

Evaluation of General Budget Support – Malawi Country Report

**A Joint Evaluation
of General Budget
Support 1994-2004**



May 2006

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JOINT EVALUATION OF GENERAL BUDGET SUPPORT 1994–2004

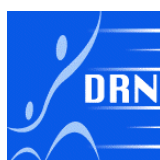
Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, Vietnam



Malawi Country Report



May 2006



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PREFACE

The Joint Evaluation of General Budget Support (GBS) was commissioned by a consortium of donor agencies and 7 partner Governments* under the auspices of the DAC Network on Development Evaluation. The evaluation followed a DFID GBS Evaluability Study which established an Evaluation Framework for GBS. This framework was agreed with DAC Network members in 2003. A Steering Group (SG) and Management Group (MG), both chaired by DFID, were established to coordinate the evaluation. The study was carried out by a consortium of consultants led by the International Development Department, University of Birmingham (IDD).

The purpose of the evaluation was to assess to what extent, and under what circumstances, GBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. The evaluation identifies evidence, good practice, lessons learned and recommendations for future policies and operations.

This report is one of 7 country level evaluations (Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda and Vietnam). Fieldwork took place between October-December 2004 and May-July 2005.

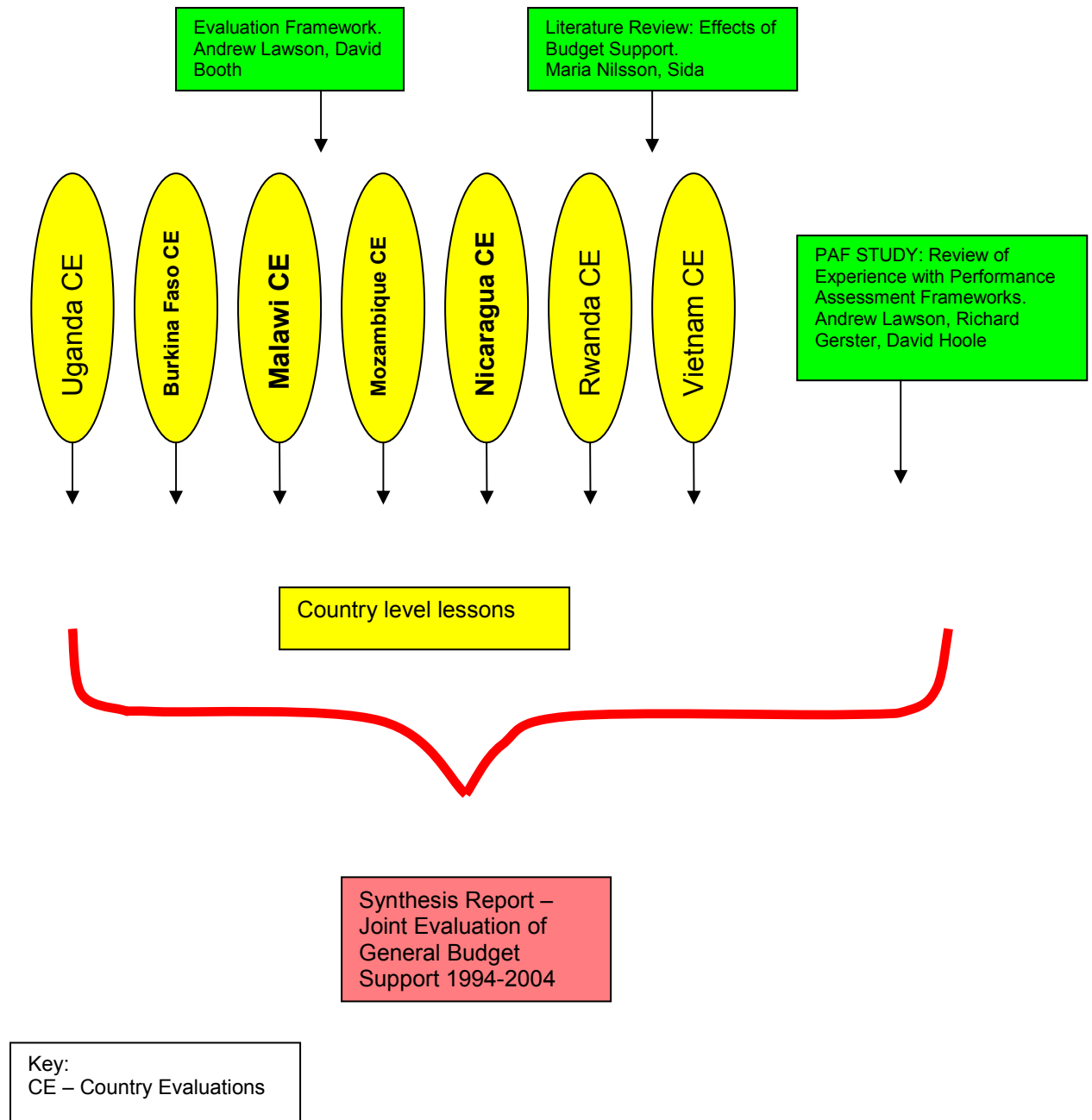
This report represents the views of its authors and not necessarily the views of the Steering Group or its members.

