

TRACKING POVERTY-REDUCING SPENDING IN HIPC'S:
COUNTRY ASSESSMENT AND ACTION PLAN
MALAWI

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ABBREVIATIONS AND ACRONYMS

AAP	Assessment and Action Plan
ADMARC	Agricultural Development Marketing and Research Corporation
AGD	Accountant General's Department
CABS	Common Approach to Budget Support
CCA	Credit Ceiling Authority
CCS	Commitment Control System
DAD	Debt and Aid Management Department
DP	Data Processing
ESCOM	Electric Supply Commission
GFS	Government Finance Statistics
GOM	Government of Malawi
HIPC	Heavily-Indebted Poor Country
IDA	International Development Association
IFMIS	Integrated Financial Management Information System
MOFEP	Ministry of Finance and Economic Planning
MRA	Malawi Revenue Authority
MTEF	Medium-Term Expenditure Framework
NRA	National Road Authority
ORT	Other Recurrent Transactions
PEM	Public Expenditure Management
PPEs	Priority Poverty Expenditures
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
RBM	Reserve Bank of Malawi
ROSC	Report on the Observance of Standards and Codes
TA	Technical Assistance

EXECUTIVE SUMMARY

The detailed nature of Malawi's expenditure classification system allows a sound basis for the determination and tracking of poverty-reducing public expenditures. The task remains to finalize the categorization of all expenditures as to whether they provide direct benefits to poverty reduction or otherwise. The PRSP (Poverty Reduction Strategy Paper) process appears likely to see this achieved with all spending categorized according to its relationship with poverty reduction.

Unfortunately, the number of remaining weaknesses in the public expenditure management (PEM) system means that there will be reliability problems with the expenditure data being produced. Problems remain in budget preparation, execution, and reporting. In all, Malawi achieves seven of the 15 PEM benchmarks developed by the Fund and the Bank. However, the reform efforts already underway suggest that, in the space of a few years, Malawi could be achieving close to all the benchmarks. There are at least eight providers of technical assistance (TA) active in the PEM area in Malawi. The ongoing participation of these donors means that Malawi has no significant gaps in the TA received relative to its Action Plan for strengthening PEM.

The HIPC initiative is concerned to see the total composition of relevant country budgets altered to see a greater focus on poverty reduction. While the focus of reform should be on strengthening core budgetary systems, there are a number of steps which should be taken specifically to improve the tracking of poverty-reducing expenditures, in particular, in depicting poverty-reducing expenditures in budget documents.

Line ministries should be required to provide regular reports on progress made with implementing priority poverty expenditures (PPEs). Such reporting should be relatively low cost, and be submitted along with the regular monthly expenditure monitoring reports.

The Ministry of Finance and Economic Planning (MOFEP) should produce a consolidated monthly report, tracking all poverty-reducing expenditures, and provide this report to stakeholders such as parliament, civil society, and creditors.

I. INTRODUCTION

An FAD mission visited Lilongwe from September 5-21, 2001, to prepare a draft fiscal module of the Report on the Observance of Standards and Codes (ROSC), and to work with the local office of the World Bank and the Malawi authorities to prepare a draft Assessment and Action Plan (AAP) for reliably tracking poverty-reducing expenditures¹.

This draft AAP has the following structure:

- **An update of the desk assessment² of Malawi's capacity to track poverty-reducing expenditures.** A few revisions to reflect accurately the current position were identified, and a revised assessment was agreed with the authorities. This is shown in Table 1.
- **A description and set of actions concerning the plans to track poverty-reducing expenditures.**
- **A draft Action Plan to upgrade public expenditure management to support the capacity to track.** This summarizes the ongoing and planned projects that will have an impact over the short to medium term and should assist in increasing the reliability of the tracking being carried out in Malawi. It includes a list of the main ongoing and planned TA from the Bank, the Fund, and from all other relevant bodies, including bilateral donors. This is shown in Table 4. The resulting Action Plan—pulling together the actions of donors and the reforms proposed by the authorities—is summarized in Table 5.

II. UPDATE OF DESK ASSESSMENT

A. Involvement of Different Levels of Government

To date, the level of involvement of local government has been low. Indeed, the Ministry of Local Government estimates that less than 1 percent of general government expenditure had been occurring in the district assemblies. But against a background of decentralization and democratization of local government, Malawi plans to increase the participation of lower levels of government in delivering poverty-related spending. Notwithstanding, this assessment note deals with central government spending only.

¹ The FAD mission comprised Mr. Jim Brumby (Head, Technical Assistance Advisor) and Mr. Mark Ahern (Resident Budget Advisor, Kenya). The World Bank was represented by Mr. Taziona Chaponda (Country Office Economist) and the input of the authorities was co-ordinated through the Director of the Budget, Mr. Reckford Kampanje. The draft ROSC is available as a separate document.

² The desk assessment of Malawi, along with 24 other HIPC's, provided the foundation to the Board paper, "Tracking of Poverty-Reducing Spending in Heavily Indebted Poor Countries (HIPC's)," March 27, 2001.

The present policy is for 5 percent of all revenues to be passed directly to local government. This is being phased in over time and less than MK 250 million (about 1 percent of revenues) is being transferred in the current year.

Over the medium term, the financial information and reporting basis for the lower level of government is a significant issue.³ The plans are to require classification on the same basis as the central government. The Ministry of Local Government currently receives quarterly and monthly reports on the use of financial resources by the district assemblies, although compliance falls short of perfect.

B. Budget Formulation

Comprehensiveness

- *Benchmark: Budget reporting follows GFS definition of consolidated central government. **NOT MET***

Malawi's fiscal data represent a somewhat narrow definition of central government activities, and do not include any general government aspects of local government. Fiscal data presented for parliamentary approval and accounted for in the major fiscal aggregates cover only operations of the ministries and other statutory bodies. Subvented organizations,⁴ treasury funds and commercial parastatals (including the noncommercial component) are not covered in the budget, with the exception of at least some component of the noncommercial component of ADMARC activities.

- *Benchmark: Government activities are not funded through extrabudgetary sources to a significant degree. **MET***

Failure to meet this benchmark would indicate substantial extrabudgetary funding outside that captured in Benchmarks 1 and 4. User fees are generally shown in gross terms, with one exception being the National Road Authority (NRA) which is in charge of road maintenance. The road levy collected by the Petroleum Control Commission on oil products and earmarked to the NRA is reflected in overall fiscal reporting. Accordingly, it is accepted that this benchmark is currently being met.

³ Notwithstanding a requirement under S.149 of the constitution to produce consolidated annual accounts of the lower level of government, this has never happened.

