to be funded by funded by the government and/or other donors and a separate tender for software was advertised. The government entered into a contract with Techno-Brain after a competitive bid to supply and install the application software Serenic Navigator at district level sites.

This system has now been implemented at all 34 district sites. A central module has been installed at the Ministry of Local government in Lilongwe which consolidates information from the districts and interfaces with the central FMIS. Sites with fiber connectivity work in online mode with the central system where as those where connections are not present, work offline with periodic upload of transactions.

**Systems Utilization:** The EPICOR FMIS is now the main tool that is used to support the government's budget execution process at the center and in the regions in Malawi. The budget is prepared separately by a budget preparation system and is loaded into the FMIS at the start of the year by the budget department. All in year changes to the budget are made directly in the system. Cash releases are also recorded by the MOF in the system. System implementation at the line ministry level covers the complete P2P cycle (Procure to Purchase) with all stages of the transactions recorded directly in the system. This includes the request for procurement. The purchase order- LPO is produced directly by the system and commits funds at the time it is raised by the system. The Goods Receipt Note (GRN) and invoice are recorded on receipt and the payment order is produced directly by the system against the line ministry bank account at the commercial bank. The core functionality of the central system is shown in the figure below.

**Figure C.1. Core Functional Processes and Information Flows**




*Source:* IEG.

The review mission visited a few line ministries and met with the Directors of Finance (e.g. the Director of Finance at the Office of the Cabinet, the Director of Finance at the Department of Human Resources and that at the Ministry of Health) and was informed that all transactions at the HQ and the regional centers were processed through the system and no transaction related to the government budget is processed outside the system.[56] These Departments were able to produce a budget execution report at any point in time that gave the budgeted amounts, the revised budget, the funds released, the commitments and the expenditures to date by line item for all cost centers reporting to them.

Program managers at the Ministry of Health informed the present mission that they use the outputs and actual expenditure figures from the FMIS to track program costs. These reports enable them to determine the costs of specific health sector service delivery outputs and which outputs could not be delivered due to insufficient funding. The real benefit of an FMIS is that it should help program managers in their program management and not just as a tool for accounting. The MOH example shows in some sectors the system outputs have actually started being used for this purpose.  The mission obtained sample copies of these reports for these ministries, which are attached at the end of this appendix. It may be noted here that the general impression around the government management and the donors has been that the

[56] However, transactions related to all funds available to the government, such as donor funded projects etc. are not channeled through the FMIS. This aspect is discussed in detail later in this report.

system was unable to produce such reports since ostensibly several requests from donors for such reports had not produced any results.

However, as noted above, all transactions related to all funds available to the Government, such as donor funded projects etc. are not channeled through the FMIS. The comprehensiveness of transaction coverage is one of the primary criteria which determine the effectiveness of an FMIS as a tool for budget management and to this extent the budget execution reports available from the FMIS do not present a complete picture. The IMF (2014) gives specific recommendations on how to fill in the gaps in coverage.

The systems users expressed their general satisfaction with the system but stated that increased transaction loads and the limited capacity of the servers have increased the processing time of the transactions and has reduced transaction through put and the time for producing online reports from the system. They also expressed dissatisfaction with the level of support provided by the contractor. Since a new version of the system was now available with better functionality and they could benefit from an upgrade to this version. However users were generally against a change of the application software platform.

**Some Issues with the Local Government FMIS:** The Serenic Navigator based FMIS is the tool that is now used at the district level for supporting budget execution. Issues still remain related to the interface and transfer of data to the Central system. The PEFA 2011 reports that "The FMIS at central level is integrated with itself but not with the FMIS at local level."

In addition, some sector departments such as Health and Education have expressed concern that since all funds designated for a district are channeled through the District Commissioner, who can prioritize expenditures. This has caused some sector departments to push for removing the funding for that sector from the ambit of the Ministry of Local government and to set up independent mechanisms for the sector department to manage these funds directly at the district level.

### *FMIS Phase III - Systems Upgrade*

The question of upgrading the Malawi FMIS has been under discussion for some time in view of the fact that that the version of the EPICOR software installed currently is version 7 and several later versions have now been issued by the supplier and the current version is version 10. The supplier will discontinue support to the version that is currently installed in Malawi. Upgrading to the later version carries two immediate advantages. First, the Ministry of Finance will no longer need to pay for expensive Citrix licenses as well as running a Citrix-server to connect to FMIS clients (this is currently required for the version 7). Secondly, it would allow FMIS clients to connect to FMIS via a browser over the internet thereby reducing costs and creating increase facility (through, amongst others, reduced technical complexity) for a speedier roll-out of the FMIS.

In addition the hardware platform requires an upgrade to meet increased transaction loads, reduce processing time and improve transaction throughput. These are normal activities that the government has to provide for in any systems implementation.

While discussing the question of the upgrade the government decided to open up the discussion from that of upgrading from the current version of the software to the later version to one where they would first document the business processes that an upgraded system should support and then use this as basis of specifying the system requirements and compare the suitability of the two current FMIS systems that are in use (i.e. Epicor used in central government and ***Serenic Navigator*** used in local governments).

This has been done under a follow on project, which funded a consultancy to define the business processes that an upgraded system should support, and specify the system requirements. This analysis showed that that under the specific Malawi conditions the later version of the EPICOR software would be a better fit than the Serenic Navigator.

However the cashgate scandal in 2013 in which a massive fraud was detected in the FMIS based payment process, has overtaken these developments. The responsibility for this fraud has been partly directed at the capacity of the software to have provided appropriate safeguards against this to have happened. There is now growing sentiment in government that this software should be replaced. This sentiment is compounded by the fact that the government has for some time not been happy by the support provided by the software representative, Soft tech.

Therefore the Government has decided that it would use the system specifications developed above for a new international competitive bidding process for a new application software package, although Epicor will be allowed to participate.

These bids are currently out and responses are expected within a few weeks from the writing of this report in July 2015.

**Comments on yet another change in the Software platform:** It may be noted here that in contrast to the situation at the time that CODA was replaced by EPICOR since CODA had fallen significantly behind industry trends and its competition, EPICOR has kept pace with developments in the industry and the features that have become available with other second generation packages (e.g. web enabled access and others) are also available in the later generations of the EPICOR package.

The current thinking to change the application software platform now reflects a general lack of understanding that the technology platform is only one of the factors that determine the outcome of an FMIS implementation and certainly not the most important one. An understanding of the key characteristics of the core Government financial management processes and transactions and the control environment under which they operate, is critical to the satisfactory implementation of an FMIS.

The IMF (2013) carried out a detailed review of the problems that led to the cashgate scandal and has found that the Application Software was not the problems. A mere change of the software without addressing the other control issues surrounding its use would not reduce the danger of a similar fraud occurring again. The report states that the problems associated with the FMIS include: (i) system abuses and fraud, due to weak system access controls; (ii) weaknesses in FMIS reporting, due to inadequate data capture, delayed reconciliation and inaccurate data; (iii) build ups in arrears due to inadequate usage of the commitment control system; and (iv) poor system performance due to erratic power supply, inadequate server capacity and unreliable connectivity.

Very few of these issues are due to technical deficiencies in the FMIS. Rather, they reflect weaknesses in the systems, processes and controls around the FMIS environment. These include the lack of ICT systems audits, inadequate segregation of duties, and difficulties in enforcing instructions. The few problems that do relate to technical issues concern limited interfaces with other PFM systems and a failure to apply validation checks.

An audit commissioned by the National Audit Office of Malawi after the cashgate scandal has noted: "During an unannounced ad hoc IT security audit, the Baker Tilly inspection of the firewall configuration indicated that the firewall settings had been changed to permit any outside connection. The password controls had been disabled, and the connections to the FMIS servers, that should have been routed through the network firewall, had bypassed the firewall. This represents a fundamental weakening of the internal control framework such that it would allow a situation similar to Cashgate to occur again.

This matter is of particular concern given the high levels of funding applied to improving FMIS, the server and virtual machine set up along with the monitoring related training given to Accountant General Staff in May and September 2013. (NAO 2014)

In the above mentioned report 62 recommendations were made and it is not clear at this stage how many of these have been implemented. The lack of accountability, allied to a failure to apply or detect compliance with the PFM Act requirements, has in any case allowed what could be considered a deliberate circumvention of the control framework.

The apparent level of collusion and circumvention of procedures, together with the limited challenge from those charged to ensure accountability, and lack of detailed external audit would suggest that there currently is no guarantee that future frauds would be prevented regardless of any control improvements implemented."

However, as a response to cashgate, and in view of the previous experience regarding losing traction in the dialogue with the Government, the Bank and the other donors have agreed to a new bidding process for an application software package that would be financed under FROIP.

The risks with engaging a new system are outlined below:

- Bringing the FMIS system up to its current performance level could take 3-4 years (the time required to procure the application software through the ICB would take about 12-18 months; it would take another 9-12 months to parametrize it for GoM requirements and test its functionality; and another 12-18 months to roll it out to all sites and make them operational). This timing estimate is optimistic and could be longer if a sophisticated application software packages with multiple modules is chosen.
- Once the new system is operational, there is no guarantee of it functioning at its current level within a short time period. In fact, significant investments in human capacity would have to be made. Much of the expertise accumulated over the years in the use of the existing FMIS platform would be lost and a whole new set of technical skills will need to be developed.
- During the transitional period, the focus will be diverted to the change in the software platform rather than the overall control environment in which the software is to operate, which is critical. Given the Government's position on blaming the system rather than the lack of enabling environment this risk is particularly eminent.

On the other hand upgrading the existing software would be a less ambitious task. Careful consideration of the costs, advantages, and timeframe should be given prior to considering either option.

**Human Resource Management Information System (HRMIS)**

The Human Resource Management Information System (HRMIS) component was added to the project at the time of restructuring to support the Government's increased focus on Civil Service Management related activities.