*The consortium comprised the Governments of Australia, Austria, Belgium, Canada, Denmark, France, Germany, Ireland, Japan, The Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and USA, plus the European Commission (EC), the Japan Bank for International Cooperation (JBIC) and the Inter American Development Bank (IADB), the IMF, OECD/DAC and the World Bank. The evaluation was undertaken in collaboration with the Governments of Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, and Vietnam, who were also members of the SG. The study was designed to interact closely with aid agencies and with government and other stakeholders at country level. There were government and donor contact points in each country.

Joint Evaluation of General Budget Support 1994-2004

The Evaluation Framework, Literature Review and PAF Study were contracted separately. The remaining reports were authored by a consortium of consultants led by the International Development Department, University of Birmingham (IDD).

The diagram below shows how the reports in this series fit together:



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Joint Evaluation of General Budget Support MALAWI COUNTRY REPORT

Contents

Abbreviations and Acronyms	vi
Acknowledgements	ix
Currency, Exchange Rate and Fiscal Year	ix
EXECUTIVE SUMMARY	S1
PART A: CONTEXT/DESCRIPTION	1
Introduction	1
Objectives and Approach to the Evaluation	1
What is General Budget Support?	1
Purpose and Focus of the Evaluation	2
Evaluation Methodology	2
Country Report Structure	4
The Evaluation in Malawi	5
A2. The Context for Budget Support in Malawi	7
Overview	7
Poverty and Poverty Reduction Strategy	7
Macroeconomic Management	7
Public Finance Management	9
Governance	9
Aid Flows	9
A3. The Evolution of Partnership GBS in Malawi	13
Introduction	13
Aid Modalities	13
Extent of Programme Aid	15
Developments in Aid Management and Coordination	16
Government's Desires and Expectations of Partnership GBS	16
Alternative/Complementary Innovations in Aid Management	17
Perspectives of Different National Stakeholders	17
PART B: EVALUATION QUESTIONS: ANALYSIS AND MAIN FINDINGS	19
B1. The Relevance of PGBS	19
Introduction	19
Relevant Facts: The Design of PGBS	19
Objectives and Intent of PGBS	19
Level and Nature of PGBS Funding	20
Policy Dialogue and Conditionality	20
Technical Assistance and Capacity Building	21
Assessment against Evaluation Criteria	21
Relevance to the Context	21
Political context	21
Institutional and social	22
Financial and economic	23
Dialogue, Conditionality and Ownership	24
Poverty Orientation	24
Coherence and Consistency of the Design	25
Response to Previous Weaknesses in Aid Management	25

Principal Causality Chains	25
Counterfactual	26
B2. Effects of PGBS on Harmonisation and Alignment	27
Introduction	27
Relevant Facts	27
Assessment against Evaluation Criteria	28
Policy Alignment	28
Government Leadership	28
Alignment with Government Systems	29
Government planning and budget cycles	29
Government implementation systems	29
Harmonisation Among Donors and Modalities	30
Principal Causality Chains	30
Counterfactual	31
B3. The Effects of Partnership GBS on Performance of Public Expenditures	33
Introduction	33
Relevant Facts	33
Assessment against Evaluation Criteria	34
Influence on Expenditure Allocation	34
Discretionary Expenditure	38
Predictability	38
Efficiency of Expenditure	39
Transaction Costs	40
Principal Causality Chains	40
Counterfactual	41
B4. The Effects of Partnership GBS on Planning and Budgeting Systems	42
Introduction	42
Relevant Facts	42
Assessment against Evaluation Criteria	44
Systemic Effects on the Budget Process	44
Ownership	44
Accountability	45
Durability	47
Capacity Development	48
Principal Causality Chains	48
Counterfactual	48
B5. The Effects of Partnership GBS on Policies and Policy Processes	50
Introduction	50
Relevant Facts	50
Assessment against Evaluation Criteria	52
Influence on Reform Process	52
Ownership and effectiveness	52
Participation	52
Learning	53
Influence on Policy Content	53
Public and private sectors	53
Sector policies	54
Principal Causality Chains	54
Counterfactual	54
B6. The Effects of Partnership GBS on Macroeconomic Performance	56
Introduction	56
Relevant Facts	56
Assessment against Evaluation Criteria	58
Macroeconomic Effects	58
Fiscal discipline and macroeconomic stability	58