⁴ Transfers to subvented agencies are included in the budget. There are 16 treasury funds, which operate with a mix of commercial and development objectives.

- *Benchmark: Budget outturn data are quite close to the original budget. **NOT MET***

There have been substantial differences in budget outturn relative to the original budget, whether one looks at function, administrative or economic object classifications or aggregate outturn. The trend is for systematic underbudgeting of recurrent expenditure. In the five years to 1999-2000, total recurrent expenditure exceeded budget by about 9.0 percent of GDP.⁵ In 2000-01, ORT revised was 14 percent above the original budget, with 60 per cent of the increase being accounted for by increased internal and external travel, which accounted for less than 20 percent of total ORT spending in the original budget.

Over the past few years, the budget outturns by vote have differed markedly from original budget estimates—in 1998-99, the average unweighted variation by vote (recurrent only) fell to 16 percent, but increased in 1999-00 to 37 percent, slightly above the average of 35 percent recorded between 1995-96 and 1997-98. Much of the most recent variation was due to a very substantial error on estimating debt charges.⁶ The 2000-01 revised estimates show an average 36 percent variation (absolute value) relative to the 2000-01 original estimates. Data by line item show that particularly large variations were in personal emoluments (revised much higher than original estimate), debt repayments (revised lower), internal and external travel (revised higher).

While it is clearly not possible to claim that the budget estimates provide a “very close” estimate of the outturn, it had appeared that a judgment of “quite close” could have been argued on the basis of the 1998-99 result. However, the poor estimates result in 1999-00 and the poor alignment between approved and revised in 2000-01 suggest that the appropriate response is “not close.”

- *Benchmark: Budget includes capital and current expenditure financed by donors. **NOT MET***

Donor-financed expenditures are inadequately captured. There are some very significant omissions relating to both capital and current expenditures, although coverage is generally increasing in the development budget. This change in coverage can make comparison across years more difficult. There remains some use of below-the-line expenditure accounts (especially in the development budget)—there is concern that these provide a nontransparent means of making off-budget transactions.

⁵ World Bank, *Malawi Public Expenditures – Issues and Options*, September 2001. Annex 1, p. 66.

⁶ The analysis looks at major categories of statutory spending as if they were votes.

Classification

- *Benchmark: Budget classified on an administrative, economic, and functional basis. MET*

Malawi has a very well developed classification system, involving administrative, economic object, and program classification. The classification basis extends past mapping broad administrative codes, and instead extends into the 20 digit, 11 field classification system being applied. This classification allows for detailed mapping to functions down through programs, if necessary, of which there are about 200.

- *Benchmark: Poverty-reducing expenditures clearly identified in the budget. MET*

The quality of the classification system clearly supports the reporting of poverty-related spending, and subsets of such spending if so desired. However, the capacity to generate high-quality expenditure data will depend on meeting all or nearly all benchmarks covered by this assessment. Following the mission, a draft PRSP was provided which identified broadly in Section 5.6 the poverty reducing expenditures by activity.⁷ Continued achievement of this benchmark will require a complete mapping of these poverty-reducing expenditures onto the detailed allocations contained in the estimates.

Multi-year projections

- *Benchmark: Multi-year expenditure projections integrated into the budget cycle. NOT MET*

Malawi has a very detailed MTEF, into which several line ministries have put a great deal of effort over a number of years. However, the accuracy of the forward estimates is weak and makes the level of detail provided largely irrelevant. The authorities have focused recently on improving the robustness of the MTEF through better aligning the cost information to the policies which drive the costs. This suggests that, within a relatively short period, there could be a sound platform upon which to generate a baseline of spending intentions.

The MOFEP has also signaled that it intends to use the 2002-03 MTEF projection as the starting point for the budget formulation process in 2002. Provided this is done in a transparent way, this benchmark may be met at that time.

⁷ Government of Malawi, *Malawi Poverty Reduction Strategy Paper*, October 2001. pp.122-124.

C. Budget Execution

Internal control

- *Benchmark: Small stock of expenditure arrears, little accumulation of arrears over the past year. **MET***

Malawi has operated with a system dominated by cash rationing. Over the past year or so, there have been substantial changes in the operation of the cash release and warrants system, with the introduction of the Credit Ceiling Authority (CCA) and the Commitment Control System (CCS). These control systems aim to support the use of indicative quarterly limits, backed by monthly releases. There have been some teething problems in the introduction of both systems. There is some question about the level of arrears, as there has been an incomplete reconciliation between the MOFEP data and line ministry data; however, it appears that following a major effort to liquidate aged arrears, outstanding arrears are considerably less than 1 percent of GDP. The most recent data from the Auditor General show arrears at about MK 380 million at end-June 2001 – this is of the order of one percent of total budget expenditure. As meeting this benchmark requires arrears at the level of ‘very few or none’, any substantial growth in arrears from this point would suggest failure to meet the benchmark.

- *Benchmark: Internal audit is active. **NOT MET***

Internal audit is currently the responsibility of line ministries, and remains relatively inert despite some recent efforts to activate it. Central agency support for the internal audit function is lacking, and some disagreement has occurred regarding the nature of the internal audit function, in particular as to whether it should develop with a focus on pre-audit. Capacity building is required prior to meeting this benchmark.

- *Benchmark: Tracking surveys supplement internal control. **MET***

MOFEP reports that Malawi has had two to three ministries each year engage in PETS, making a useful contribution to the transparency of whether resources reach the intended targets. Follow-up action to these studies could be made more explicit. The recently released PER recommends the use of this tool over the period 2001-03, although specific sectors were not identified.⁸

⁸ World Bank, pp.21-22.

Reconciliation

- *Benchmark: Fiscal and banking reconciliation undertaken routinely. **NOT MET***

This is a well-known problem in current financial management—some ministries have fallen far behind on routine reconciliation. A major catch-up exercise is currently underway, concentrating on the ministries which are part of the initial IFMIS pilot. The lack of regular reconciliation affects the quality of fiscal reporting. The past two years have shown the following monthly statistical discrepancy in the fiscal tables from the MOFEP:

	Average absolute monthly statistical adjustment (as percent of GDP)	Standard deviation of recorded adjustment
1999-00	0.73	0.54
2000-01	0.81	0.53

Such a high average discrepancy, and high standard deviation suggests that the fiscal table suffers from low reliability.

D. Budget Reporting

Reporting

- *Benchmark: Internal budget reports from line ministries received within four weeks of the end of the relevant period. **MET***

Ministries provide monthly monitoring reports on both a cash and commitments basis. These are due by the 10th day of the next month. While some ministries have been slow at achieving the desired level of compliance on these management reports, the MOFEP has taken a high public profile to enforce compliance. MOFEP officials estimate that about 75 percent of line ministries report within the ten days time limit, with the remaining ministries reporting within the month. Accordingly, this is assessed as meeting the benchmark reporting period of four weeks, but still a little short of achieving an “A.”

