

Strengthening Public Financial and Economic Management in Malawi (PFEM)

Context

Ever since the ‘cashgate’ scandal, a massive looting of public money discovered in October 2013, the deficiencies of the Malawian public financial management system have come to full attention of citizens, policy-makers, and development partners. All concerned Malawian institutions will have to make an effort to increase accountability for the use of public finances and regain the trust of citizens. The withdrawal of budget support by development partners also has underscored the need to better mobilise domestic revenues.

In line with these demands, the German Ministry of Economic Cooperation and Development through GIZ increased the technical support in the area of public finance and in June 2014 entered into a new phase of the Project ‘Strengthening Public Financial and Economic Management’.

Objective

PFEM institutions (Ministry of Finance and Economic Planning, National Audit Office, Office of the President and Cabinet) are more accountable, effective and transparent.

Approach

The GIZ Project ‘Strengthening Public Financial and Economic Management (PFEM)’ supports the Government of Malawi (GoM) in implementing public finance reforms to achieve increased accountability and to regain the trust of the citizens after the ‘cashgate’ scandal. The Integrated Financial Management System (IFMIS) is being stabilized and strengthened; internal auditors are being supported in their efforts at ensuring effective audits

Partners	Ministry of Finance, National Audit Office, Malawi Revenue Authority, Office of the President and Cabinet, Civil Society Organisations
Commissioned by	German Federal Ministry for Economic Cooperation and Development (BMZ)
Overall budget	EUR 14.05 million
Overall project term	July 2012 – June 2017

in their respective Ministries, Departments and Agencies; and external audit is being strengthened by striving for a better functioning of the institution in line with international standards for Supreme Audit Institutions, including increased quality and coverage of audits. On the demand side for accountability, with the support of the programme, Ministry of Finance and Malawi Revenue Authority are undertaking efforts to broaden the tax-base and to strengthen internal integrity. The civil society is being engaged to enhance their information and voice their needs and demands with regard to an effective and efficient use of taxpayers’ money. In order to improve the link between planning and budgeting, forecasting, contract management and monitoring and evaluation are target areas for program interventions. Increasing civil society’s knowledge about public finance issues as well as their active participation, for instance in the Extractive Industry Transparency Initiative, is another area of work in the project.

The PFEM Project, commissioned by the Federal Ministry for Economic Cooperation and Development (BMZ) from Germany, is working together with several Partners in the field of Public Financial Management. While the main Partner for the Project is the Ministry of Finance, the Project is actively engaging with the Central Internal Audit Unit, the National Audit Office, the Malawi Revenue Authority, Office of President and Cabinet, National Statistics Office, amongst others.



More accountable, transparent and efficient PFEM institutions for the use of the public money in the benefit of the people and the development of the country.



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GIZ's capacity development approach is to strengthen the Partners' capacity to steer and implement reform processes by providing technical expertise.

The PFEM Project has a team of long-term Technical Advisors, who are providing assistance and advice to their respective counterparts at

- the Accountant General, supporting the strengthening of the IFMIS Systems and of the Cash Management;
- the PFEM Reform Unit in the Ministry of Finance, which is responsible for the reforming of the PFEM Sector as a whole;
- the Tax Division in the Ministry of Finance, supporting revisions of the Tax Act and supporting the Tax Divisions with their Reform Agenda;
- the Malawi Revenue Authority in Blantyre, supporting the reform agenda in the effort of broadening the tax base;
- the National Audit Office (NAO), supporting NAO in the aim to fulfil its constitutional mandate as Supreme Audit Institution;
- the Central Internal Audit Unit, assisting with the strengthening of the internal audit function, including legal framework, policies, manuals, and audit practices;
- Citizens for Justice, a local NGO that works towards transparency of the budget and places special emphasis on the transparency in the mining sector.

The PFEM Project hence directly works with the Partners on a day-to-day-basis as a means of building capacity by on-the-job training, aiming at maximum sustainability. For example, in the Ministry of Finance the Advisor supports the Department of the Accountant General in enhancing IFMIS functionalities, such as bank reconciliation and bank account management. In order to make the flow of funds from Treasury to Sector Ministries more in line with their actual needs, cash management procedures and formats are being strengthened by day-to-day on the job coaching.

Partners such as the Division of Economic Planning and Development within the Ministry of Finance, the National Statistical Office, or the University of Malawi which offers courses related to Public Financial Management, are also supported on a regular basis.

Success factors

While the current PFEM Project phase has only started in July 2014, a lot of impact has been achieved in the previous project phases.

A business process review of the IFMIS has revealed the areas in which further work needs to be undertaken for future sound public financial management. The ability of the Central Internal Audit Unit to guide and monitor the internal auditors has improved. An impact study in the health sector has led to a re-prioritisation of public expenditure. Involvement of universities in teaching macro-economic modelling has enabled Government to sustainably improve its forecasting abilities. The support to the National Statistics Office ensured that more and better macro-economic data is now available as a basis for policy decisions and the State budget. On a decentralised level, the remaining seven Districts have joined an electronic payment system that tracks all expenses. A reform programme was elaborated. Yet, recent pilot audits by the internal auditors show that there is still a long way to go until the decentral IFMIS will deliver to its full potential, ensuring transparent and accountable use of taxpayers' money.

The strong presence and hence the close connection that the PFEM Project has with the Partners helps GIZ to react flexibly towards the needs of the Partners and to assist in both meeting short-term challenges as well as addressing longer term skills gaps in line with GoM vision of strengthening public financial management in Malawi.

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