IFMIS:  
A CASE FOR MALAWI

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1.1 PFM

Objective of the presentation is to demonstrate how Malawi is implementing Best Practices in PFM and gains the country has realised in tackling this requirement.

Two areas will be covered namely, Budget including the MTEF, and the Integrated Financial Management Information System (IFMIS) respectively.

Functions of the oversight institutions, the Auditor General and the Internal Audit Unit though integral part of PFM will receive limited treatment.

The Anti-Corruption Bureau, Human Resource Management Information System (HRMIS), and Directorate of Public Procurement are also beyond the scope of this paper.
1.2 Country Profile

Malawi has an area of 119,140 square Kilometres of which 20 percent is water.

The population is about 12 million and nearly half the population is under 15 years of age and less than 3 per cent is over 65 years of age.

It is a small open economy heavily dependent on agriculture which accounts for 40 per cent of the country’s GDP.

Nearly 85 percent of the population lives in rural areas.

GDP per capital of US$149 (HDR 2006)
2 The Legal Framework

2.1 The Constitution (1994)

The legal basis for management and control of public finances.

2.2 Public Finance Management Act (2003)

The Public Finance Management Act is the main piece of legislation in financial management.

2.3 Public Procurement Act (2003)

The Act empowers the Director of Public Procurement to oversee and regulate public procurement in the public sector.

2.4 Public Audit Act (2003)

The Act empowers the Auditor General to perform audits in any organization or programme of activities which are receiving funding in whole or in part from the Consolidated Fund or public moneys.
3 Budget formulation and the MTEF

3.1 The Budget Calendar

In August 2005, the Government of Malawi reviewed its Budget Calendar to ensure that activities leading to budget formulation and execution are in line with the Public Finance Management Act, existing policies, and conform to international best practices.

3.3 Development of the MTEF

In 1995 the MTEF was introduced in Malawi as a central tool for public expenditure management in the budget process.

In 1996/97, the MTEF was rolled to twelve ministries covering all ministries and departments by 1997/98.

In 1999 it became clear that the MTEF had not transformed the budget into an effective allocative and management tool.
3.3 Development of the MTEF Cont’d

Factors that led to the failure of the MTEF were:

a) The initiative did not receive the support it required and lacked ownership especially at sector level.

b) Continuing extra-budgetary activities which undermined the credibility of the budget.

c) Political support was limited. Consequently, there was little influence on resource allocation and it encountered political resistance.

d) MTEF was perceived to be donor driven and therefore lacked home grown champion to drive the programme.

e) Donor inflows were unpredictable mainly due to conditionalities.

f) Limited knowledge in costing

In 2000 Government conducted a comprehensive review of the MTEF which concluded that the budget was not operating as an authoritative and credible fiscal management tool.
Presently MTEF is under review in tandem with customisation of Active Planner

3.4 **Budget execution – Cash Budgeting**
Two approaches deserve particular mention.

**a) Cash Rationing**

In 1995, Government introduced cash rationing in order to restrain government from over spending.

The cash rationing system was anchored on the principle that government could only spend what was collected. In theory, if cash was not available services should stop. In practice however, it was business as usual as services continued to be rendered regardless of the availability of resources.

**b) Transfer of Bank Accounts to Commercial Banks**

In April 1995, all government bank accounts were transferred to commercial banks with instructions to the commercial banks not to allow overdrafts and to bounce cheques whenever a bank did not have adequate bank balances.
5 THE INTEGRATED FINANCIAL MANAGEMENT INFORMATION SYSTEM (IFMIS PHASE I)

5.1 Introduction


The project was financed by the World Bank.

Activities included:

- a study to review the existing system,
- designing and developing an Integrated Financial Management Systems (IFMIS), procurement of the software and the hardware, customization of the software,
- and implementation of the system in five pilot ministries, and thereafter rollout the system to all ministries and departments.

A detailed review of the chart of accounts. Customization of the system commenced in April 1996.
5.2 Objectives of the IFMIS

a) To improve and strengthen public expenditure management and enable Government to provide timely and reliable budget execution data

b) To integrate all accounting modules including the budget module

c) To provide the Government of Malawi with an upgraded and state of the art computerized accounting system

d) To ensure that other sub systems are properly interfaced with IFMIS

e) To enable Government control expenditure and to reduce domestic debt and arrears

f) To bring about fiscal discipline.

g) To assist in the production of timely and reliable financial reports
Project Management
Project management was weak as evidenced by the following:

a) A core team based at the AGD was constituted at the time of commencement of implementation of the project. Over time, this core team was disbanded

b) The face of the supplier changed (the project had three distinct suppliers)

c) There was no project implementation plan for IFMIS and often there were disagreements among members of the project team on how project implementation should proceed.

d) Proper reporting arrangements were not put in place.

e) Improper handovers between project managers, and between suppliers.

f) There was no training program for the IFMIS project team.