- *Benchmark: Functional classification is reflected in the in-year budget reports . **MET***

Ministries provide their detailed monthly reports broken down to program and subprogram level, thereby providing the information required for a functional presentation. However, the very substantial amount of detail in some of these returns (such as Ministry of Agriculture) suggests that they are not used actively for monitoring purposes. Higher level expenditure tracking reports are meant to be provided to the public within 45 days of the quarter to which they refer. This is not always achieved. These published reports do not present data on a functional basis, but the capacity exists to do so by employing a standard report already developed specifically for this purpose.

Final audited accounts

*Benchmark: Closure of the accounts occurs within two months after the end of the fiscal year. **NOT MET***

The Accountant General's Department (AGD) is responsible for maintaining the official accounting records of the government and the preparation of the annual financial statements for audit by the Auditor General. Each ministry maintains primary accounting records of revenue and expenditure. These records are used for the generation of consolidated monitoring reports of expenditure. The latter feed into the fiscal reports prepared by the MOFEP. There have been a number of problems with the smooth running of this system which have contributed to significant delays. The AGD is taking steps to quicken the procedures, especially through the removal of the requirement to furnish primary source accounting documentation to the center.

In the current year, a circular has been sent requiring the closure of the accounts by July 31; however, the reality is that routine adjustments will need to be made due to the backlog in reconciliations. This means that the planned closure at end-July will not be effective.

- *Benchmark: Audited accounts presented to the legislature within twelve months of the end of the fiscal year. **NOT MET***

The official accounting records are out-of-date and are not very useful for fiscal management purposes. This is so because, in addition to the delay in the production of the financial statements, the basic accounting compilation is also significantly out of date. The accounts for 1999-00 were to be finalized in preparation for audit by the end of September 2001. The accounts for 2000-01 are expected to be finalized by the end of December 2001. However, as timely handover of the accounts is yet to happen, Malawi is currently not meeting this benchmark

E. Budget Evaluation

Malawi has begun some work on the impact of social expenditures and this is feeding back through the policy development process. The 2000-01 budget reflects some findings from the Public Expenditure Review exercise conducted joint by the GOM and the IDA.

F. Comparison of 2000 Desk Assessment and Agreed Assessment

Three changes relative to the fifteen prescribed benchmarks have been recorded in moving to an agreed assessment in Malawi. In one case, a decrease in Malawi's assessed level has meant that Malawi no longer meets the relevant benchmark (No. 3). In another, it has been a matter of Malawi progressing from meeting the benchmark to exceeding the benchmark, while in the final case Malawi has improved but insufficiently to meet the benchmark. Table 1, which follows, details the benchmarks, the desk assessment, and the agreed assessment.

The changes from the desk assessment to the agreed assessment are as follows:

- **Malawi's classification system is sufficiently detailed at the programmatic and subprogrammatic level to support finely tuned functional classification, accordingly the assessment for Benchmark 5 was moved from a "B" to an "A."** This is a most important change, and suggests that Malawi's classification system is at the leading edge for HIPC countries, and clearly exceeds the benchmark standard.
- **The performance in having budget outturn close to the original budget appears to have fallen away over the past year, based on latest data.** This suggests that rather than being a "B" and therefore meeting the benchmark, Malawi's performance has fallen away to a "C" and no longer meets the benchmark. However, the Minister of Finance's commitment that there would be no extrabudgetary requests entertained except for emergencies may assist in seeing this rectified over the course of implementing the current budget.
- **There have been efforts to have the accounts closed in a more timely manner, through the issuing of a circular and various follow-up actions.** However, as there was evidence that the accounts had not been closed off in all cases as yet, the assessment yielded a "B," still short of the benchmark "A," but an improvement on the desk assessment's "C."

Overall, Malawi achieves 7 of the 15 benchmarks – this is close to the median value for HIPCs, and may prove to be the mode value once the assessments are finalized. There is a noticeable bunching of about half the HIPCs falling in the 7 to 8 range. However, it should be noted that performance against benchmarks can change through time. It is quite conceivable that with the implementation of initiatives already planned, Malawi could meet

another five benchmarks within a year or so.⁹ Such performance could place Malawi in the top bracket of HIPCs. However, there are also some benchmarks where slippage is possible, in particular related to the complete documentation of poverty-related spending in the budget (Benchmark 6), the level of arrears (Benchmark 8), and the production of budget tracking reports employing functional classification (Benchmark 13). Achievement of Benchmarks 1, 2, and 19 is likely to take more than one year, as these benchmarks require substantive change processes.

⁹ In particular, benchmarks 3, 7, 11, 14, and 15 constitute this set of 5 benchmarks.

Table 1. Malawi: Tracking Poverty-Related Spending in HIPC's

	ASSESSMENT		
	Benchmark	Desk Assessment	Agreed Assessment
COMPREHENSIVENESS			
1. Budget reporting follows GFS definition of consolidated general government.	A	C	C
2. Government activities are not funded through extrabudgetary sources to a significant degree.	A	A	A
3. Budget outturn data (levels, functional allocation) are quite close to that of the original budget.	B	B	C
4. Budget includes capital and current expenditure financed by donors.	A	B	B
CLASSIFICATION			
5. Budget classified on an administrative, economic, functional basis.	B	B	A
6. Poverty-related expenditure clearly identified in the budget.	A	A	A
PROJECTION			
7. Multi-year expenditure projections integrated into the budget cycle.	A	B	B
INTERNAL CONTROL			
8. Small stock of expenditure arrears; little accumulation of new arrears over past year.	A	A	A
9. Internal audit is active.	A	B	B
10. Tracking surveys supplement internal control.	B	A	A
RECONCILIATION			
11. Fiscal and banking reconciliation undertaken routinely.	A	B	B
REPORTING			
12. Internal budget reports from line ministries/Treasury received within four weeks of the end of the relevant period.	B	B	B
13. Functional classification is reflected in the in-year budget reports.	A	A	A
FINAL AUDITED ACCOUNTS			
14. Closure of the accounts occurs within two months after the end of the fiscal year.	A	C	B
15. Audited account presented to the legislature within 12 months of the end of the fiscal year.	B	C	C

Shading: Meets benchmark

III. TRACKING POVERTY-REDUCING EXPENDITURES

Public spending is one key instrument for poverty reduction in developing countries. To have a significant impact on poverty, however, it must be budgeted and disbursed for activities that help the poor expand their access to resources and their income-earning potential:

- From a development perspective, countries need to focus on the allocation and implementation of public expenditures as they formulate poverty reduction strategies.
- From a fiduciary perspective, citizens and governments in donor countries need assurance that resources they provide under the Enhanced Heavily-Indebted Poor Country (HIPC) Initiative are devoted to poverty reduction. When their assistance is provided through projects, donors often rely on donor-specified procurement and financial management regimes to provide such assurance. However, when assistance is provided in the form of general budget support, they rely on PEM systems in the recipient countries.
- From a governance perspective, citizens and parliaments in recipient countries need reassurance that debt reduction resources are being used for the purpose intended.