In 2005, shortly prior to GoM agreeing on the components of the restructured project, government had decided to discontinue use of its then payroll and establishment management system and procure a new HRMIS. The new system was procured using government funding through a competitive bidding process. The system chosen was produced by Globe Systems Limited, a local information technology company in Malawi and was custom written for GoM.

Although EPICOR (the FMIS system) suppliers did not respond to the HRMIS bid, the government did not exercise the option of purchasing the EPICOR Human Capital Management module, which would have provide all HRMD functionality, to integrate with the EPICOR FMIS. The Globe HRMIS is custom developed and written in visual basic and uses SQL server as the database.

***Utilization of the HRMIS***

The Establishment module of the HRMIS maintains the Schedule of Established Offices for approved posts and associated grades allocated to each ministry or department. This module has been centrally implemented at DHRMD in HRMIS. Adjustments to the establishment in HRMIS can only be done by authorized officers within DHRMD. Ministries and Departments have access to their establishments in read only mode. Government cannot appoint or recruit when there are no posts because there will be no pay as the payroll is linked to posts that are determined by authorized establishment.

The employee module has also been centrally implemented at DHRMD in HRMIS. The system matches employees to their respective posts on the authorized establishment. The module is fully integrated with the establishment and this has enabled that all employees are placed on the appropriate posts on the establishments of their respective ministries and departments. Only authorized officers within DHRMD can handle critical functions related to personnel records. These functions include: introduction of new employees; promotions and demotions; postings between ministries and departments; transfer between posts; updates of personal and employment information; and deletions and re-instatements of employees. Authorized human resource officers in ministries and departments can handle internal postings; update of designated non-mandatory fields; and change of salary spine points.

The payroll module has been implemented across government. The module is fully integrated with the establishment and employee modules. An employee could only appear on the payroll if the record is on the employee module. Ministries and departments cannot introduce ghost workers on the payroll because the module is fully functionally dependent on the establishment and employee modules both of which are centrally managed by DHRMD.

The Secretary Treasury issues warrants for the salaries costs of line ministries and the FMIS checks for these limits before authorizing payments which are made through commercial banks where employees hold bank accounts. Currently about 160,000 government employees are paid through the system. Payments are made through the FMIS.

The HRMIS has been implemented with full security features. Each user has a personal username, password and access rights. There was an audit trail for every transaction. These facilities assist in tracking what each user has done on the system.

The HRMIS has been decentralized to all ministries and departments at Capital Hill, Department of Information Systems and Technology Management Services and some offices at City Centre where GWAN connectivity is available. As GWAN is being rolled HRMIS is expected to be rolled out alongside.

As establishment control has been linked to the HRMIS, wage bill fluctuations should be limited and associated with the normal employment cycle (e.g. new employees joining the Civil Service, promotions, exiting of personnel whose established posts would be automatically deleted on expiry of authority). Further, civil service personnel audit exercises are carried out periodically to ensure the integrity of the HRMIS. However, it remains possible to introduce ghost workers through to the inclusion of employees on the payroll from other cost centers over which controlling officers do not have oversight. Furthermore, there is a failure to validate payroll events, as a result of which unauthorized changes can be introduced. A recent audit (GOM 2015) also noted that payroll transactions are insufficiently monitored and reconciled and that the interface between the payroll and other related systems remains manual leaving room for mishandling and error. Internal controls for human resource management are in place but risks remain that can undermine the system if left unaddressed.

**Government Wide Area Network (GWAN)**

In addition to the FMIS, FIMTAP also included a subcomponent related to supporting the expansion of the GWAN which had been established earlier under IDP2. The GWAN was conceived as an electronic infrastructure to support numerous intranet / internet capable functions including email, FMIS, payroll and personnel. A robust electronic network architecture had been developed at Capital Hill where the majority of Ministries are located. However, numerous other locations required further work. FIMTAP supported the next phase of the GWAN roll-out including the expansion of the network, establishment of institutional structures and capacity to manage the system, system protection, and ensuring un-interrupted power supply.

Following the restructuring, the further development of the GWAN was harmonized with activities funded by UNDP and USAID. UNDP provided technical assistance, especially diagnostics, as well as network design support and the supply of equipment. Total Funding to the GWAN by UNDP was $1.3 million. USAID mainly provided equipment under the MCC Threshold Plan. Donor support to DISTMS was coordinated through a joint government donor technical working group.

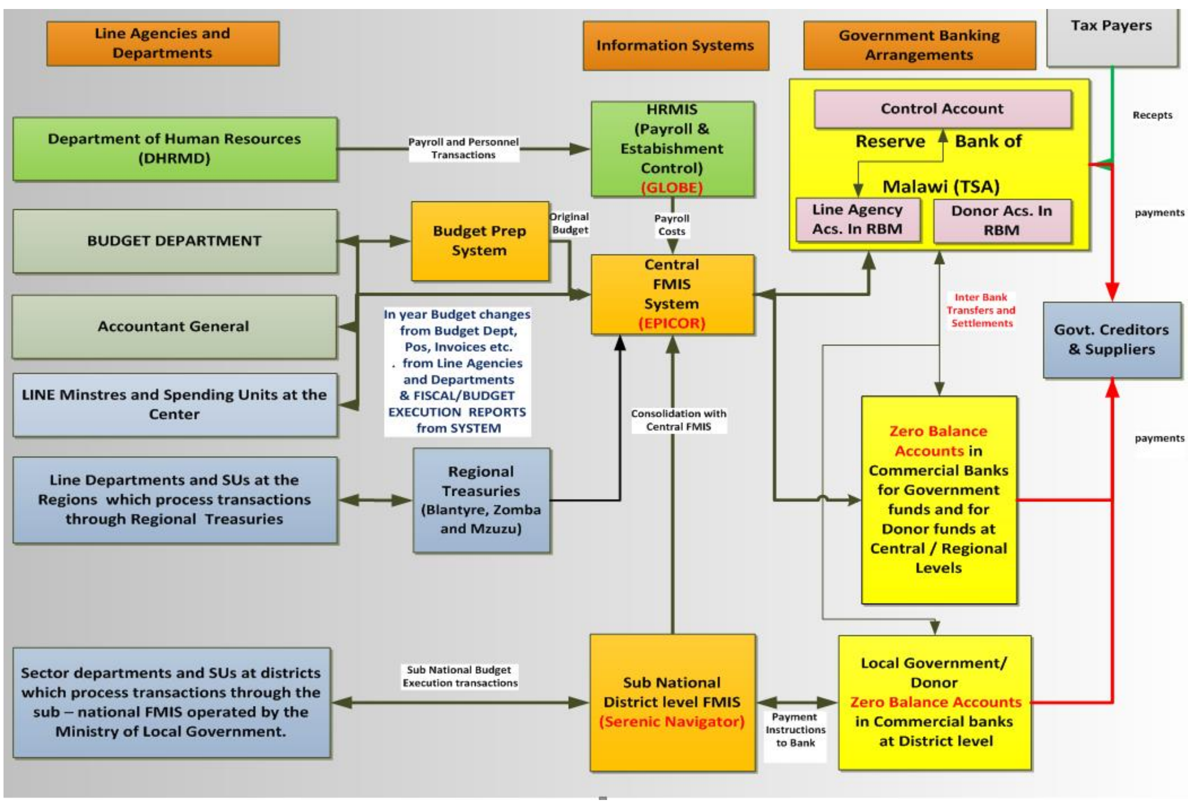
Since project closure the GWAN was considerably overhauled with support from the FROIP follow-up project and USAID. The fiber cables were replaced and new networking equipment provided. At the time of the mission the GWAN served as a reliable backbone for the operation of Government information systems with adequate management structures in place.

***Information Systems Architecture for Fiscal Management***

Three separate systems have been implemented under the various projects under discussion here which have contributed to setting up these systems for Malawi. These include the Central EPICOR based FMIS to manage budget execution at the Central Level, the Serenic Navigator based FMIS that is used at the District Level and the HRMIS which is used to manage entire civil service establishment and calculate the payroll for Government employees. The GWAN also set up under these projects, provides the telecommunications infrastructure to connect them with each other.

The Information Systems Architecture for the Malawi Fiscal Management is given in the diagram below, and shows the various systems that have been implemented under the project, their interfaces with each other and the banking system, and the core information flows.

**Figure C.2. Information Systems Architecture for Fiscal Management**




*Source:* IEG.

At the start of the year the approved budget is loaded into the FMIS from the Budget preparation system and all in-year changes are made directly by the Budget department in the FMIS. For an expenditure transaction, the diagram traces the flow from the point of its origination at the Spending unit to its payment to the payee. For a receipt transaction the diagram shows its route from the point it is deposited in a Bank by the payer to the point of its recording in the FMIS. The figure indicates the interface between the Central and the District level FMIS and interface between the HRMIS and the FMIS which enables Payroll transactions generated from the HRMIS to be routed to the FMIS for payment.

The 2011 PEFA assessment noted that "at the moment there is no electronic integration between the Payroll system, the Tax Payer Identification Number system, any of the tax administration systems (including ASYCUDA), debt management systems and RBM. It would seem prudent to elaborate a strategy for the future interconnection of these various systems." This is still the case and the observation remains valid.

***Implementation Costs***

It is interesting to compare the Costs of the Malawi FMIS implementation with other Bank financed projects which use an off the shelf application software package like Malawi. Implementation costs vary with the scope and scale size of the implementation. However, it is possible to get an approximate idea of the costs to be expected for implementing a system with a given scope, from existing data on completed projects, by plotting the contracted cost of actual systems implementation against the number of end-users (used as a proxy for scale size of the system) that are connected to the system. In this exercise it is necessary to use comparable numbers. Thus, the cost elements should cover the same elements for all projects, and if this expense has been incurred in various phases of the project, say for pilot implementation and rollout, then these costs should be summed.

