CASE STUDY C-012P

Malawi's Cashgate Scandal

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Background

Malawi underwent significant political reform in the mid-1990s. The government also introduced various anti-corruption reforms, designed to formalize government structures and limit profligacy among political and administrative officials.[1] The people who designed these policy interventions argued that the new country could not succeed if corruption was allowed to fester. Given the centrality of money to most anti-corruption initiatives, public financial management (PFM) systems reforms were central to these anti-corruption efforts.

IFMIS reforms—from 1995 to 2012

A key PFM intervention dated to 1995, when the government began implementing an Integrated Financial Management Information System (IFMIS). With World Bank support, this initiative sought to replace manual systems with electronic systems that automatically linked budgets to cash demands, allowing managers to efficiently schedule expenditures—minimizing cash flow problems, limiting opportunities for illicit activity, and improving service delivery.

The work started with a pilot project that introduced a new IT system into five ministries. This effort was not considered a success, however, after encountering many challenges—including project mismanagement, technical failures, funding shortages, disagreements among suppliers about when, what, and how to engage, insufficient training and staffing, and cultural challenges (that manifest in public officials rejecting the systems in all ministries).

Even with this pilot's limited success, the World Bank financed a full IFMIS initiative in 2003.[2] The system was sourced from a supplier called the CODA Group, with a South Africa-based reseller, UES, as implementer. This work took place in a context which a 2004 paper[3] described as allowing "rampant fraud and corruption" and the 'hiring' of many "ghost workers" and where the move to computerize finances would likely be "resented for removing discretionary power to reallocate resources."[4]

Unfortunately, the work did not progress well (again), sparking a new search for solutions. As part of this search, public financial management policy designers visited Tanzania in March 2005 to observe what many in the donor community were hailing as an effective IFMIS. Using an EPICOR system—and implemented through local consultants—a prominent IMF review noted that Tanzania's system was "used by the entire public sector" and generated "extensive" benefits, providing "a critical tool for achieving accountability in the public sector."[5]

Based on this visit, and on advice of the World Bank and other partners, Malawi's Government decided to sign a contract with the Soft-Tech Consultants from Tanzania in July 2005,[6] hoping to adopt its own EPICOR system.

In November 2005, the new EPICOR IFMIS was formally introduced, with Government committed to centralizing control of finances. The goal was to close all government bank accounts and centralize cheque production by the Accountant General's Department:

- One ministry was connected to the central IFMIS server in the Accountant General's Department by December 2005 and the full roll out to other Ministries continued thereafter.

- By 2009, IFMIS was rolled out to District Councils, and by 2011, the IFMIS had been rolled out to all ministries and Departments except Region Offices and donor funded projects.

The roll out was not without problems, however, which resembled those experienced in the 1995 pilot project and 2003/2004 initiative. Reflecting on such, a 2006 OECD Journal of Budgeting Article, by Diamond and Khemani[7] concluded that,

> *"In general, the implementation phase has not progressed well, primarily because of clearly limited involvement and some neglect of the system by the main players, including the Ministry of Finance, the Accountant General and pilot ministries. There are several significant issues to be addressed before the system can be made fully functional and rolled out."*

Given such problems, President Bingu Wa Mutharika ordered a review of the IFMIS in 2009. The report was published in November of that year and found (among other findings) that the system did not:

- have an alert system to detect fraudulent activities or deviations to normal operations,

- block budgets that had already been spent,

- have any intrusion prevention and detective system or mechanism to easily monitor potential security threats,

- have appropriate tools and controls for checking, verifying and authenticating or validating payment transactions within key units before issuing cheques, or

- address potential exploitation or abuse by colluders (given that access into the system (and the Accounts Payable module in particular) was not physically authenticated beyond normal user ID and passwords).

Such concerns suggested that cheque fraud was very possible within the IFMIS and one could misappropriate funds within the IFMIS simply by having a username and password. Also, a user could overspend within the IMFIS—and get the Reserve Bank of Malawi to honor the spending—even if the money didn't exist (or had been spent).

These concerns were not responded to, however, and the IFMIS roll out continued all the way to 2012—with donors lining up to support the policy engagement, the vendors accepting payment for both the system and its upkeep, and policy designers in the government's Ministry of Finance heralding it a success.

Events of 2013

The reform process was rocked on the night of Friday 13 September 2013, however,[8] when Paul Mphwiyo, Budget Director in Malawi's Ministry of Finance, was shot by armed men who ambushed him outside his home in Lilongwe. His wife rushed him to hospital, where he was stabilized and then flown to South Africa for specialist treatment.

A couple of days later, stories began to emerge that millions of dollars had been embezzled by government officials colluding to defraud the state.

Some claimed Mphwiyo was clean and had been shot because he was trying to close the loopholes that allowed collusion and corruption. Others claimed that he was one of the colluders and was shot because of squabbles amongst the corruptors. Lilongwe became a hotbed of scandal and story about which officials were clean and which were not—and social media, blogs and online news sources came alive with discussions of corruption in the public financial management system.

The communications frenzy was full of messy public messages. In days after the incident, for instance, President Joyce Banda told a gathering in Lunzu that Mphwiyo was shot because he was on the verge of busting a corruption syndicate, and the people who shot him wanted to prevent that. About a month later, President Banda claimed that her earlier comments had been misquoted, that in fact she did not know who shot Mphwiyo.

A tense narrative started emerging about this corruption and the IFMIS (which should, in theory, have made the kind of corruption observed impossible).

→ Vice President Kachali pointed to loopholes in the IFMIS that allowed the corruption.