While a great deal of concentration and interest falls on the specific uses of the marginal addition to poverty-related expenditure created through HIPC debt relief, it is clear that **attempting to track *only* HIPC assistance would provide a partial perspective.** Further, such an approach runs the risk of undermining ongoing efforts to develop effective government budget systems, and may not ensure that poverty reduction targets are met.

Instead, *all* public spending on poverty reduction needs to be tracked, both to understand the impact of HIPC assistance and to encourage a shift toward more poverty-reducing public spending in the overall budget. The task of tracking government spending on poverty, in both the short and medium terms, is the country's responsibility. Each HIPC is involved in designing, executing, and monitoring its poverty-reduction strategy and related public expenditure program, with the support of the World Bank, IMF, and other creditors and donors. Such country ownership, critical for implementation of good policies and for promoting accountability and good governance, is built into the process of drafting PRSPs.

As a general proposition, countries with well-developed classification systems can rely on these systems to identify and track poverty-reducing expenditures. Where such systems are not yet comprehensive, and not able to be established in the short term, countries have established so-called "virtual" poverty funds as an interim approach. A virtual poverty fund is a limited classification designed to capture financial information specifically about poverty-reducing spending. Budget line items that are considered to contribute to poverty reduction are "tagged," and these together constitute the virtual fund. All tagged items are monitored by the ministry of finance as part of overall budget execution. By using the existing budget processes, this approach avoids the pitfalls of separate institutional

mechanisms (such as a legally and operationally distinct “poverty funds”) while enabling tracking of all poverty-related programs.

In Malawi’s case, the quality of the programmatic classification provides a very strong foundation from which to monitor poverty reducing expenditures—it suggests that tracking can build on core systems rather than requiring the substantive use of “bridging mechanisms.” Further, through the successful implementation of the reform projects planned or being considered, Malawi can move into the top category of assessment for HIPC PEM systems over a relatively short period. This suggests that while there may be some reliability problems in the short term, these should be addressed over the medium term.

The level of expenditure on poverty-reducing programs is a surrogate for capturing the effort being undertaken to address poverty. As a surrogate, it has some shortcomings. To the extent that increased expenditure is simply a higher price for existing output, the poverty reduction is likely to be negligible. Further, no judgment is being made about the effectiveness of the outputs that are being produced. Desirably, any expenditure tracking should be supported by output performance measurement and substantive intervention analysis and review based on the assessed outcomes from the expenditures being undertaken. These are not short-term issues and the mission did not consider them in recommending a tracking regime.

A. Key Issues to be Considered

As commented upon above, effective tracking of poverty-reducing expenditures needs to take a broad approach, rather than focusing solely on the marginal activities funded directly by HIPC debt relief. However, in discussion with the authorities and representatives of other stakeholders, it became clear that there were a number of issues surrounding the use of the HIPC debt relief.

The authors take the view that for the purposes of the Enhanced HIPC initiative, the interest in broad tracking dominates any interest in narrow tracking. In other words, if narrow tracking were being achieved but broad tracking was not being achieved, this would be a major problem and would be contrary to the objectives of the Enhanced HIPC initiative

In considering the quality of the tracking of poverty-reducing expenditure, the following key issues are considered:

- **Mobilization**—how is mobilization of the debt relief resources being managed?
- **Custodianship**—how are the resources, once mobilized, going to be protected?
- **Use**—how are the intended uses of the resources going to be determined?
- **Control**—how is the actual use of the resources going to be controlled to ensure that it complies with the intended uses?

- **Reporting**—how will the use of the resources be reported back to the custodians and to the wider community of interests?

The first two issues are relatively narrow, where the main focus will be on the resources specifically released through HIPC debt relief, whereas the last three issues require a wider focus, involving consideration of all poverty-reducing expenditures.

The mission met with officials in the Budget Division, the DAD, the AGD, the RBM, and several line ministries to pursue these issues. Each of these issues is discussed in turn.

Mobilization

Current situation

The mobilization of resources is currently managed by the DAD. The DAD maintains a database of each loan which includes a month-by-month estimate of the quantum of relief to be yielded, and its form, and its appropriate treatment in the fiscal tables. At the time of the mission, these estimates had not been updated since the end of June 2001. The information shown in Table 2 derives from information from the DAD and the RBM. In this case, the expected relief received (the original estimate, which included bilaterals) had not been updated to take account of more recent information on the timing of the debt relief received. The table shows how this original estimate of cashflows compares with the actual deposits received into the HIPC account. Issues relating to HIPC debt relief mobilization and accounting were also taken up with the DAD during the July mission of the African Department of the Fund.

Table 2. Expected and Actual Debt Relief Received
(In millions of U.S. dollars)

	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep. (to date)**
Original estimate*	2.6	5.0	2.0	1.1	1.2	1.4	1.9
Actual amount	0.9	0.5	3.7	2.4	4.9	1.5	1.4
Difference	(1.7)	(4.5)	1.7	1.3	3.7	0.1	(0.5)

Sources: DAD and RBM. *Includes bilaterals. **At the time of the FAD mission.

Issues and actions

The mobilization of debt relief carries several risks which can influence the ability of the country to carry out its PRSP in the way planned. These risks principally relate to the *quantum and timing of the actual relief flow*. Quantum can vary from initial estimate because some countries, such as the United Kingdom, have decided to provide more relief than current agreements provide for. The timing can also be affected as countries which provide relief through reimbursement provide or do not provide relief consistent with their proposed disbursement schedule. These uncertainties can in turn have a material influence on managing the consolidated budget.

The authors think it is desirable that a database of month by month expected and actual cashflows relating to principal and interest relief should be maintained by the DAD, and continually updated to reflect new information to hand. These cashflow tables should be provided to the custodian of the account (see below). Proposed HIPC accounting rules developed with the AFR should be followed.

Custodianship

Current situation

The HIPC debt relief initiative has resulted in the establishment of an account (No. 300-343-2191-05) at the RBM. Records of deposits and withdrawals and balances relating to the account are held by the RBM.¹⁰ The latest available information at the time of the FAD mission from the RBM showed a balance of a little over \$10.1 million, reflecting deposits of \$15.3 million and withdrawals of \$5.2 million—no withdrawals had been made this fiscal year.