A recent Bank publication (World Bank 2014) gives this data for 10 World Bank financed FMIS projects that involve implementation of a COTS package. The results are displayed in the Figure below showing the contracted costs covering the hardware, software, implementation services, WAN/LAN networking, and training plotted against number of COTS user licenses acquired (used as a proxy for end users).

It is possible to use this data to predict approximate costs for, say a 1000 User COTS implementation. For example, since the costs are represented by

$Y=0.0096x+4.74$; if $x = 1000$, then y= US $ 14.34 million (+/-) 20 percent.

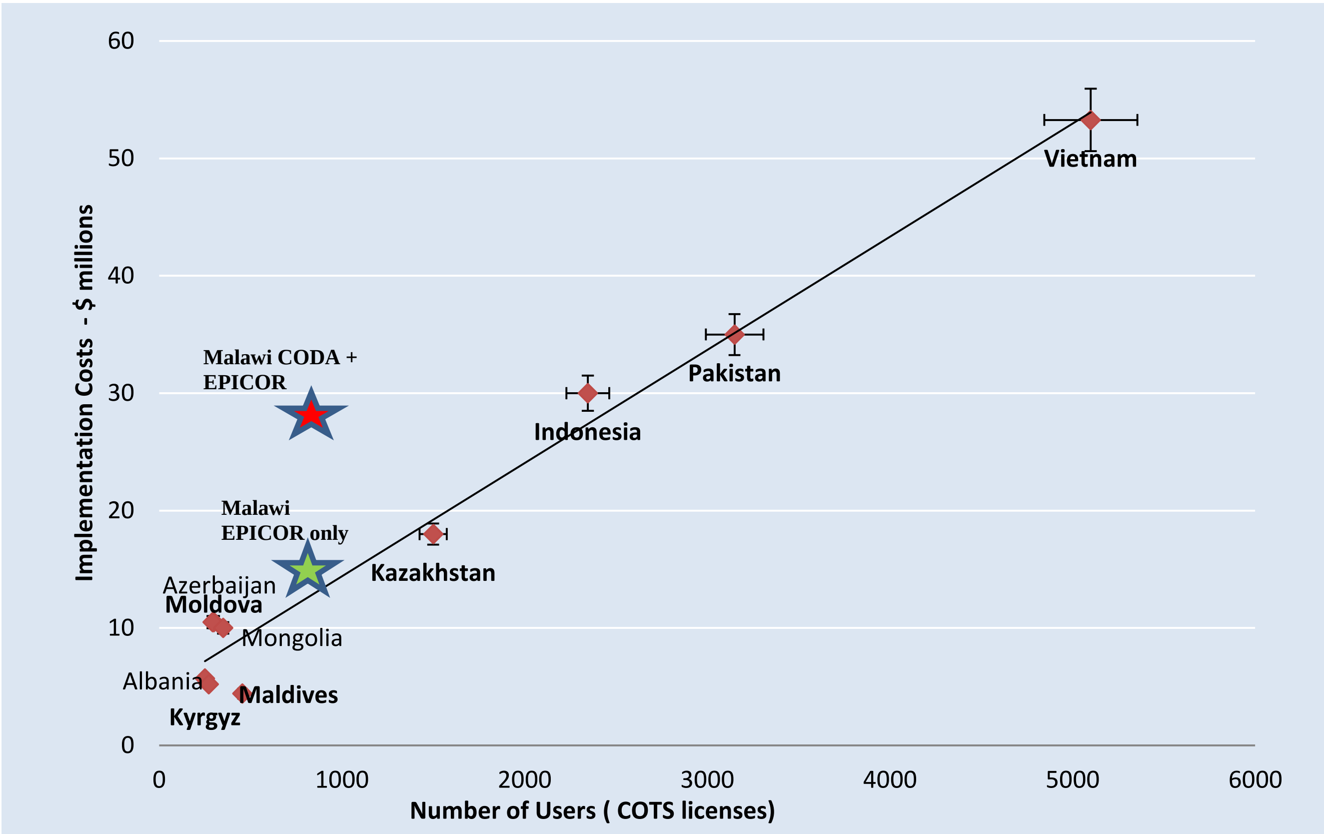
Therefore, implementation costs for a COTS implementation is about US$ 15,000 per user.

The Diagram also shows the Malawi FMIS capital costs plotted on this graph. The total FMIS implementation inputs from the Government of Malawi for the EPICOR implementation over the period 2005/6 – 2010/11 have been estimated at US$14.7 million Fölscher et al 2012). The number of named users on the system according to the project team is 800 as stated earlier. This gives a figure of US$ 18,375 per named user which is higher that the costs of other Bank financed FMIS implementations in this study.

This excludes the costs of the GLOBE HRMIS (since these figures were not available). The quoted numbers are for FMIS implementation costs over the period 2005 – 2010/2011 and therefore also do not include the previous investment on the CODA application. With the addition of these figures (approx. US$ 10-12 million), the per-user cost would rise even higher to US$33,375 per user.

The sole source procurement of the Malawi FMIS appears to have contributed to the higher per user cost for the Malawi EPICOR FMIS as explained above. Furthermore changes in the software platform midway have resulted in high total cost for (CODA + EPICOR) implementation, as shown in the graph below. Further changes would make this cost even higher.

**Figure C.3. FMIS Implementation Cost Plotted Against Number of Users**




*Source:* Hashim (2014) and authors' calculations.

## *FMIS Outputs*

## Figure C.4. Sample Expenditure Statements by Cost Center

**Expenditure Statement by Cost Center**

Start Date: 01-Jul-2014
End Date: 30-Jun-2015
Start Cost Center: 3101001
End Cost Center 3101001

Amounts in: MK

| Date | Transaction No. | Transaction Details | Reference Doc | Pay No | Payment Amount | Transaction Amount | Account Balance |
|---|---|---|---|---|---|---|---|
| 11-Dec-2014 | 31OPV3005604 | First Merchant Bank of Malawi/All | 3005604 | 292553 | 120,000.00 | 120,000.00 | 4,042,000.00 |
| 11-Dec-2014 | 31OPV3005610 | National Bank of Malawi / All | 3005610 | 292545 | 80,000.00 | 80,000.00 | 4,122,000.00 |
| 13-Dec-2014 | 31OPV3005939 | NBS BANK / All | 3005939 | 290938 | 46,000.00 | 46,000.00 | 4,168,000.00 |
| 13-Dec-2014 | 31OPV3005940 | First Merchant Bank of Malawi/All | 3005940 | 290926 | 12,000.00 | 12,000.00 | 4,180,000.00 |
| 13-Dec-2014 | 31OPV3005941 | FDH Bank/all | 3005941 | | | 42,000.00 | 4,222,000.00 |
| 23-Dec-2014 | 31OPV3006324 | NBS BANK / All | 3006324 | 294243 | 30,000.00 | 30,000.00 | 4,252,000.00 |
| 19-Jan-2015 | 31OPV3007200 | Standard Bank of Malawi/All | 7200 | 296789 | 300,000.00 | 66,308.00 | 4,318,308.00 |
| 19-Jan-2015 | 31OPV3007208 | First Merchant Bank of Malawi/All | 7208 | 296793 | 150,000.00 | 150,000.00 | 4,468,308.00 |
| 21-Jan-2015 | 31OPV3007353 | First Merchant Bank of Malawi/All | 3007353 | 297242 | 85,000.00 | 85,000.00 | 4,553,308.00 |
| 04-Mar-2015 | 31OPV3008793 | First Merchant Bank of Malawi/All | 3008793 | 013269 | 120,000.00 | 120,000.00 | 4,673,308.00 |
| 04-Mar-2015 | 31OPV3008794 | Inde Bank/All | 3008794 | 013273 | 120,000.00 | 120,000.00 | 4,793,308.00 |
| 04-Mar-2015 | 31OPV3008795 | National Bank of Malawi / All | 3008795 | 013262 | 80,000.00 | 80,000.00 | 4,873,308.00 |
| 18-Mar-2015 | 31OPV3009183 | Malawi Savings Bank/All | 3009183 | 014931 | 60,000.00 | 60,000.00 | 4,933,308.00 |
| 16-Apr-2015 | 31OPV3009789 | NBS BANK / All | 3009789 | 021807 | 186,000.00 | 186,000.00 | 5,119,308.00 |
| 16-Apr-2015 | 31OPV3009790 | Standard Bank of Malawi/All | 3009790 | 021793 | 228,000.00 | 228,000.00 | 5,347,308.00 |
| 16-Apr-2015 | 31OPV3009791 | National Bank of Malawi / All | 3009791 | 021788 | 378,000.00 | 378,000.00 | 5,725,308.00 |
| 20-Apr-2015 | 31OPV3009948 | Standard Bank of Malawi/All | 3009948 | 022245 | 115,000.00 | 115,000.00 | 5,840,308.00 |
| 24-Apr-2015 | 31OPV3010217 | First Merchant Bank of Malawi/All | 3010217 | 024721 | 225,000.00 | 225,000.00 | 6,065,308.00 |
| 24-Apr-2015 | 31OPV3010218 | National Bank of Malawi / All | 3010218 | 024705 | 120,000.00 | 120,000.00 | 6,185,308.00 |
| 24-Apr-2015 | 31OPV3010219 | Standard Bank of Malawi/All | 3010219 | 024715 | 36,000.00 | 36,000.00 | 6,221,308.00 |
| 24-Apr-2015 | 31OPV3010220 | NBS BANK / All | 3010220 | 024733 | 42,000.00 | 42,000.00 | 6,263,308.00 |
| 26-May-2015 | 31OPV3011032 | First Merchant Bank of Malawi/All | 3011032 | 031899 | 176,000.00 | 176,000.00 | 6,439,308.00 |
| 26-May-2015 | 31OPV3011036 | National Bank of Malawi / All | 3011036 | 031885 | 268,000.00 | 268,000.00 | 6,707,308.00 |
| 26-May-2015 | 31OPV3011038 | NBS BANK / All | 3011038 | 031859 | 200,000.00 | 200,000.00 | 6,907,308.00 |
| 26-May-2015 | 31OPV3011040 | Standard Bank of Malawi/All | 3011040 | 031893 | 160,000.00 | 160,000.00 | 7,067,308.00 |
| 08-Jun-2015 | 31OPV3011476 | Inde Bank/All | 3011476 | 037230 | 24,000.00 | 24,000.00 | 7,091,308.00 |
| 08-Jun-2015 | 31OPV3011478 | National Bank of Malawi / All | 3011478 | 037225 | 290,000.00 | 290,000.00 | 7,381,308.00 |
| 08-Jun-2015 | 31OPV3011481 | First Merchant Bank of Malawi/All | 3011481 | 037229 | 166,000.00 | 166,000.00 | 7,547,308.00 |
| 09-Jun-2015 | 31OPV3011556 | NBS BANK / All | 320 | 037297 | 763,000.00 | 763,000.00 | 8,310,308.00 |
| 09-Jun-2015 | 31OPV3011558 | Standard Bank of Malawi/All | 630 | | | 266,000.00 | 8,576,308.00 |