→ Donors rejected this claim, with the German Ambassador—Peter Woeste—telling local media that "Thanks to the IT-System ... we seem to be able to trace who and where people took money. So please: Do not blame a computer for corruption – that would be a distraction from the real issue. It's some criminal elements who are committing fraud."[9]

The IMFIS was suspended and Malawi's government announced an investigation. Donors took a defensive stance as well:

→ On 11 October 2013, Norway froze all budget support. Britain followed in November 2013, and the IMF delayed a loan worth $20 million.

→ Aid suspended by the EU, Britain and Norway collectively amounted to around $150 million.

By December 2013, Civil Society groups were protesting the government's handling of the scandal, saying it was not doing enough to get to the bottom of the matter, and put the government under pressure to finalize its investigation. There were numerous calls for the president to resign. President Banda rejected these calls, however, saying that the scandal was a "golden opportunity" for her government to clean up the civil service. She commissioned a forensic audit funded by the donor community (who had supported the IFMIS reforms), in the hope of finding out how much money had been lost since the fraud began and why the fraud had occurred.

The firm Baker Tilley conducted the forensic analysis. Its report was leaked to the media in February 2014 and indicated that the Government of Malawi had lost $30 million between April 2013 and December 2013. This report was met with a largely negative response since it did not disclose the names of those who were responsible for the looting, and a lot of money was not accounted for. The report also did not investigate any irregularities which may have occurred between April 2012 (when Banda became president), and March 2013 (or even those which may have occurred under Bingu wa Mutharika's government).

This led many observers and political commentators to dismiss the report as a political cover-up. Calls for the resignation of President Joyce Banda were renewed.

IFMIS after 2014

There were significant political reprisals in late 2013 and 2014 (including Cabinet reshuffles) and arrests and criminal trials followed. Some observers criticized donors as well, given that they supported IFMIS reforms as an antidote to corruption—only to find that the system may have become a vehicle for more efficient (and large scale) collusion and theft.

IFMIS policy initiatives were slated as 'overly technical' and ignoring contextual realities in Malawi. This claim was given greater credibility because the 2003, 2004 and 2009 reports of IFMIS engagements had all suggested IFMIS reforms faced significant constraints in Malawi because of cultural, political and other contextual factors (that undermined their effectiveness or 'fit'). Responses to these claims were mixed.

Some donors defended the systems and noted that people were corrupt, not systems (assuming the two could be separated). Other observers indicated that the IFMIS designs needed to better account for contextual factors.

Such discussions led donors to identify the EPICOR system as the problem, and support grew for a new IFMIS reform, with MK2 billion made available in 2016 (funded by a World Bank project) to purchase new software. Announcing the new initiative, Malawi's finance minister said the new technology would need to "prevent another Cashgate".[10] Government committed to ensure there were no loopholes in this system, with the new software having security measures that were lacking in the EPICOR system (and the two systems preceding it).

An April 2016 report from the World Bank's Independent Evaluation Group noted that loopholes were still likely to persist, however, because they were less about technology and more about gaining social and political acceptance for reform; something the report said was lacking. This acceptance was still lacking in July 2020, when government—reflecting on its stalled policy initiative—renewed the commitment to "roll out the long awaited New Integrated Financial Management and Information System (IFMIS)."

In announcing such intent, (the new) State President Prof Arthur Peter Mutharika "said the new system will tightly close loopholes of pilferage and smoke out ghost workers more effectively than ever."[11] Mutharika gave a direct message to officers the public service: "If you dare get tempted to steal money … we will catch you and arrest you. There will be no more Cashgates."

You, and the situation in 2020

Imagine you are a policy designer working in Malawi's Ministry of Finance in 2020. You have been asked to ensure that the new policy initiative actually gets done in the coming years, and that it ensures 'no more Cashgates'.

Given what you have read in this case,

→ What gets in the way of policy work (like the Malawian IFMIS) 'getting things done'?

→ What questions would you focus on in designing the new policy initiative to address corruption in Malawi's public finance system?

Endnotes

This case is based on a case note written by Matt Andrews and Neil Cole for the 2017 Harvard Kennedy School Executive Education Program, PFM in a Changing World.

1 Anders, G., 2002. Like chameleons. Civil servants and corruption in Malawi. Bulletin de l'APAD, (23-24); Andrews, M., 2013. The limits of institutional reform in development: Changing rules for realistic solutions. Cambridge University Press.

2 Independent Evaluation Group (IEG)., 2021. World Bank Support for Public Financial and Debt Management in IDA-Eligible Countries. Washington, D.C.: World Bank.

3 Rakner, L., 2004. The Budget as Theatre-the Formal and Informal Institutional Makings of the Budget Process in Malawi: Final Report July 2004. Chr. Michelsens institutt.

4 See similar concerns in APRM (2004). APRM., 2004. Malawi and the African Peer Review Mechanism: A review of national readiness and recommendations for participation. Johannesburg, APRM.

5 Diamond, J. and Khemani, P., 2005. Introducing financial management information systems in developing countries. IMF Working Paper 196.

6 Fölscher, A., Mkandawire, A. and Faragher, R., 2012. Evaluation of public financial management reform in Malawi 2001–2010.

7 Diamond, J. and Khemani, P., 2006. Introducing financial management information systems in developing countries. OECD Journal of Budgeting, Volume 5, Number 3.

8 Bridges, K. and Woolcock, M., 2017. How (not) to fix problems that matter: assessing and responding to Malawi's history of institutional reform. World Bank Policy Research Working Paper, (8289); Harawe, C., 2014. "Cashgate"-Malawi's murky tale of shooting and corruption. BBC Africa news, 27.

9 Raviv, S., 2018. Cashgate. Medium. Com.

10 Khamula, O., 2016. Malawi government buys K2 billion IFMIS software to prevent another Cashgate. Nyasa Times February 18, 2016.

11 Government of Malawi. 2020. IFMIS to roll out on July 1, 2020.