The DAD provides payment advice to the RBM, which executes the payment to the creditor and the payment to the HIPC account. The DAD maintains a record of this advice through a register of mail. The RBM receives separate instruction from the Treasury (Budget Division) to make transfers from the HIPC account to the MG No. 1 account to support PPEs. At the time of the FAD mission, neither the DAD, the Treasury, nor the AGD maintain formal accounting records such as a cash-book relating to the HIPC account.

Issues and actions

At the time of the mission, there was inadequate assurance about the custodianship of the HIPC account. There was no “owner” of the account, and MOFEP’s information about the balance of the account relied solely on the RBM. In some cases, information concerning

¹⁰ The balances in the HIPC account are separate from the MG NO. 1 account and are not pooled for cash management purposes. The HIPC account is non-interest bearing.

flows did not pass through the DAD—for instance, as the RBM acts as the debtor for IMF loans, relief flows from the IMF to the RBM directly, and is then transferred into the HIPC account.

The arrangements were considered inadequate. There was evidence of mispostings in the RBM’s management of the HIPC account. While these were addressed during the mission, such basic accounting practice as reconciling accounting and banking records would usually bring to light these errors and have them addressed routinely.

Following the mission, it was decided to place the Budget Division in charge of the HIPC account. There are, however, several possibilities as to who should be the owner/controller of the account. As the Budget Division was charged with issuing instructions for the withdrawal of the funds from the HIPC account, and the related decisions regarding the level of the CCA to be applied, then outside of the AGD the Budget Division was perhaps the obvious place for this to reside. In many countries, this role is performed by the AGD as the government’s representative owner of all major bank accounts.

The authors believe that as the HIPC account is shifted from being a special account to being a subaccount of the MG No. 1 account, then it follows that responsibility for custodianship should also shift to the AGD, in keeping with standard practice.

Use

Current situation

HIPC resources

The authorities indicated that HIPC resources are being applied to a set of PPEs in the current year. The authorities said that these expenditures generally include an amount of resources from the GOM, which is supplemented by resources released through HIPC debt relief.

Table 3 presents information from the MOFEP on the PPEs so far agreed this year.¹¹ It shows that Malawi’s PPEs cover both recurrent and development expenditures. A total of MK 3,437 million is so far budgeted to be spent this fiscal year from HIPC relief, with MK 2,822 million being recurrent and MK 615 million being development.¹² To the end of August, MK 340 million had been disbursed in three PPEs—drugs, teaching and learning materials and dam rehabilitation. The MOFEP advised that while funding had been provided

¹¹ At September 20, 2001.

¹² The amounts in the table do not reconcile exactly with what the mission was told in meetings. The mission was advised that the Budget provided for nearly all PPEs so far agreed.

for most PPEs in the budget, cash releases were awaiting development of detailed work plans.

Poverty-related spending

The main driver for the determination of the poverty-reducing expenditure effort is the PRSP, which is currently being finalized through a consultative process. The authorities are developing “costings” associated with PRSP initiatives so that those charged with the task of PRSP development are informed of the fiscal consequences of their deliberations. In the development of these costings, the focus is (appropriately on) the total fiscal cost rather than apportioning separate HIPC and GOM elements.

Additional resources released through debt relief which have not yet been allocated for 2001-02 will be spent on priority projects to be identified in the PRSP. While it had appeared likely that such allocations would require a supplementary budget, this now appears unlikely. The current PRSP timetable indicates completion by the end of February 2002.

Table 3. Priority Poverty Expenditures

(In MK millions)

	2000/01	Recurrent 2001/02		Development 2001/02		2001/02	Percentage Increase	
	Allocation	GOM	HIPC	Total	GOM	HIPC		Allocation
Roads								
Rural feeder roads	570			876	265	1,141	100.2%	
Agriculture								
Agriculture extension	108	53	202	255	87	342	216.7%	
Targeted input program	160	160		160	0	160	0.0%	
Education								
Teaching and learning materials	370	188	457	645	53	698	88.6%	
Teacher training	89	108	285	393	0	393	341.6%	
Teachers salaries	1,422	1,493	434	1,927	0	1,927	35.5%	
Health								
Drugs	587	834	547	1,381	110	1,491	154.0%	
Health worker training	35	70	82	152	0	152	334.3%	
Primary health care	360	866	202	1,068	0	1,068	196.7%	
Health worker salaries	312	328	98	426	0	426	36.5%	
Water								
Borehole construction	180			0	300	300	66.7%	
Dam rehabilitation				0	50	50		
Police								
Community policing		3		3		3		
Police officers salary	289	304	30	334	0	334	15.6%	
Gender, youth, and community	69	25	142	167	0	167	142.0%	
Tourism	60	91	130	221	0	221	268.3%	
Commerce	29	44	153	197	0	197	579.3%	
Mining			60	60	0	60		
Total PPEs	4,640	4,567	2,822	7,389	1,126	615	9,130	96.8%

Source: MFEP, 20/09/01.

Issues and action

The approach adopted by the authorities is that additional resources released through debt relief can be applied to either development and ORT spending, as long as it is specifically designated for a PPE. Civil society and other stakeholders have been consulted in the determination of the PPEs.

Line ministries have been informed ex post that HIPC resources are being applied to some of their projects or programs, reinforcing that this is not a sufficient test to establish ‘additionality’. The Parliament’s Budget and Finance Committee has drafted recommendations seeking explicit definition and designation of PPEs in the budget documents, with all sources of funds detailed.¹³ There have been several different versions of the purported PPEs to be funded in the 2000-01 and the 2001-02 budgets, including versions in the Minister’s winding up speech to the National Assembly, the list published on the MOFEP website, and the version previously provided to the IMF.

The authors believe that the MOFEP should maintain an official version of the PPE table, which should be updated to take account of all relevant cabinet and parliamentary decisions. The table should focus on the total resources being applied with detail on expenditures to programs, subprograms, projects (where relevant), and whether the funding is ORT or development.

It should be noted that any apportionment between HIPC and GOM is a notional exercise. Although the MOFEP has argued that HIPC resources are all “additional,” discussions with line ministries suggest that the specific amount of “additionality” stemming from the application of HIPC resources is unclear, as the line ministry bids for resources for particular PPEs never differentiated between GOM and HIPC resources.¹⁴ While development expenditures are classified (see following) on the basis of the source of funds, recurrent expenditures are funded by a fungible pool of funds. HIPC resources have added to this pool.