## Figure C.5. Sample Cost Center Summary Report

**COST CENTRE SUMMARY AS AT 30 June 2015**

| Cost Centre / Cost Centre | Approved Estimates | Funds Allocated todate | Expenditure To Previous Month | Expenditure This Month | Expenditure Todate | Committments Todate | Total Expenditure & Committments | Funds Balance | Budget Balance | %Util |
|---|---|---|---|---|---|---|---|---|---|---|
| **Recurrent Expenditure** | | | | | | | | | | |
| **Personal Emoluments** | | | | | | | | | | |
| 001 Headquarters | 11,044,992,565.08 | 10,954,349,146.14 | 9,743,982,186.06 | 472,955.00 | 9,744,455,141.06 | 935,234,983.05 | 10,679,690,124.11 | 274,659,022.03 | 365,302,440.97 | 96.69 |
| 002 Queen Elizabeth Central Hospital | 2,162,814,997.00 | 2,162,608,172.14 | 1,965,087,547.58 | 0.00 | 1,965,087,547.58 | 188,268,381.00 | 2,153,355,928.58 | 9,252,243.56 | 9,459,068.42 | 99.56 |
| 003 Zomba Central Hospital | 926,615,631.23 | 920,629,383.49 | 687,334,410.71 | 0.00 | 687,334,410.71 | 82,895,431.00 | 770,229,841.71 | 150,399,541.78 | 156,385,789.52 | 83.12 |
| 004 Zomba Mental Hospital | 255,073,402.08 | 254,809,883.08 | 233,073,062.08 | 0.00 | 233,073,062.08 | 21,666,659.00 | 254,739,721.08 | 70,162.00 | 333,681.00 | 99.87 |
| 005 Lilongwe Central Hospital | 2,342,998,284.78 | 2,342,518,944.58 | 2,103,688,463.72 | 0.00 | 2,103,688,463.72 | 0.00 | 2,103,688,463.72 | 238,830,480.86 | 239,309,821.06 | 89.79 |
| 006 Mzuzu Central Hospital | 1,070,236,782.22 | 965,953,677.30 | 963,299,254.69 | 0.00 | 963,299,254.69 | 0.00 | 963,299,254.69 | 2,654,422.61 | 106,937,527.53 | 90.01 |
| 007 Nsanje District Health Office | 646,990,208.98 | 588,411,996.46 | 587,126,637.98 | 0.00 | 587,126,637.98 | 0.00 | 587,126,637.98 | 1,285,358.48 | 59,863,571.00 | 90.75 |
| 008 Chikwawa District Health Office | 837,649,965.02 | 832,275,152.49 | 752,718,577.26 | 0.00 | 752,718,577.26 | 75,820,048.13 | 828,538,625.39 | 3,736,527.10 | 9,111,339.63 | 98.91 |
| 009 Mulanje District Health Office | 990,128,467.93 | 979,572,467.67 | 897,549,316.06 | 0.00 | 897,549,316.06 | 0.00 | 897,549,316.06 | 82,023,151.61 | 92,579,151.87 | 90.65 |
| 010 Thyolo District Health Office | 1,046,385,234.97 | 945,319,558.25 | 845,043,145.10 | 0.00 | 845,043,145.10 | 89,834,481.00 | 934,877,626.10 | 10,441,932.15 | 111,507,608.87 | 89.34 |
| 011 Chiradzulu District Health Office | 854,202,622.84 | 790,694,422.50 | 720,690,094.50 | 0.00 | 720,690,094.50 | 67,143,539.00 | 787,833,633.50 | 2,860,789.00 | 66,368,989.34 | 92.23 |
| 012 Blantyre District Health Office | 1,341,654,352.47 | 1,313,359,672.64 | 1,200,213,241.59 | 0.00 | 1,200,213,241.59 | 110,262,388.00 | 1,310,475,629.59 | 2,884,043.05 | 31,178,722.88 | 97.68 |
| 013 Mwanza District Health Office | 484,939,567.52 | 480,653,251.36 | 439,482,813.45 | 0.00 | 439,482,813.45 | 40,071,175.00 | 479,553,988.45 | 1,099,262.91 | 5,385,579.07 | 98.89 |
| 014 Zomba District Health Office | 1,146,695,925.49 | 1,133,377,488.60 | 1,034,233,061.04 | 0.00 | 1,034,233,061.04 | 96,045,564.68 | 1,130,278,625.72 | 3,098,862.88 | 16,417,299.77 | 98.57 |
| 015 Machinga District Health Office | 903,907,053.10 | 887,801,580.51 | 806,619,235.99 | 0.00 | 806,619,235.99 | 73,548,008.00 | 880,167,243.99 | 7,634,336.52 | 23,739,809.11 | 97.37 |
| 016 Mangochi District Health Office | 1,276,323,848.93 | 1,255,920,888.53 | 1,147,734,568.73 | 0.00 | 1,147,734,568.73 | 0.00 | 1,147,734,568.73 | 108,186,319.80 | 128,589,280.20 | 89.93 |
| 017 Phalombe District Health Office | 566,011,828.77 | 505,767,622.77 | 505,141,561.77 | 0.00 | 505,141,561.77 | 0.00 | 505,141,561.77 | 626,061.00 | 60,870,267.00 | 89.25 |
| 018 Balaka District Health Office | 806,310,919.11 | 727,566,992.55 | 724,443,864.05 | 0.00 | 724,443,864.05 | 0.00 | 724,443,864.05 | 3,123,128.50 | 81,867,055.06 | 89.85 |
| 019 Ntcheu District Health Office | 1,041,185,620.50 | 940,971,786.50 | 932,978,999.30 | 0.00 | 932,978,999.30 | 0.00 | 932,978,999.30 | 7,992,787.20 | 108,206,621.20 | 89.61 |
| 020 Dedza District Health Office | 927,543,820.33 | 843,236,248.99 | 840,641,057.99 | 0.00 | 840,641,057.99 | 0.00 | 840,641,057.99 | 2,595,191.00 | 86,902,762.34 | 90.63 |
| 021 Lilongwe District Health Office | 2,497,582,488.76 | 2,278,722,375.93 | 2,277,826,765.16 | 0.00 | 2,277,826,765.16 | 0.00 | 2,277,826,765.16 | 895,610.77 | 219,755,723.60 | 91.20 |
| 022 Salima District Health Office | 854,065,076.30 | 777,532,706.00 | 773,683,331.30 | 0.00 | 773,683,331.30 | 0.00 | 773,683,331.30 | 3,849,374.70 | 80,381,745.00 | 90.59 |
| 023 Dowa District Health Office | 1,006,007,003.94 | 916,896,922.53 | 915,182,773.53 | 0.00 | 915,182,773.53 | 0.00 | 915,182,773.53 | 1,714,149.00 | 90,824,230.41 | 90.97 |
| 024 Mchinji District Health Office | 804,173,853.00 | 800,592,228.57 | 730,556,622.57 | 0.00 | 730,556,622.57 | 0.00 | 730,556,622.57 | 70,035,606.00 | 73,617,230.43 | 90.85 |
| 025 Nkhotakota District Health Office | 741,351,867.65 | 734,799,835.65 | 610,850,017.65 | 0.00 | 610,850,017.65 | 0.00 | 610,850,017.65 | 123,949,818.00 | 130,501,850.00 | 82.40 |

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## Figure C.6. Sample Itemized Commitment and Expenditure Report

