

# Malawi: Strengthening public financial and economic management

Key stakeholders in the public finance system work more efficiently and more transparently, and are accountable. Public funds are used more effectively to reduce poverty.

## The challenge

Malawi is one of the poorest countries in the world. Around 65 per cent of the population lives below the poverty line. The population has little trust in the government's efforts to improve this situation. Repeated corruption scandals reveal severe shortcomings in the use of public funds. If resources are not put to correct and proper use, it will be difficult for Malawi to achieve sustainable development as foreseen in the Malawi Growth and Development Strategy II.

## Our approach

The project is improving general conditions in the public finance system and in the internal and external monitoring of expenditure. This is to enable the government to successfully implement its national poverty reduction strategy.

The lead executing agency is the Ministry of Finance, Economic Planning and Development, which plays a key role in the country's budgetary and financial policy. Other important partners are the Office of the President, the National Audit Office and the Central Internal Audit Unit. These supervisory bodies of the Malawian Government are being supported through technical and organisational consultancy.

The project is also advising the Malawian Government on how to improve the legal framework in relation, for example, to external auditing. The auditing authorities are to be given the necessary freedom to exercise their duties independently. In addition, the project is helping partners to network with one another more effectively, and is creating forums for



Project name	Strengthening public financial and economic management
Commissioned by	Federal Ministry of Economic Cooperation and Development (BMZ)
Implementing organisation	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
Project region	Malawi
Lead executing agency	Ministry of Finance, Economic Planning and Development
Duration	01.07.2012 – 31.03.2018
Financial volume	€ 15.55 Mio. EUR (€ 0.5 Mio. by DFID)

regular exchange. These will ensure that important information is made available in good time to all the institutions involved, and that forecasts – for example of tax revenue – can be used more systematically.

Cooperation with the Malawi Revenue Authority focuses on ensuring that the government is accountable to taxpayers and new domestic revenue streams are developed. Furthermore, the project is collaborating with universities, media and civil society to inform the population about the principles of good governance, particularly with regard to the transparent use of public funds and natural resources (see the Extractive Industries Transparency Initiative).



Left (top and bottom): Employees of different public finance institutions exchange ideas and challenges. Inter-institutional knowledge transfer, through regular meetings or electronic formats ensures more effective implementation of new processes and reforms. © GIZ Jan Dannheisig

Right: A government employee is supported using the Integrated Financial Management System (IFMIS), Malawi's bookkeeping system.



Dr. Rolf Drescher  
Team Leader  
Rolf.Drescher@giz.de

*Right: Malawian's are highly dependent on Lake Malawi for food and tourism. Intransparent contracts for oil exploration on the lake could endanger their livelihood. © Jan Dannheisig, Rachel Etter-Phoya*

## Results in figures ...

A review of the processes used with the Integrated Financial Management System (IFMIS) electronic payment system indicated clear weaknesses. These are currently being addressed and eradicated. Embezzlement as it was done during the large-scale *Cashgate* corruption scandal, in which vulnerabilities of IFMIS were exploited to steal public funds systematically, will no longer be possible. Furthermore, the Malawian Government is being supported to procure a new IFMIS that is more secure, stable and more adapted to the changing requirements provided by the improved external and internal controls. Additionally, the Government's cash management has greatly improved, as a dedicated cash management unit has been established and monthly cash flow forecasts are now produced. The Government's bank accounts are now also fully reconciled and auto-reconciliation is in progress.

The project supported the connection of 13 Ministries, Departments, and Agencies to IFMIS. More than 90% of all transactions that take place with public funds are being done through IFMIS, thus making them faster and easier to track and audit. More than 100 Government accounting officers received IFMIS-related trainings.

Through our cooperation with media and different civil society organisations, 26 journalists have been trained in methods of investigative journalism, increasing the demand for accountability. 300 local government employees, traditional authorities and members of civil society were trained in transparent budgeting.

With the support of the project, a Transfer Pricing legislation was drafted and passed in Parliament, making it harder for foreign companies to avoid paying taxes in Malawi, thus improving domestic resource mobilization. The project supported the Ministry of Finance in using methods of macroeconomic modelling for its revenue forecasting.

## ... and in stories

Reforming a public finance management system is no small endeavor. To strengthen the system in a way that citizens regain trust in its Government and to curb corruption, one has to look at many different angles and approach the weaknesses holistically and systematically. Accordingly, the project has integrated advisors in all key institutions of the Malawian public finance management system, from the tax authority to the Government Contract Unit. By supporting key institutions in terms of organizational development and with regard to human capacity, accountability mechanisms can take hold and financial transactions within the different ministries, departments and agencies of the state become more transparent and controlled.

The Central Internal Audit Unit (CIAU) for example was recently established in order to support internal audits within the Government's institutions. The auditors working in this unit, with support of the project, create audit reports, describing whether a specific financial transaction or process was done according to laws and regulations or not. Over the course of the project's support CIAU, through improved auditing, has identified numerous instances of mishandling of public resources.

Budget cycles and audits often include fairly complicated processes. In order for accountability within these processes to take hold, not only the state actors need to understand the technicalities, but also the media and civil society, whose role it is to check the Government if they are conducting themselves according to Malawi's laws and regulations. With this in mind the project has supported journalists and civil society organisations in methods of investigation and in understanding the intricacies of proper and transparent public finance management.

Published by: Deutsche Gesellschaft für  
Internationale Zusammenarbeit (GIZ) GmbH  
Registered office: Dag-Hammarskjöld-Weg 1-5  
65760 Eschborn  
Germany  
T: +49 61 96 -11 475  
F: +49 61 96 79-11 1 15  
Author: Jan Dannheisig  
Layout: GIZ  
As at: October 2017  
GIZ is responsible for the content of this publication.

In cooperation with: Ministry of Finance, Economic Planning and Development (MoFEPD)  
On behalf of: German Federal Ministry for Economic Cooperation and Development (BMZ)

Addresses of the  
BMZ offices: BMZ Bonn  
Dahlmannstraße 4  
53113 Bonn, Germany  
T: +49 0 228 99 535-0  
BMZ, Berlin  
10963 Berlin,  
Germany  
T: +49 30 18 535-0

poststelle@bmz.bund.de  
www.bmz.de