Control

Current situation

There have been several substantial efforts at bolstering expenditure control over the past two years, including the introduction of the CCA and CCS systems. The CCA operates as a

¹³ Budget and Finance Committee to the National Assembly, *Report on the Budget*, July, 2001.

¹⁴ Notwithstanding the notional nature of the split between GOM and HIPC resources, it is clear that some line ministries have taken the view that they should be able to differentiate specific definable initiatives for the use of HIPC funds. An example of this approach is the training of certain teachers using different modalities from those generally applied.

global budget control split between the three main categories of expenditure, being: personnel and related; ORT; and development. Control to more disaggregated levels relies on the laws and regulations relating to appropriation and virement, and the handling of “emergency requests” for funding.

The MOFEP advised that additional HIPC resources were being identified in CCAs, as adding to the GOM core component. The intended use of the HIPC resources was being determined through the identification of the PPEs, with the allocation of HIPC to each of these programs or projects. The Minister had advised earlier that the intention was to introduce, by October 1, 2001, a “separate” CCA for pro-poor programs.¹⁵

The MOFEP met line ministries on September 7, 2001, to discuss the creation of separate vote ledgers for the monitoring and control of HIPC resources; however, no formal instructions of any sort from either the Treasury or the AGD were issued. The Budget and Finance Committee has sought that no reallocation or reduction of funds for PPEs, including HIPC funds and funds from any other source, be permitted.

Issues and actions

Past evidence suggests that the Treasury has trouble controlling the budget to its intended purpose. Programmatic and economic use virement¹⁶ and emergency funding have become standard aspects of budgeting in Malawi. The budget can become derailed through the use of these mechanisms. For instance, funding “extra” budgetary requests crowds-out the ability of the Treasury to provide funding to the programs identified in the budget. This high uncertainty about funding core programs, in turn, creates pressure on line ministries to direct resources early in the year to their favored uses—these favored uses may reflect appeasing certain interests, rather than pursuing key policy objectives. In these circumstances, discipline in executing the budget has broken down. Expenditure can go off track early in the fiscal year.

High level controls such as the CCA work best in an environment where there are clear expectations about intended use, clear accountability for actual use and a reasonable degree of confidence in achieving the budgeted level of receipts. Ineffective high level controls tend to result in costs through misallocation, while highly detailed controls have high transaction costs associated with managing the system, and may not solve the misallocation problem.

¹⁵ Letter of Intent to Mr. Horst Kohler, June 13, 2001. Paragraph 14.

¹⁶ Programmatic virement relates to moving from one program to another, while economic use virement involves shifting between one item to another item.

*The authors support the intention of the Secretary to the Treasury to issue a statement of key performance expectations for financial management to each controlling officer, and that these expectations form part of the performance contract for the controlling officers.*¹⁷

Consistent with this, some clear expectations should also be provided about the intended execution of the PPEs. The Treasury has advised that it will do the following:

- Seek proposals from line ministries showing the cashflows associated with PPEs.
- Respond with instructions to line ministries detailing intended funding for each PPE.
- Issue instructions to the RBM to make specific CCAs to credit the holding account of the respective line ministries in respect of the PPEs.
- Provide funding advice to the line ministries to delineate CCAs for PPEs, with clear policy that if the budget faces a resource shortfall, spending on PPEs will be protected whereas expenditure on non-PPEs will be adjusted.

The ability of the Treasury and other interested parties to make a judgment about line ministry performance requires regular reporting by the line ministries on their implementation of PPEs with respect to these expectations.

Reporting

Current situation

The technical team supporting the development of the PRSP has carried out an analysis which seeks to identify direct poverty expenditures. The draft PRSP shows that direct poverty reducing expenditures comprise PPEs in some areas, and all program related spending in other areas.¹⁸

Malawi's classification system is highly detailed, as shown in Box 1, and provides a solid basis for within year reporting on any of administrative, economic object, program or function.

¹⁷ The statement of expectations has been previously recommended by the Fund (2000) and the World Bank (2001).

¹⁸ These are deemed 'cross-cutting' on p.124 of the draft PRSP.

Box 1. Malawi's Classification System for Budget Transactions

Malawi has a highly refined system for classifying expenditures, based on slightly more than 200 programs and many more subprograms. This classification system can support well focused reporting on poverty-reducing expenditures. The current classification is shown here.

Sector	Ministry	Depart- ment	Budget Type	Cost Center	Program	Subprogram	Donor	Project	Item	Subitem
2	340	1	1	01	02	02	00	000	24	07

Issues and actions

It is preferable to make the tracking exercise as simple and straightforward as possible, and the creation of PPEs as a subset of total direct poverty reducing expenditures appears to be unhelpful for that.

Direct poverty reducing expenditure should now be identified at the program and/or subprogram level in budget documentation, and be called Priority Poverty Expenditures.

As identified above, there are concerns about the execution of the budget consistent with the initial allocations. The Treasury proposes to introduce the following reporting practices in relation to PPEs:

- A monthly monitoring report from relevant line ministries to be supplied to the Treasury by the 10th day of the following month, as part of the regular expenditure reporting framework.
- The Treasury will consolidate these returns and provide a copy of the consolidated report to the Budget and Finance Committee of Parliament by the end of the following month. This consolidated report will provide details program and project, ministry, and unspent balance of budget.
- The consolidated report will be published quarterly on the web, moving to monthly over time.

- The consolidated report will be placed on the MOFEP notice board on the first floor of the MOFEP headquarters at the same time that they are launched on the web, which should be within a month of the reporting period.

While the draft PRSP has identified relevant activities related to poverty reduction, the identification at this time is rather high level and imprecise with respect to its relationship with the budget. As noted elsewhere, Malawi's detailed programmatic reporting system allows specific identification of all poverty reducing expenditure programs. This detailed identification will then permit the compilation of reports on tracking poverty-reducing expenditure and monitoring the execution of the PRSP. Information to be presented on this basis can be taken from the core recording systems in line ministries, and consolidated within the MOFEP.

It is clear that the sponsors of the HIPC initiative have an interest in all poverty-reducing expenditure, as would be expected also of the other stakeholders associated with the PRSP. A narrow approach of tracking solely the use of HIPC resources cannot assure stakeholders about the degree to which the composition of the budget is changing to reflect pro-poor programs.

The major issue associated with the broader tracking becomes *how best to track all poverty-reducing expenditure in a way which balances the costs of imposing any additional reporting requirements against the benefit that will be gained from being able to track.* While the classification system in Malawi provides a solid basis upon which to do this, there are problems with the management of data. For instance, the monthly monitoring reports from line ministries typically arrive in hand-written hard copy or spreadsheet form and are then re-keyed into the database maintained by the Data Processing (DP) team at the Treasury. This suggests that while the DP team may be able to re-sort or tabulate via a look-up table, or a standard report macro, this may be more difficult for the line ministries.