### Itemized Comm and Expen Report by Cost Center-Historical AS AT 30-June-2015

Amount in MK

| Account Code | Description | Approved Estimates | Revised Estimates | Funds Allocated to date | Expenditure this month | Expenditure to date | Commitment to date | Total Expenditure and commitments | Funds Balance | Budget Balance |
|---|---|---|---|---|---|---|---|---|---|---|
| **0901001** | **O.P.C. Headquarters** | | | | | | | | | |
| **Recurrent Expenditure** | | | | | | | | | | |
| 09010010000000150436209032011001 | Salaries - Established Staff | 39,241,416.00 | 39,241,416.00 | 33,892,537.72 | 0.00 | 33,892,537.72 | 0.00 | 33,892,537.72 | 0.00 | 5,348,878.28 |
| 09010010000000150436209032011102 | Leave Grant/Disturbance Allowance | 270,000.00 | 270,000.00 | 270,000.00 | 0.00 | 270,000.00 | 0.00 | 270,000.00 | 0.00 | 0.00 |
| 09010010000000150436209032022104 | Subsistence Allowance | 9,792,000.00 | 11,292,000.00 | 11,285,500.00 | 1,500,000.00 | 11,100,900.00 | 160,000.00 | 11,260,900.00 | 24,600.00 | 31,100.00 |
| 09010010000000150436209032022105 | Hotel Charges | 4,880,000.00 | 4,784,000.00 | 4,783,063.30 | 0.00 | 4,783,063.30 | 0.00 | 4,783,063.30 | 0.00 | 936.70 |
| 09010010000000150436209032022402 | Consumable Stores | 1,200,000.00 | 440,000.00 | 431,360.00 | 0.00 | 431,360.00 | 0.00 | 431,360.00 | 0.00 | 8,640.00 |
| 09010010000000150436209032022407 | Stationery | 1,399,500.00 | 939,500.00 | 934,000.00 | 0.00 | 934,000.00 | 0.00 | 934,000.00 | 0.00 | 5,500.00 |
| 09010010000000150436209032023401 | Fuel and Lubricants | 4,800,000.00 | 4,800,000.00 | 4,800,000.00 | 0.00 | 4,800,000.00 | 0.00 | 4,800,000.00 | 0.00 | 0.00 |
| 09010010000000150436209032033512 | Motor Vehicle Maintenance | 1,822,311.00 | 1,552,311.00 | 1,545,058.39 | 0.00 | 1,544,976.18 | 0.00 | 1,544,976.18 | 82.21 | 7,334.82 |
| 09010010000000150436209034014115 | Purchase of Plant, Furniture and Office | 1,500,000.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 09010010000000160716209032011001 | Salaries - Established Staff | 2,399,330.00 | 2,399,330.00 | 2,399,330.00 | 0.00 | 2,399,330.00 | 0.00 | 2,399,330.00 | 0.00 | 0.00 |
| 09010010000000160716209032011102 | Leave Grant/Disturbance Allowance | 226,000.00 | 226,000.00 | 226,000.00 | 0.00 | 226,000.00 | 0.00 | 226,000.00 | 0.00 | 0.00 |
| 09010010000000160718001052011001 | Salaries - Established Staff | 39,792,054.00 | 62,448,593.00 | 51,363,357.32 | 0.00 | 51,363,357.32 | 0.00 | 51,363,357.32 | 0.00 | 11,085,235.68 |
| 09010010000000160718001052011102 | Leave Grant/Disturbance Allowance | 212,000.00 | 212,000.00 | 194,000.00 | 0.00 | 194,000.00 | 0.00 | 194,000.00 | 0.00 | 18,000.00 |
| 09010010000000160718001052022104 | Subsistence Allowance | 4,193,000.00 | 4,193,000.00 | 4,193,000.00 | 0.00 | 4,193,000.00 | 0.00 | 4,193,000.00 | 0.00 | 0.00 |
| 09010010000000160718001052022105 | Hotel Charges | 4,510,000.00 | 4,510,000.00 | 4,510,000.00 | 74,094.00 | 4,263,766.00 | 0.00 | 4,263,766.00 | 246,234.00 | 246,234.00 |
| 09010010000000160718001052022302 | Telephone Charges | 2,646,000.00 | 2,110,500.00 | 2,300,500.00 | 1,330,000.00 | 2,110,500.00 | 0.00 | 2,110,500.00 | 190,000.00 | 0.00 |
| 09010010000000160718001052022402 | Consumable Stores | 2,094,850.00 | 2,094,850.00 | 2,094,850.00 | 0.00 | 2,094,850.00 | 0.00 | 2,094,850.00 | 0.00 | 0.00 |
| 09010010000000160718001052022407 | Stationery | 3,362,025.00 | 2,025.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 2,025.00 |
| 09010010000000160718001052022801 | Internal Training | 1,016,000.00 | 16,000.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 16,000.00 |
| 09010010000000160718001052022802 | Foreign Training | 5,319,000.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 09010010000000160718001052023401 | Fuel and Lubricants | 5,400,000.00 | 5,400,000.00 | 5,400,000.00 | 0.00 | 5,400,000.00 | 0.00 | 5,400,000.00 | 0.00 | 0.00 |
| 09010010000000160718001052033511 | Maintenance of Plant and Office Equipme | 857,664.00 | 857,664.00 | 495,157.87 | 222,777.53 | 222,777.53 | 0.00 | 222,777.53 | 272,380.34 | 634,886.47 |
| 09010010000000160718001052033512 | Motor Vehicle Maintenance | 2,500,000.00 | 2,500,000.00 | 2,500,000.00 | 174,471.32 | 2,500,000.00 | 0.00 | 2,500,000.00 | 0.00 | 0.00 |
| 09010010000000160718001054014115 | Purchase of Plant, Furniture and Office | 2,250,000.00 | 2,250,000.00 | 1,895,000.00 | 0.00 | 1,895,000.00 | 0.00 | 1,895,000.00 | 0.00 | 355,000.00 |
| 09010010000000160726209032011004 | Minister's Salaries | 203,486,186.00 | 295,965,290.00 | 262,964,648.18 | 22,091,000.00 | 262,964,648.18 | 0.00 | 262,964,648.18 | 0.00 | 33,000,641.82 |
| 09010010000000160726209032011186 | Ministers Constituency Allowance | 88,186,600.00 | 129,880,141.00 | 119,144,063.18 | 0.00 | 119,144,063.18 | 0.00 | 119,144,063.18 | 0.00 | 10,736,077.82 |
| 09010010000000160726209032022104 | Subsistence Allowance | 39,683,516.00 | 39,683,516.00 | 39,657,851.68 | 0.00 | 39,184,000.00 | 460,000.00 | 39,644,000.00 | 13,851.68 | 39,516.00 |
| 09010010000000160726209032022105 | Hotel Charges | 7,490,000.00 | 7,490,000.00 | 7,489,566.00 | 0.00 | 7,371,250.00 | 118,316.00 | 7,489,566.00 | 0.00 | 434.00 |
| 09010010000000160726209032022201 | Air Travel - Fares and Fees | 36,550,000.00 | 42,448,189.00 | 42,440,795.00 | 1,643,627.00 | 42,085,134.00 | 0.00 | 42,085,134.00 | 355,661.00 | 363,055.00 |

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# Appendix D. Building Capacity

The operation took place in a very low human capacity environment. The operation recognized this is a bottleneck for the implementation of public sector reform initiatives and supported various short and long-term training courses, against a training needs assessment conducted by the DHRMD. This was unfortunately not available to the evaluation team. The Bank, in collaboration with the DHRMD set up the Training Fund for the delivery of the various training sessions. In total it is reported that about 1,500 short training courses were delivered over the lifespan of the operation.

An evaluation of the programs beneficiaries in 2007 noted that 620 public servants received training against a shortlist of 3,150. The shortlisting process was used as a mechanism to filter out those most appropriate to part take.[57] The gender imbalance of recipients is striking. While 34 percent of total applicants were women, only 28 percent of women were actually selected. Only training for the HRMIS module of the FMIS was more balanced with 47 percent women. This being said, IEG had no data on the gender distribution of overall public servants. The breakdown of the trainings provided and participants by gender is provided in the table below.

**Table D.1. Distribution of Shortlisted and Selected Applicants by Course**

| | *Shortlisted applicants* | | | *Selected applicants* | | | *Share* |
|---|---|---|---|---|---|---|---|
| COURSE | MALE | FEMALE | TOTAL | MALE | FEMALE | TOTAL | |
| Strategic planning for senior staff | 184 | 60 | 244 | 53 | 7 | 60 | 10% |
| Performance management for junior staff | 54 | 43 | 97 | 17 | 13 | 30 | 5% |
| Administrative law for HR managers | 51 | 22 | 73 | 12 | 8 | 20 | 3% |
| HRM for junior staff | 105 | 56 | 161 | 18 | 12 | 30 | 5% |
| HRM for senior staff | 62 | 21 | 83 | 25 | 5 | 30 | 5% |
| Induction for EO/TO | 148 | 78 | 226 | 20 | 10 | 30 | 5% |
| Induction for AO/TO | 89 | 38 | 127 | 18 | 12 | 30 | 5% |
| Induction for CO/TA | 171 | 121 | 292 | 16 | 14 | 30 | 5% |
| Strategic management for mid-level managers | 221 | 91 | 312 | 22 | 8 | 30 | 5% |
| Strategic management for senior staff | 106 | 25 | 131 | 25 | 5 | 30 | 5% |

57 It was noted that some ministries and departments made their own nominations to replace procedurally selected applications, who failed to attend the training. Such nominations were done without prior consent of the DHRMD or the relevant training institution who had a set up reserve list. This practice undermined the targeting effectiveness.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Local government financial management | 87 | 23 | 110 | 26 | 4 | 30 | 5% |
| Management information systems for HRMIS staff | 41 | 32 | 73 | 16 | 14 | 30 | 5% |
| Procurement management for senior staff | 51 | 21 | 72 | 23 | 7 | 30 | 5% |
| Records management for junior staff | 200 | 204 | 404 | 45 | 15 | 60 | 10% |
| Financial management for junior staff | 310 | 122 | 432 | 63 | 27 | 90 | 15% |
| Financial management for senior staff | 122 | 55 | 177 | 21 | 9 | 30 | 5% |
| Procurement management for junior staff | 78 | 58 | 136 | 24 | 6 | 30 | 5% |
| **Total** | **2,080** | **1,070** | **3,150** | **444** | **176** | **620** | **100%** |

*Source:* GOM (2008)

Notable is also the distribution of training participants by beneficiary agency. An effort has been made to provide trainings at decentralized levels, as over one quarter of total participants reported to the Ministry of Local Government and Rural Development. This is followed by Agriculture, Education, and Transport who each made up about 10 percent of participants. Somewhat surprising is that the Ministry of Finance and the Department of the Accountant General only had about 3 percent of participants, despite the trainings focusing heavily on financial management, procurement, records management, and strategic planning. Also, very few people of the National Audit Office or the Parliament were trained, despite their important role and the acknowledged need for improved capacity.