Like the MTEF, the IFMIS project experienced implementation difficulties
6.0 EPICOR Based IFMIS (IFMIS Phase Two)

The Peer Review of November 2004, identified 21 issues that needed to be resolved if the system was to function properly. The issues could not be resolved.

6.1 The Project

In May 2005, the Government decided to adopt and implement an EPICOR based IFMIS following the study tour to Tanzania in March 2005.

In June 2005 a Memorandum of Understanding was signed between the Government of Malawi and the Government United Republic of Tanzania to enable the Government of Malawi benefit more from exchange visits.

In July 2005, The Government of Malawi signed a Contract with Soft –Tech Consultants to supply and assist in the implementation of IFMIS in Malawi

Under EPICOR based IFMIS, Government decided to streamline its payment system by moving away from a Decentralized to a Central Payment System (CPS).
6.1 The Project Cont’d

Five Bank Accounts were opened in the Reserve Bank of Malawi and all operating bank accounts in the Commercial Banks were closed except accounts for donor funded projects, Treasury Funds and Local Assemblies.

A main Central Payment Office (CPO) was established at the Accountant General Department and mini CPOs in the regions.

The retail functions are being undertaken by National Bank of Malawi.

6.2.1 Implementation Status

Implementation started in November 2005 with five sites being online namely, Education, Agriculture, Health, Treasury and the Accountant General’s Department. During the month of December 2005, OPC was also connected to the central server in the Accountant General’s Department.

By the end of July 2006, IFMIS was rolled out to all ministries and departments except regions.
6.3 THE CHART OF ACCOUNTS

The new chart of accounts harmonizes below the line and above the line structures. It incorporates the requirements of the MTEF and the Malawi Growth and Development Strategies.

Substantially, it is classified into four segments namely:

Segment 1: Responsibility/Accountability

Segment 2: Performance related segment/ MTEF

Segment 3: Geographical Analysis

Segment 4: Accounts Segment which includes GFS and normal accounting classification (item/sub item)
7.0 ACHIEVEMENTS TO DATE

i. **Fiscal Discipline**: arrears have been reduced and extra-budgetary expenditure is not being entertained

ii. Government is becoming more accountable to the National Assembly and the general public because financial reports are being produced on time and transparently.

iii. In response to the Malawi Growth and Development Strategy (MGDS) which represents a policy shift from a predominantly importing and consuming economy to a predominantly manufacturing and exporting economy, the MGDS are being incorporated in the budget through the chart of accounts where a field for output based reporting has been provided.
7.0 ACHIEVEMENTS TO DATE Cont’d


v. Following the introduction of Central Payment System (CPS), the theft, fraudulent practices have been minimized

vi. Realignment of Expenditure to Budget provision as no expenditure can be processed in the absence of a budgetary provision.

vii. No backlog in bank reconciliation.

viii. Sourcing of goods and services is from pre-qualified suppliers only thereby eliminating brief case suppliers.
8.0 CHALLENGES

a) There is no interface with other subsystems except HRMIS.

b) The problem of power black outs has been overcome by the installation of generators but it is an additional cost in terms of fuel and maintenance.

c) Government Wide Area Network (GWAN) has not covered all areas.

d) A disaster recovery site is yet to be put in place (April/May 2007)

e) Financial support from the donor community is limited.
9.0 Lessons Learnt
The following is a summary of lessons learnt to date

a) For IFMIS to be successfully implemented, there should be strong political will (the President, Cabinet and a very strong Minister of Finance) that is willing to reform its financial management activities.

b) Staff in the Department of Accountant General should be given the challenge to implement the project.

c) There should be strong and dedicated Project Team. The team should be motivated and well trained.

d) Wherever possible, Governments own resources should also be used.

e) Streamlining bank accounts to single Treasury Payment Account or reduced number of Treasury Payment Accounts in the RBM reinforces financial and fiscal disciplined.

f) Pay particular attention to the media. Take note of constructive comments and ignore those which derail the project.
10.0 Way Forward and Next Steps

- To roll out IFMIS to all local authorities from March 2008.
- To quickly install a Disaster Recovery Site at least before June 2008
- Implementation of the Active Planner (Budget Module) is scheduled for 2007/08.
- Linking Planning, budgeting, Accounting and Reporting, and Output Monitoring. A study on this initiative was carried in 2005 and some of the recommendations are in the process of being implemented.
- To reactivate and implement the Asset Management module in the Epicor

Thank you