The Treasury is developing a reporting proforma for all poverty-reducing expenditures.¹⁹ The Treasury plans to introduce an output based approach for this reporting during the current fiscal year.

The Treasury will take responsibility for the production of consolidated PPE tracking reports based on the data it receives from line ministries, covering the issues identified in Box 2.

¹⁹ In earlier drafts of this AAP, it was proposed that this taxonomy comprise the following: direct contribution to poverty reduction, enabling poverty reduction, indirect contribution to poverty reduction and overhead. The most important issue is to identify direct poverty reducing expenditure as per the PRSP. For analytical purposes there may be interest in the composition of the non-poverty reducing expenditure component of the budget, which may suggest use of a taxonomy which separates out overhead from direct non poverty reducing expenditures.

To this end, Box 2 outlines the following:

- The PPE tracking report from line ministries.
- The poverty-reducing expenditure tracking report, including a consolidated report on tracking PPEs.

Box 2. Tracking poverty reducing expenditures: Reporting

1. Monthly PPE tracking report – from line ministries

This monthly report should be submitted by relevant line ministries to the MOFEP as part of their regular monthly monitoring and CCS reports.

Section 1: Description of PPEs for which the line ministry is responsible

Section 2: Workplan and budgeted cashflow for each PPE versus actual cashflow

- By PPE, depicting program and subprogram
- By economic object classification

2. Tracking PPEs - consolidated

This report will be compiled by the MOFEP on the basis of the regular monitoring reports submitted by line ministries.

Section 1: Global view

Report on annual budget, revised budget, cash-flow for year-to-date and most recent month on the following basis:

- Specific PPEs
 - By program, and where necessary, subprogram
 - By economic object classification

IV. ACTION PLAN FOR STRENGTHENING PUBLIC EXPENDITURE MANAGEMENT

There is a great deal of activity currently occurring in Malawi to reform PEM. Table 4 shows that at least eight donors are now actively engaged in support of PEM-related projects. These involve a range of activities across all stages of budget management—from formulation to execution to reporting. Some of these projects, such as the IFMIS and data quality, cut across all three stages.

If properly implemented, the proposed reforms suggest that it is possible that within a period of three years Malawi could meet many more of the 15 benchmarks. A distinctive feature of the reforms is that they involve several large projects being supported by more than one donor.

The IFMIS, which has had a number of delays over the years, has now commenced pilot operations in three ministries. Beyond the pilot stage, it is being supported on a multidonor basis. The IFMIS has the potential to assist greatly in improving fiscal data quality, but the nature of the rollout means that this will be several years away, as the rollout extends from a horizontal implementation in a small number of ministries on Capital Hill to the many ministries vertically organized throughout the country.

Although there are a range of initiatives underway, donor assistance and TA could be better coordinated. To this end, the MOFEP is considering the establishment of a steering group to take charge of reforms such as the MTEF. This appears highly desirable.

According to the agreed assessment (Table 1), Malawi is not meeting eight of the 15 benchmarks. The specific projects are addressing these relative weaknesses in the following way:

- Budget comprehensiveness should be addressed as part of the review of the Finance and Audit Act.
- Budget outturn reliability is being addressed through steps to improve preparation (the MTEF) and execution (the CCA, the CCS, and the ministerial promise to not funding out-of-season requests).
- The CABS (Common Approach to Budget Support) process should lead, in time, to donors providing financial support directly to the budget rather than via special accounts, with the *quid pro quo* being good quality fiscal information coming from the authorities.
- The Budget Director has made a commitment to integrating the MTEF in the first stage of budget preparation from next year. Unfortunately, it appears that 2002-03 will be a particularly difficult year in which to do that.
- Internal audit has been reviewed, but decisions need to be made on the key responsibilities for taking this further.
- Routine fiscal and banking reconciliations will occur more easily with the IFMIS, and there are moves at the AGD to support clearance of the current backlog. Further, the creation of routine consolidated reports to show PPEs can also be used to input for the production of tracking reports on a functional basis.

These and related actions are shown in Table 5.

FAD has decided to provide a Resident Fiscal Advisor following a request from the authorities. A chief focus of the terms of reference is on improving data quality.

Table 4. Malawi: Overview of Technical and Donor Assistance in PEM

Donor/ Provider	Recent/Ongoing Assistance by Major Project	Planned Assistance by Major Project	Dates	Dates
	Description	Description	Dates	Dates
World Bank	Pilot IFMIS in three ministries--since March supported by DFID and GOM PER, including institutional analysis PRDP including PRSP costing CFAA planned	Extension of IFMIS to all ministries--letter of intent agreed; and proposal to extend budgeting module Financial Management, Transparency, and Accountability Project Separation of Finance and Audit Act	Until March 2000-01 Now Late 2001	From October 2001 Tbd
IMF	FAD TA missions on expenditure control, data quality, fiscal responsibility, and expenditure tracking	Resident adviser planned from 2002 - focus on fiscal management, including expenditure control and fiscal data	2000-01	2002 (six months extendable)
AfDB/UNDP	Institutional support: debt and aid management - recruitment of staff and training	Institutional support: debt and aid management--recruitment of staff and training	2001	To Sep. 2002
USAID	Public Enterprise Reform Monitoring Unit	Auditor-General capacity development	Now	2002-05
DFID	IFMIS pilot (multi-donor)	IFMIS (multi-donor)		
	MTEF Phase II review--project memorandum	MTEF Phase II implementation	Now	2002-03
UNDP/CDF	Fiscal decentralization	Fiscal decentralization	2000-01	2002
EU	Capacity building on economic co-ordination and planning	Capacity building on economic coordination and planning, measures stemming from audit	Now	2001-05
Danida	Capacity building for decentralization	Capacity building for decentralization	2001	2002

Table 5. Malawi: Action Plan to Upgrade the PEM Capacity to Track Poverty-Related Expenditure (PRE)

	Short-Term Measures Action	TA Provider and Timing	Medium-Term Measures Action	TA Provider and Timing
Comprehensiveness				
Benchmark 1	Bring comprehensiveness into review of Finance and Audit Act	World Bank	Amend comprehensiveness in line with GFS standards	N/A
Benchmark 3	Implement IFMIS	Multi-donor	Continue IFMIS	Multi-donor
Benchmark 4	Bolster consistent approach to budget support with all donors, and increase the predictability of flows	CABS mechanism (DFID, Norad, Danida, SIDA)		
Benchmark 6	Specify PPEs in detail in terms of programs, subprograms, and economic objects. 1/			
Multi-year projections				
Benchmark 7	Rollover 2002-03 estimates from MTEF for start of 2002 Budget process	DFID		
Internal controls				
Benchmark 9	Assign central agency responsibility for internal audit	IMF	Bolster internal audit through allocating central agency responsibilities and developing manuals, etc.	TBD
	Introduce CCAs for PPEs 1/	N/A		
	Procurement reform	World Bank		
Reconciliation				
Benchmark 10	Continue program to update routine reconciliation process in preparation for IFMIS	DFID	Extend current program to other line ministries to improve manual accounts and prepare for IFMIS	DFID
Reporting				
Benchmark 14	Implement IFMIS	Multi-donor	Implement IFMIS	Multi-donor
	Data quality	IMF	Data quality	IMF
Final audited accounts				
Benchmark 15	Institutional strengthening - audit	SIDA		

1/ These items could be described as "bridging mechanisms" designed to yield specific benefits for tracking poverty-reducing expenditures.