**Table D.2 Participants distribution by MDAs**

| *Ministries, Departments and Agencies* | *Beneficiaries* | *Share of total* |
|---|---|---|
| Local Government and Rural Development | 111 | 27% |
| Agriculture and Food Security | 41 | 10% |
| Education | 39 | 9% |
| Transport and public Works | 36 | 9% |
| Health | 25 | 6% |
| Energy and Mines | 16 | 4% |
| Irrigation and Water Development | 14 | 3% |
| Lands, Housing and Physical Planning | 13 | 3% |
| Home affairs and Internal Security | 13 | 3% |
| Human Resource Management and Development | 12 | 3% |

| | | |
|---|---|---|
| Justice and Constitutional Affairs | 12 | 3% |
| Finance and Accountant General | 11 | 3% |
| Labor and Social Development | 10 | 2% |
| Tourism and Wildlife | 8 | 2% |
| Women and child Development | 8 | 2% |
| Economic Planning and Development | 7 | 2% |
| Information and Civic Education | 7 | 2% |
| National Audit Office | 7 | 2% |
| Statutory Corporation | 6 | 1% |
| Parliament | 4 | 1% |
| Other | 14 | 3% |
| **Total** | **414** | **100%** |

*Source:* GOM (2008).

The assessment (GOM 2008) coins the training program to have been a success. The attendance rate for the courses ranged from 84 to 98 percent, with an average attendance rate of 92 percent. Survey results indicate that most participants had a better attitude about their job following the training, and were subsequently able to take on more responsibilities. Furthermore it is reported that 92 percent of the participants were able to apply the skills, indicating that the training was indeed relevant. In particular the assessment notes that "participants are now able to evaluate tender documents, develop and review strategic plans, and observe principles of natural justice in decision making" (GOM 2008 p.15).

Under a long term training initiative[58] 337 beneficiaries benefited from scholarships for various degrees between 2005 and 2011. Of the 337, two thirds were male and one third female. The majority (87 percent) were sponsored for a master's degree, 8 percent for a doctorate and the remaining 5 percent for a bachelor's degree. The table below gives a breakdown by program and agency of a large subset of the group as per GOM (2009). Accordingly, the Central Internal Audit (CIA) unit received most trainings, followed by the Office of the Director for Public Procurement (ODPP), the National Audit office with 91, 70, and 45 beneficiaries respectively.

[58] Long-term trainings were sponsored in part by FIMTAP, and in part by MGSF, ADS, and CSFP-UK. Participants were sent abroad when deemed adequate.

**Table D.3. Long-term Training Beneficiaries by Program and Agency**

| | *MA* | *BA* | *Dipl Computer Studies* | *IMIS/AC/CA/A BE/* | *CIMA* | *ACCA Part 2&3* | *CAT/CIA* | *ACCA/PAEC Tech* | *CIPS (Cert. & Dipl)* | *Total* |
|---|---|---|---|---|---|---|---|---|---|---|
| CBF (Overseas) | 56 | - | - | - | - | - | - | - | - | 56 |
| DISTMIS/GWAN | 8 | 4 | 24 | - | - | - | - | - | - | 36 |
| AGD | 3 | - | - | - | - | - | - | - | - | 3 |
| NAO | - | 1 | - | 3 | 3 | 24 | - | 14 | - | 45 |
| ODPP | 20 | - | - | - | - | - | - | - | 50 | 70 |
| CIA | - | - | - | 7 | 1 | - | 37 | 46 | - | 91 |
| **Total** | **67** | **5** | **24** | **10** | **4** | **24** | **37** | **60** | **0** | **301** |

*Source:* GOM (2008).

A tracer study (GOM 2013) finds that the majority of training beneficiaries returned and remained at the public service after receipt of their degree. By 2013 312 beneficiaries were still in the public service, representing 92 percent. The attrition rate of 7.4 percent makes up 16 beneficiaries who left the public service for the private sector and 9 beneficiaries who either retired or passed away.

The study's survey concludes that 92 percent of recipients were able to use the skills acquired during training, and beneficiaries noted that the degrees had contributed to the advancement of their careers as evidence by their promotion to higher posts. This indicates that after the training they were in a better position to influence decision making.

Most beneficiaries of the long-term training were far from retiring, as 91.3 percent were in the age bracket of 25-49 years. Further, work experience profile is skewed to 6-15 years. 35 percent of beneficiaries were in this age bracket followed by 32 percent in 11-15 years.

# Appendix E. Factors Contributing to the Cashgate Scandal

There are a number of problems that surround FMIS and have contributed to the Cashgate scandal. They include: (i) system abuses and fraud, due to weak system access controls; (ii) weaknesses in FMIS reporting, due to inadequate data capture, delayed reconciliation and inaccurate data; (iii) build ups in arrears due to inadequate usage of the commitment control system; and (iv) poor system performance due to erratic power supply, inadequate server capacity and unreliable connectivity.

Few of these however are due to technical deficiencies in the FMIS. Rather, they reflect weaknesses in the systems, processes and controls around the FMIS environment. These include the lack of ICT systems audits, inadequate segregation of duties, and difficulties in enforcing instructions. Problems that do relate to technical issues concern limited interfaces with other PFM systems and a failure to apply validation checks. A more exhaustive discussion is found in IMF (2013).

**The factors that have contributed to the current situation include, but are not limited to, the following:**

- Breakdown of internal controls and weak accountability arrangements caused by, among other things: (i) a lack of strategic oversight and management supervision at all levels; (ii) collusion and circumvention, possibly aided by management override of controls; (iii) a lack of most fundamental control procedures such as bank reconciliations; (iv) inadequate budgetary discipline—poor control is exercised before commitments are incurred and payment cannot be made when due resulting in arrears; (v) a weak accountability system—audit report of 2011–12 not publically available even in November 2014; and (vi) a lack of understanding of the overall PFM system and the inter-relationships.
- Limited regard for the PFM legal framework; a culture of impunity and a perception that malpractices will not lead to sanctions and laws and regulations will not be enforced; and
- An unrealistic expectation that the FMIS will do everything and a tendency to blame FMIS when errors occur or reconciliation issues arise, rather than address the problems in a proactive manner.
- Technological solutions are being pursued without first addressing fundamental issues such as bank reconciliation, coverage of the FMIS and simplification of the framework.

# Appendix F. Government Banking Arrangements

The Malawi Government banking arrangements are important as they pertain to the effectiveness of FMIS. A TSA is in place and banking accounts are operating at a zero balance basis, meaning that there are no idle balances the FMIS cannot access.

The Malawi Government account control account number 1 (MG1), is the main account from which the operating accounts are funded, it receives revenues from the MRA revenue deposit holding accounts by annual transfer. Budget support funds provided by development partners are deposited into this account.

There are six main operating accounts: (i) Salaries; (ii) Other recurrent transactions (ORT); (iii) Development; (iv) Statutory; (v) Advances; and (vi) Deposits. The operating accounts are the means through which the budget is released from the MG1 account. Checks are drawn from these accounts based on documentation produced by the spending MDAs. These accounts are accounted for through the FMIS and some attempts are being made to reconcile them. However, these efforts have revealed significant unreconciled differences and much remains to be done before they are reconciled.

Revenue deposit account are held in the name of the Malawi Revenue Authority (MRA), not the Accountant General. No records are maintained by the MOF and therefore no reconciliation is undertaken.

A ways and means account, which is the government overdraft, is fully managed by RBM. Spreadsheet based statements are provided to the MOF, but not systematically provided to the Accountant General.

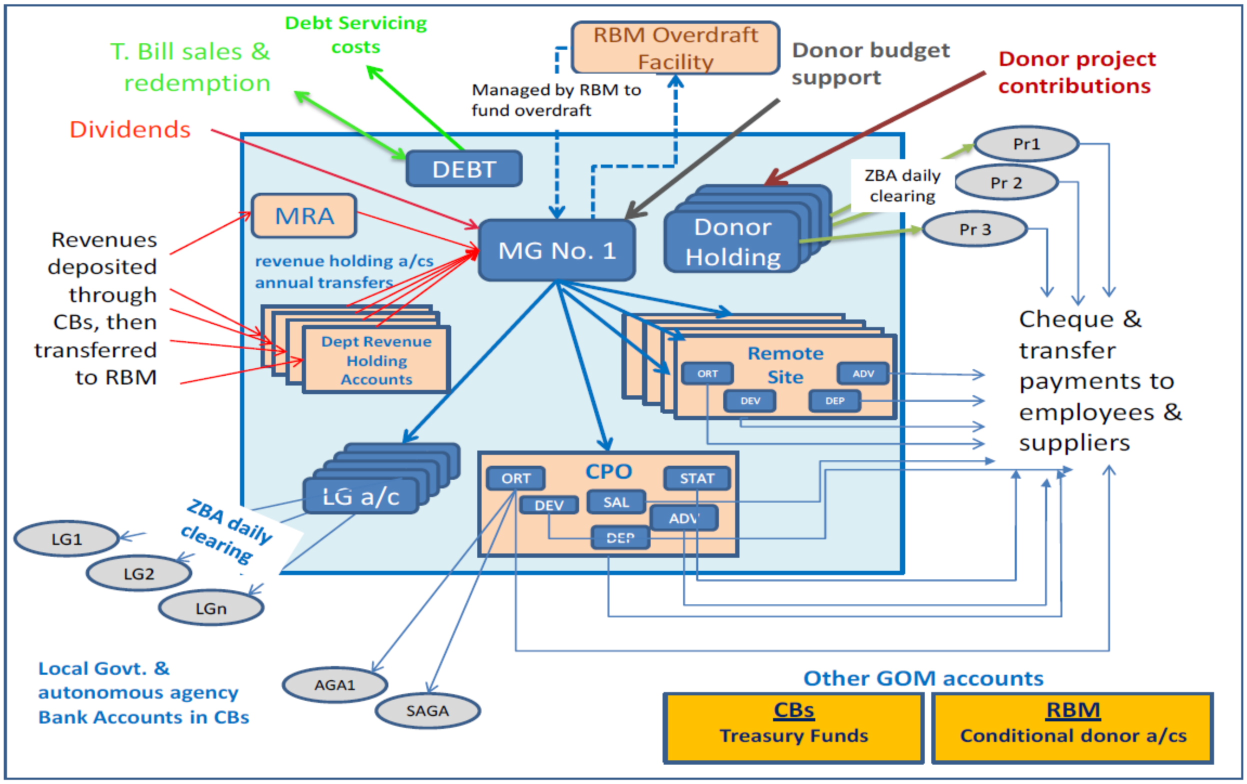
Bank statements for the public debts account are received by the Aid and Debt Management Department. However, no formal reconciliation is done.