Cost of budget finance	59
Private investment	59
Domestic revenue	59
Facilitating Institutional Change	60
Principal Causality Chains	60
Counterfactual	61
B7. The Effects of Partnership GBS on the Delivery of Public Services	62
Introduction	62
Relevant Facts	62
Assessment against Evaluation Criteria	63
Pro-poor Public Service Delivery	63
Capacity and Responsiveness of Service Delivery Institutions	63
Principal Causality Chains	64
Counterfactual	64
B8. The Effects of Partnership GBS on Poverty Reduction	66
Introduction	66
Relevant Facts	66
Assessment against Evaluation Criteria	68
Basic Services for the Poor	68
Income Poverty	68
Empowerment	68
Principal Causality Chains	69
Counterfactual	69
B9. The Sustainability of Partnership GBS	70
Introduction	70
Relevant Facts	70
Assessment against Evaluation Criteria	71
Shared Learning between Government and Donors	71
Comprehensive and Effective Review and Adjustment	72
Feedback to Stakeholders	73
Principal Causality Chains	73
Counterfactual	73
PART C: CROSS-CUTTING ISSUES	74
C1. Cross-Cutting Policy Issues	74
Gender	74
HIV/AIDS	74
Environment	75
Democracy and Human Rights	76
C2. Public and Private Sector Issues	78
Balance between Public and Private Sectors	78
C3. Government Capacity and Capacity Building	80
Government Capacity and Capacity Building	80
Decentralisation	81
C4. Quality of Partnership	82
Ownership and Conditionality	82
Transaction Costs	82
PGBS and Other Aid Modalities	82
C5. Political Governance and Corruption	84
Democratic Accountability	84
Corruption	84

PART D: SYNTHESIS – OVERALL CONCLUSIONS AND RECOMMENDATIONS	86
D1. Overall Assessment of PGBS in Malawi	86
Introduction	86
PGBS provided a vehicle for improved donor harmonisation.	88
Progress on alignment was weaker.	88
Suspension of PGBS caused severe short-term macroeconomic problems.	88
Application of PGBS conditionality in a difficult context led to increased unpredictability of aid.	89
Government of Malawi systems remained weak and impact was limited by lack of political will and by suspension.	89
Impacts of PGBS on service delivery and poverty reduction in Malawi are not visible.	90
Donors and the GOM have learned from the experience.	90
Political governance may have been positively influenced by incentives created through PGBS.	90
D2. PGBS in Malawi – Future Prospects	92
Recent Developments	92
“New PGBS”	92
Making a PAF work in Malawi	93
Widening CABS	95
“Contagion Effects” and the GBS “Seal of Approval”	95
Sector/Aid Modalities	96
D3. Summary of Conclusions and Recommendations	98
Main Recommendations	98
Political Governance and PGBS Design	98
Harmonisation	98
Use of Conditionality	98
Predictability and Donor Commitment	98
Monitoring and Use of Indicators	98
Feedback	99
Bibliography	108
Figures	
Figure A1.1: Causality Map for the Enhanced Evaluation Framework	3
Boxes	
Box A1.1: Structure of the Country Report	4
Box B1.2: Political Logic or Economic Rationale – are we asking the right questions of government?	21
Box B3.1: Definition and Tracking of Pro-Poor Expenditures in Malawi	37
Box B3.2: Was the Suspension of GBS in Malawi a Surprise?	39
Box B5.1: The Budget as Theatre	51
Box B9.1: PGBS – Suspension and Incentives	71
Tables	
Table A2.1: Official Development Assistance by Type of Assistance (USD million)	10
Table A2.2: Official Development Assistance by Type of Donor (USD million)	10
Table A2.3: Official Development Assistance by donor (USD million)	10
Table A2.4: Volatility of Foreign Aid Inflows included in the Central Government Operations 1994/05–2003/04 (% of GDP)	12
Table A3.1: Malawi State Budget Actual Receipts excluding Domestic Borrowing by Source (MWK million at 1994 prices)	13
Table A3.2: Malawi – Balance of Payments Support Receipts by Source (USD million)	14
Table A3.3: Malawi – Balance of Payments Support Receipts by Type (USD million)	15
Table B1.1: Malawi – Budget Support from CABS Group Receipts by Source (USD million)	20
Table B3.1: Public Expenditure in Malawi (% of GDP)	33
Table B3.2: Pro-Poor Expenditures (% of GDP)	34