ACCOUNTING OF RECEIPTS IN HIPC ACCOUNT²⁰

Funds in the HIPC account shall be received primarily in the form of debt relief. The modality for providing debt relief shall be determined in consultation with the donor agency. Basically, the debt relief could be granted in either of the following forms:

- The donor agency reimburses part or whole of the amount of debt repaid to it.
- The donor agency allows part or whole of the amount due to be repaid to it to be credited to the HIPC account.

Debt relief in the form of reimbursement

Authorizing repayment

For authorizing repayment, the DAD shall prepare a “Payment Voucher” for the debt amount becoming due for repayment and send it to the responsible accountant for authorizing the Central Bank to disburse the amount to the donor agency. The DAD shall simultaneously inform the donor agency about the debt amount being repaid.

In the “Payment Voucher” the following heads of account shall be operated for repayment of the principal amount of the loan:

Debit	Respective Loan Account Code
Credit	Cash Code for Treasury Account

For payment of interest on loan the following heads of account shall be operated:

Debit	Respective Interest Payment Code
Credit	Cash Code for Treasury Account

The DAD shall, on the receipt of the “Payment Vouchers” make entries in the Loan Ledger in respect of repayment of principal amount of loan and authorize the Central Bank to disburse the amount principal and interest to the donor agency.

Reimbursement by the donor agency

When reimbursement is authorized and the amount disbursed by the donor agency, the DAD shall, on receipt of “Disbursement Advice” from the donor agency, prepare a “Revenue Voucher” specifying therein the account and cash codes and submit the same to the accountant along with a copy of the “Disbursement Advice.”

²⁰ This is based on the experience in The Gambia and may reflect some local terminology from The Gambia.

On receipt of money disbursed by the donor agency, the Central Bank shall credit the same to the HIPC account and send a Credit Advice to the accountant. The accountant shall verify the receipt amount recorded in the Cash Book of the HIPC account on the basis of the “Revenue Voucher” with the amount shown in the Credit Advice by the Central Bank. In case of any discrepancy, the accountant shall take it up with the Central Bank and the DAD.

Debt relief in the form of partial or no repayment required

The whole of the debt amount due for repayment is to be credited to the HIPC account

The DAD shall prepare a “Journal Voucher” for the debt amount becoming due for repayment and to be credited to the HIPC account. On top of the “Journal Voucher,” the DAD shall record “Adjustment of loan amount due for repayment to the HIPC account” and send it to the accountant for necessary follow up action and accounting of transaction in the Cash Book and the accounts. The DAD shall simultaneously inform the donor agency about the debt amount being adjusted in the HIPC account. In the “Journal Voucher” following heads of accounts shall be operated:

To account for notional repayment of loan and transfer of cash to HIPC account:

Debit Loan Account
Credit Cash Code for Treasury Account

To account for notional payment of interest due on the loan amount and transfer of cash to HIPC account:

Debit Respective Interest Payment Code
Credit Cash Code for Treasury Account

To account for receipt of funds in HIPC account:

Debit Cash Code for HIPC account
Credit HIPC Funds Receipt Account

On receipt of the “Journal Voucher,” the accountant shall take following action:

- Authorize the Central Bank to withdraw the amount shown in the “Journal Voucher” from the Treasury Account and credit the same to the HIPC account.
- Make requisite entries in the Loan Ledger and the Cash Book of HIPC account.

Part of the debt amount due for repayment is to be credited to the HIPC account

For the part to be repaid to the donor agency:

The DAD shall prepare a "Payment Voucher" for the debt amount to be repaid and send it to the accountant for authorizing the Central Bank to disburse the amount to the donor agency. The DAD shall simultaneously inform the donor agency about the debt amount being repaid. In the "Payment Voucher" following heads of accounts shall be operated for repayment of the principal amount of the loan:

Debit Respective Loan Account Code
Credit Cash Code for Treasury Account

For payment of interest on loan following heads of account shall be operated:

Debit Respective Interest Payment Code
Credit Cash Code for Treasury Account

The accountant shall, on the basis of the "Payment Voucher," make entries in the Loan Ledger in respect of the principal amount of the loan repaid and authorize the Central Bank to disburse the amount of principal and interest to the donor agency.

For the part to be credited to the HIPC account:

Prepare a "Journal Voucher" for the debt amount becoming due for repayment and to be credited to the HIPC account. On top of the "Journal Voucher," the DAD shall record "Adjustment of loan amount due for repayment to the HIPC account" and send it to the accountant for necessary follow-up action and accounting of transaction in the Cash Book and the accounts. The DAD shall simultaneously inform the donor agency about the debt amount being adjusted in the HIPC account. In the "Journal Voucher" following heads of accounts shall be operated:

To account for notional repayment of loan and transfer of cash to the HIPC account:

Debit Loan Account
Credit Cash Code for Treasury Account

To account for notional payment of interest due on the loan amount and transfer of cash to the HIPC account:

Debit Respective Interest Payment Code
Credit Cash Code for Treasury Account

To account for receipt of funds in HIPC account:

Debit Cash Code for HIPC account
Credit HIPC Funds Receipt Account

On receipt of the "Journal Voucher," the accountant shall take following action:

- Authorize the Central Bank to withdraw the amount shown in the “Journal Voucher” from the Treasury Account and credit the same to the HIPC account.
- Make requisite entries in the Loan Ledger and the Cash Book of HIPC account.
- Verify the receipt recorded in the Cash Book of HIPC account on receipt of Credit Advice from the Central Bank.

Responsibility of the RBM

The RBM shall send Credit Advice to the accountant whenever any amount is credited to the HIPC account. It shall also submit to the accountant the statement of account at regular intervals for reconciliation of balances in the HIPC account.

The RBM shall also send a statement of balance in the HIPC account to the accountant on monthly basis.