Donor funded project holding accounts and Sector Wide Approach (SWAP) accounts should be reconciled by the responsible MDA, and overseen by the Accountant General. Some reconciliations are received by the Accountant General with significant delays.

In addition to the accounts held at RBM, there are a number of accounts held in commercial banks. These include operating accounts for each of the main accounts and a number of accounts for treasury funds, the commercial entities of government. The operating accounts are operated on a zero balanced basis, and the balances on these accounts should be monitored on a regular basis to ensure that balances are not accumulating, which is not occurring at the moment.

The structure of the bank accounts is shown in the diagram below. For a more detailed discussion on banking arrangements see IMF (2014).

**Figure F.1. The Structure of Malawi Banking Arrangements**




*Source:* IEG.

# Appendix G. Other Data and Information

### PDO Indicators

- Annual performance reviews carried out for all public servants under contract.
- Completion of personnel audits for all ministries.
- All ministries, departments and agencies of the borrower provide input to the budget development process based on strategic plans reviewed annually in coordination with the MTEF.
- Officers occupying positions identified as redundant are retrenched in accordance with the approved Retrenchment Plan.
- The Capacity Building Facility trains at least one hundred civil servants to maintain improvements and reforms made in expenditure and public sector management.

### Intermediate Indicators

- Improve payroll systems and establishment controls to ensure conformity with budgeted public service establishments.
- Monitor and report on donor disbursements and project implementation.
- Expansion of the borrower's computer network between Capital Hill and the City Center in Lilongwe and between Lilongwe and major regional centers.
- Establishment of an internal audit committee, including the development of terms of reference, a manual and operating guidelines
- Monitoring of the implementation of the borrower’s Public Procurement Act in at least forty percent (40 percent) of the borrower’s government entities.

### Table G.1 World Bank supported PFM policy actions in parallel

| *FY* | *Project Name and Policy Action* |
|---|---|
| **2001** | **FISCAL RESTRUCTURING AND DEREGULATION PROGRAM III** |
| | • Established a detailed project database within MOF to also include aid-financed projects outside the development budget |
| | • On the basis of the ongoing PER, identified priority recurrent expenditures and protected their share in total recurrent expenditures in its 2000/2001 budget |
| | • Announced a ten point plan to improve financial management and posted on MOF's Web site, selected items of the FY 2000/2001 budget |
| | • Taken the decision to separate its public finance management and public audit functions by enacting new legislation |
| | • Approved and commenced implementation of the recommendations of the Phase I study which proposes decentralization of the borrower's procurement process |
| | • Operationalized the Malawi Revenue Authority |
| | • Identified a prioritized list of projects in its FY 2000/2001 development budget |
| | • Commenced quarterly public reporting of: balance sheets and profit and loss accounts of at least the 5 largest parastatals |
| | • Restricted the entry of new projects to high priority sectors on the basis of the project database |

**2004 FISCAL MANAGEMENT & ACCELERATING GROWTH PROGRAM**

- Standardize and consolidate salary and allowance structure of the Malawi civil service to form a uniform salary structure
- Decentralize the following activities in accordance with the cabinet paper on sector devolution by transferring the associated other recurrent transactions (ORT) budgets from the MOF directly to the District Assemblies
- Received Cabinet approval for the medium term pay policy (MTPP) for Malawi civil service

**2008 PRSC 1**

- Reconciliation of the payroll with the backlog of personnel data takes place by Dec. 2006
- Central GoM entities representing 50% of expenditures are audited

**2009 MW PRSC 2**

- Introduced a budget calendar incorporating all budget related activities
- Carried out the HRMIS review and personnel audit of its civil service
- Submitted the delayed audit report for FY 05/06 to the Parliament
- Debt and Aid Management Policy has been approved by the Cabinet

**2010 PRSC 3**

- Adopted a revised budget classification structure and associated chart of accounts
- Developed an action plan to address the weaknesses identified in the HRMIS review and personnel audit of the civil service
- Issued a treasury minute responding to issues raised by the Public Accounts Committee of its Parliament in connection with audits furnished by the Recipient's Auditor General to such committee
- The Recipient has operationalized its Debt Management Committee, comprised of representatives of its central bank, Treasury, Accountant General's Office, Ministry of Justice and Ministry of Development, Planning and Cooperating for the purpose of making recommendations regarding incurring of domestic and external debt

**2013 RAPID RESPONSE DEVELOPMENT POLICY GRANT**

- Adopted the national budget for the 2012/2013 Fiscal Year which is consistent with fiscal sustainability and prioritization of social expenditure

**2013 ECONOMIC RECOVERY DPO-1**

- Validated its outstanding payment arrears and has developed a plan for the full clearance of said arrears
- Approved a detailed budget formulation calendar
- Submitted Treasury Minutes, for the 2006/2007 fiscal year to the Recipient's Parliament

*Source:* OPCS Prior Action Database (accessed August 2015)

**Table G.2 Fiscal table (Percent of GDP unless otherwise indicated)**

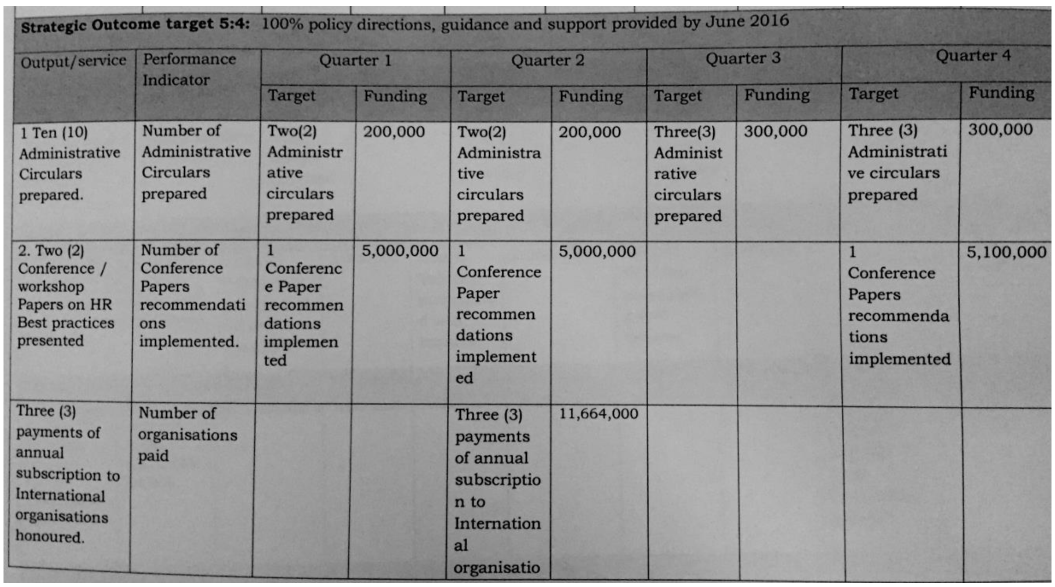
| | 2005/6 | 2006/7 | 2007/8 | 2008/9 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
|---|---|---|---|---|---|---|---|---|
| NATIONAL INCOME AND PRICES (CALENDAR YEAR) | | | | | | | | |
| Real GDP Growth | 2.1 | 9.5 | 8.3 | 9.0 | 6.5 | 4.3 | 1.9 | 5.5 |
| Nominal GDP (MK Billion) | 424 | 511 | 601 | 710 | 812 | 880 | 1056 | 1310 |
| Inflation (CPI Annual Average Percent p.a.) | 13.9 | 8.0 | 8.7 | 8.4 | 7.4 | 7.6 | 21.3 | 20.2 |
| **Revenue** | 27.3 | 30.6 | 29.4 | 32.1 | 33.8 | 32.1 | 26.5 | 37.8 |
| Tax revenue | 16.0 | 16.5 | 17.3 | 18.2 | 18.6 | 20.8 | 19.4 | 20.6 |
| Nontax revenue | 2.0 | 1.5 | 1.5 | 2.3 | 4.9 | 3.8 | 2.7 | 3.3 |
| Grants | 9.4 | 12.5 | 10.5 | 11.6 | 10.3 | 7.6 | 4.4 | 15.1 |
| o/w Budget support | 3.5 | 1.9 | 2.3 | 3.0 | 4.5 | 1.8 | 0.0 | 6.5 |
| **Expenditure and net lending** | 31.2 | 31.9 | 30.0 | 37.8 | 33.8 | 35.0 | 34.9 | 40.2 |
| Current expenditure | 24.2 | 20.3 | 18.6 | 30.6 | 25.7 | 27.2 | 27.0 | 32.0 |
| Wages and salaries | 5.4 | 5.1 | 5.4 | 5.7 | 5.9 | 6.9 | 7.2 | 8.1 |
| *Of which: health SWAp* | 0.2 | 0.2 | 0.2 | 0.2 | 1.1 | 0.6 | 1.0 | 0.0 |
| Interest payments | 4.9 | 3.5 | 2.2 | 2.7 | 2.8 | 2.7 | 2.5 | 2.8 |
| Domestic | 4.0 | 3.1 | 2.1 | 2.6 | 2.7 | 2.6 | 2.2 | 2.4 |
| Foreign | 0.9 | 0.4 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.3 |
| Goods and services | 8.9 | 6.6 | 5.5 | 13.1 | 11.0 | 11.2 | 9.8 | 12.0 |
| o/w Generic goods and services | 5.0 | 4.7 | 3.1 | 6.7 | 5.8 | 4.8 | 5.5 | 4.7 |
| Subsidies and other current transfers | 5.1 | 5.1 | 5.5 | 9.0 | 6.0 | 6.4 | 6.1 | 8.3 |
| o/w Transfers to public entities | 1.5 | 1.6 | 1.4 | 1.9 | 1.7 | 1.7 | 1.8 | 1.9 |
| o/w Fertilizer and seed subsidy | 1.9 | 2.0 | 2.7 | 5.8 | 2.9 | 2.6 | 2.5 | 4.4 |
| Arrears adjustment | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 1.5 | 0.8 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Development expenditure | 7.0 | 11.5 | 11.5 | 7.1 | 7.9 | 7.7 | 8.0 | 8.0 |
| Part I (foreign financed) | 6.0 | 9.0 | 8.1 | 4.9 | 4.5 | 3.7 | 3.6 | 5.0 |
| Part II (domestically financed) | 1.0 | 2.4 | 3.4 | 2.2 | 3.4 | 3.9 | 4.4 | 3.0 |
| Net lending | 0.0 | 0.1 | 0.0 | 0.0 | 0.2 | 0.1 | 0.0 | 0.0 |
| **Overall balance (excluding grants)** | **-13.3** | **-13.9** | **-11.2** | **-17.3** | **-10.3** | **-10.5** | **-12.8** | **-16.3** |
| **Other financing needs** | n.a. | n.a. | n.a. | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Overall balance (including grants)** | -3.9 | -1.3 | -0.6 | -5.7 | 0.1 | -2.9 | -8.4 | -1.2 |
| | | | | | | | | |
| **Total Financing (net)** | **3.9** | **1.3** | **0.6** | **5.7** | **-0.1** | **2.9** | **8.4** | **0.4** |
| Foreign financing (net) | 1.0 | 1.0 | 2.5 | 2.0 | 0.9 | 1.3 | 1.6 | 1.9 |
| Borrowing | 3.8 | 2.1 | 2.7 | 2.2 | 1.1 | 1.5 | 1.9 | 2.5 |
| Repayments | 2.7 | 1.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 | 0.5 |
| Domestic financing (net) | 0.6 | -0.3 | -1.9 | 3.7 | -0.9 | 1.7 | 6.8 | -1.6 |
| | | | | | | | | |
| Discrepancy 1/ | 2.6 | 0.7 | 0.0 | -0.1 | -0.1 | -0.1 | 0.0 | 0.8 |
| **Net domestic debt, percent of GDP** | **15** | **12** | **17** | **18** | **14** | **16** | **20** | **17** |
| | | | | | | | | |
| **BALANCE OF PAYMENTS TRENDS (CALENDAR YEAR)** | | | | | | | | |
| Real Export Growth | 6.9 | 34.5 | 30.9 | 23.1 | 15.4 | 4.3 | 10.8 | -12.5 |
| Real Import Growth | 14.6 | -12.5 | 59.1 | -18.9 | 73.4 | -8.8 | 15.9 | -9.6 |
| Current A/C Deficit Without Grants | -26.7 | -16.3 | -25.0 | -19.3 | -21.7 | -16.4 | -19.3 | -4.5 |
| Current A/C Deficit With Grants | -11.3 | 1.0 | -9.7 | -4.8 | -1.3 | -5.9 | -7.1 | -4.3 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Gross Official Reserves (Months of Imports) | 1.1 | 1.2 | 1.5 | 0.7 | 1.5 | 1.0 | 1.1 | |
| Real Effective Exchange Rate Index(1998=100) | -5.7 | -3.0 | 20.4 | 9.5 | -6.0 | -3.3 | -- | -- |

