

## **Financial Statement Annex 15 – Summary of Extra-Budgetary Support to Malawi**

### **Extra-Budgetary Support to Malawi July 2011 – June 2012**

#### **Introduction**

A significant proportion of donor support to Malawi is deemed to be extra-budgetary. Extra-budgetary projects (loans or grants) are those whose finances are not directly managed by a Government institution. Project support to Malawi may involve Government to differing extents, specifically:

1. The Government directly manages all project activities and implementation, as well as directly managing all financing issues.
2. The Government directly manages project implementation and procurements, but not the payments, which are made by the donor organisation.
3. The Government manages only the project implementation, while procurement and payments are managed by the donor organisation.
4. The Government manages neither project implementation nor project financing, which are managed by a non-Government Organisation (NGO) or by the donor organisation itself.

Support to Malawi is deemed extra-budgetary if it falls into categories 2, 3 or 4. These forms of aid delivery represent a deviation from accepted best practices in development cooperation, as resolved in the Paris Declaration on Aid Effectiveness. The Government will be taking steps to reduce the volume of that is administered outside of Government systems.

Funding that does not use Government financial systems should not be captured in the Annual Budget. The approved budget spending is audited, and therefore should incorporate only those funding streams that the auditor general has jurisdiction over. As a result, funding that is administered by development partners or disbursed to the NGO sector is deemed as extra-budgetary and omitted from the budget.

The proportion of extra-budgetary support to Malawi is significant. Out of a total K107 billion in direct project support to Government agencies expected in 2011/12FY, K29 billion passes through Government auditing and accounting systems. The remaining MWK77 billion in direct project support is spent in parallel to Government structures and systems. In some sectors this extra-budgetary support exceeds 70% of the total funding expected from development partners. A further K18 billion in donor support is expected to be channelled through Non-Government implementing agencies. Accordingly, when examining the budget, it is important to know that volume of extra-budgetary spending that budgeted activities are occurring alongside. This report provides that information by enumerating the funding outside the budget provided by each of Malawi's development partners.

In prior years a large number of projects which were not making full use of Government systems had been included into the donor financed portion of Part 1 budget estimates. During the 2010/11FY budget preparations a renewed effort was undertaken to identify those projects which do make full use of Government systems and which are deposited into

## Financial Statement Annex 15 – Summary of Extra-Budgetary Support to Malawi

Government accounts held at the Reserve Bank of Malawi. As a result of these more stringent controls, the donor financed portion of Part 1 Development expenditure has decreased between the 2010/11FY and 2011/12FY. In practise, however, the amount of donor funding received by Malawi has been increasing with these funds now being captured through this extra-budgetary addendum to the Financial Statement.

### Data

The data presented below was collected through the Ministry of Finance's monthly aid data reporting system established in 2008 and stored in the Government's Aid Management Platform. Because the funds outside of Government systems are not channelled through accounting systems, the amounts cannot be verified by Government. As such their accuracy relies on the compliance of donors in submitting projection information to the Ministry of Finance. Missing values are shown with a (-), and represent a lack of information provided by the donor at the time of Budget preparation.

### Summary Table of Donor Support

|   | <b>2011/12FY Proj.</b> |
|---|------------------------|
| <b>I) Donor Support to Government</b>       |                        |
| <b>Agencies (Part 1 Development)</b>        | <b>29.48</b>           |
| Grants                                      | 17.09                  |
| Loans                                       | 12.39                  |
| <b>II) Donor Support to Government</b>      |                        |
| <b>Agencies Outside Government Systems</b>  | <b>77.38</b>           |
| Grants                                      | 39.06                  |
| Loans                                       | 38.32                  |
| <b>III) Donor Support to Non-Government</b> |                        |
| <b>Agencies</b>                             | <b>17.73</b>           |
| Grants                                      | 17.73                  |
| <b>IV) Total Donor Support</b>              | <b>124.6</b>           |
| Grants                                      | 73.88                  |
| Loans                                       | 50.71                  |