*Source:* IMF Article IV Agreements; World Bank 2015.

**Figure G.1. Example of Annual Strategic Plan**



| Strategic Outcome target 5:4: 100% policy directions, guidance and support provided by June 2016 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Output/service | Performance Indicator | Quarter 1 | | Quarter 2 | | Quarter 3 | | Quarter 4 | |
| | | Target | Funding | Target | Funding | Target | Funding | Target | Funding |
| 1 Ten (10) Administrative Circulars prepared. | Number of Administrative Circulars prepared | Two(2) Administrative circulars prepared | 200,000 | Two(2) Administrative circulars prepared | 200,000 | Three(3) Administrative circulars prepared | 300,000 | Three (3) Administrative circulars prepared | 300,000 |
| 2. Two (2) Conference / workshop Papers on HR Best practices presented | Number of Conference Papers recommendations implemented. | 1 Conference Paper recommendations implemented | 5,000,000 | 1 Conference Paper recommendations implemented | 5,000,000 | | | 1 Conference Papers recommendations implemented | 5,100,000 |
| Three (3) payments of annual subscription to International organisations honoured. | Number of organisations paid | | | Three (3) payments of annual subscription to International organisatio | 11,664,000 | | | | |

**Figure G.2. Example of Performance Management as per Work Plan**

achievement of Objectives and/or Outputs Agreed in the Workplan

| No | Objectives Actually Achieved during Performance Cycle | Score | Comments by Assessor |
|---|---|---|---|
| 1 | Management of correspondences such as Typing Memos, Letters etc. | 9 | |
| 2 | Booking for accommodation and travel arrangements both internal and external | 8 | |
| 3 | Office Management such filing, maintenance of office equipment | 7 | Task Shared with the registry staff. |
| 4 | Supporting in the consolidating of training plans from Ministries/Departments/ Government Agencies | 7 | Task shared with the PO |
| 5 | Organising of Departmental and Scholarship Selection Committee Meetings | 8 | |
| 6 | Supervising the installation of anti-virus | 8 | |
| | TOTAL SCORE OUT OF 60 | 47 | |

1. Performance Factors (10 factors)

| No | Performance Factors | ✓ | Score (1-4) | Comments by Assessor |
|---|---|---|---|---|
| 1 | Knowledge of duties | ✓ | 4 | |
| 2 | Initiative | ✓ | 3 | Network with officials so stationery is available. |
| 3 | Judgement | | | |
| 4 | Capacity for accepting responsibility | ✓ | 3 | |
| 5 | Control of resources (Materials and Transport) | ✓ | 3 | |
| 6 | Control of resources (Financial, Stores, MPSR & Procedures) | ✓ | 3 | Control on the types of information of documents to released to Clients |
| 7 | Organization of work | ✓ | 4 | |
| 8 | Relations with others | ✓ | 3 | |
| 9 | Relations with the public | ✓ | 3 | |
| 10 | Output/Quality | ✓ | 3 | |
| 11 | Strategic thinking | | | |
| 12 | Innovation | | | |
| 13 | Leadership | | | |
| 14 | Management of subordinate staff | ✓ | 2 | Need improvement |
| | TOTAL SCORE OUT OF 40 | | 31 | |

FINAL SCORE OUT OF 100 : Total Score for (1) + Total Score for (2) = $\boxed{78}$

PART C
OVERALL RATING AND COMMENTS

| PERFORMANCE LEVEL | POINTS | DEFINITION | ACHIEVED RATING (Slot aggregate score to appropriate level) |
|---|---|---|---|
| Exceptional | 85-100 | Exceptional level of performance distinguished by all job accountabilities being developed to fullest potential. | |
| High | 65-84 | Agreed objectives are exceeded and performance is intelligently integrated with total activities of the wider group or division/section. | 78 ✓ |
| Acceptable | 50-64 | Meets accountability requirements and agreed targets. | |

# Appendix H. List of Persons Met

Richard Record, Senior Economist, World Bank.

Khuram Farooq, Senior Financial Management Specialist, World Bank.

Daniel Domelevo, Senior Financial Management Specialist, World Bank

Geoffrey Oestreicher, Resident Representative, IMF

Guy Anderson, PFM Advisor, EATEC IMF

Chimwemwe Banda, Deputy Accountant, Ministry of Finance, Economic Planning, and Development

Patrick Machika, ICT Director, Ministry of Finance, Economic Planning, and Development

Frank Mangwaya, FMIS Manager, Ministry of Finance, Economic Planning, and Development

Mona Mhango, Fm Specialist, Ministry of Finance, Economic Planning, and Development

Lawrence AC Kampanje, Assistant Auditor General, National Audit Office

Jeane J. Munyenyembe, Director of Finance, Office of the President and Cabinet

Twaibu Ali, Permanent Secretary, Administration, Ministry of Finance, Economic Planning and Development

Nations S. Msowoya, Assistant Director, Administration, Ministry of Finance, Economic Planning and Development

Agnes Mengezi, Assistant Director, Ministry of Finance, Economic Planning, and Development

Arnold Chirwa, Deputy Director, Office of Director of Public Procurement.

Malumbo Kausi, Chief Accountant, Ministry of Health

Ismail Magra, Head of Training, Training Section, Department of Human Resources.

Dr. Luanga, Director, Department of Human Resources.

Dr. Chriwa, Deputy Director, HRMIS, Department of Human Resources

Hawa Mthaphari, Assistant Accountant, Accounts Department of Human Resources.

Rhoda Mfune, Senior Assistant Account, Accounts Department of Human Resources.

W. Mtumbuka, Accountant, Accounts, Department of Human Resources.

Joshua Sowoya, Director, Internal Audit Department

Josh Lievege Nthenegive, Chief Internal Auditor, Internal Audit Department.

Lusungu Sichali, Accountant, Ministry of Education

Victor Steenbergen, Budget Officer/ODI Fellow, Ministry of Education.

Yuen Chikando, Financial Analyst, USAID

Francis Mwapasa, Financial Analyst, USAID

Karen B. Fall, Controller, USIAD

Chipo Msowoya, Program Manager, EU

Chance, EU