Table B6.1: Savings and Investment 1994–2003 (% of GDP)	57
Table B8.1: Headcount of Poverty and Ultra Poverty Lines and Gini Coefficients 1998	66
Table B8.2: Evolution of Non-Income Dimensions of Poverty in the 1990s.	67
Table D3.1: Summary Table of Findings, Conclusions and Recommendations	100

List of Annexes

Annex 1: Approach and Methods	115
Annex 1A: Summary of the Evaluation Methodology	115
Annex 1B: Note on Approach and Methods adopted in Malawi	123
Annex 1C: People Met	125
Annex 2: Country Background	127
Annex 3: Aid to Malawi	133
Annex 3A: Aid Data	133
Annex 3B: Inventory – GBS and Related Programmes	135
Annex 4: Public Finance Management in Malawi	141
Annex 5: Summary of Causality Findings	151
Annex 6: Health and Education Sectors in Malawi	159

Abbreviations and Acronyms

AAP	Assessment and Action Plan [HIPC]
ACB	Anti-Corruption Bureau
AfDB	African Development Bank
AfDF	African Development Fund
ADMARC	Agricultural Development and Marketing Corporation
AG	Auditor General
ARV	anti-retroviral drugs
ASAP	Agricultural Sector Assistance Programme
BOP	Balance of Payments
BS	budget support
CABS	Common Approach to Budget Support
CB	capacity building
CCI	cross-cutting issue
CDSS	Community Day Secondary Schools
CFAA	Country Financial Accountability Assessment
CHAM	Christian Health Association of Malawi
CIDA	Canadian International Development Agency
CPAR	Country Procurement Assessment Review
CPI	Corruption Perceptions Index
CSS	Conventional Secondary Schools
DAC	Development Assistance Committee (of OECD)
Danida	Danish Development Agency
DFID	Department of International Development
DHS	Demographic and Health Survey
DPP	Department of Public Prosecutions
EC	European Commission
ECAMA	Economics Association of Malawi
EDDRP	Entrepreneurship Development and Drought Recovery Programme
EDRP	Emergency Drought Recovery Programme
EEF	Enhanced Evaluation Framework
EHP	Essential Healthcare Package
EPA	ex post assessment
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
FIMTAP	Financial Management, Transparency and Accountability Project
FMIS	Financial Management Information System
FRDP	Fiscal Restructuring and Deregulation Programme
GABLE	Girls' Attainment in Basic Literacy and Education Programme
GBS	General Budget Support
GDP	gross domestic product
GER	gross enrolment rate
GFS	Government Finance Statistics (IMF)
GIP	General Import Programme

GNI	gross national income
GOM	Government of Malawi
GTZ	German technical cooperation agency (Gesellschaft für Technische Zusammenarbeit)
HIPC	Heavily Indebted Poor Countries Initiative
HIV/AIDS	Human Immunodeficiency Virus / Acquired Immune Deficiency Syndrome
IDA	International Development Association (World Bank)
IDD	International Development Department (University of Birmingham)
IFAD	International Fund for Agricultural Development
IFMIS	Integrated Financial Management Information System
HIS	Integrated Household Survey
IMF	International Monetary Fund
IP	international partner
IPRSP	Interim Poverty Reduction Strategy Paper
JFA	Joint Financing Arrangement
JICA	Japan International Cooperation Agency
KfW	German development bank (<i>Kreditanstalt fuer Wiederaufbau</i>)
MCCCI	Malawi Confederation of Chambers of Commerce and Industry
MDGs	Millennium Development Goals
MEGS	Malawi Economic Growth Strategy
MEJN	Malawi Economic Justice Network
MEPD	Ministry of Economic Planning and Development
MOE	Ministry of Education
MOF	Ministry of Finance
MOFEP	Ministry of Finance and Economic Planning
MOH	Ministry of Health
MOHP	Ministry of Health and Population
MPRS	Malawi Poverty Reduction Strategy
MRA	Malawi Revenue Authority
MTEF	Medium Term Expenditure Framework
MWK	Malawi Kwacha (currency)
NGO	non-governmental organisation
Norad	Norwegian Agency for Development Cooperation
NPV	net present value
NRMESPP	Natural Resources Management and Environmental Support Programme
NSO	National Statistical Office
ODA	official development assistance
OECD	Organisation for Economic Cooperation and Development
OECF	Overseas Economic Cooperation Fund, Japan
ORT	other recurrent transactions
PAF	Performance Assessment Framework
PE	public expenditure
PEFA	Public Expenditure and Financial Accountability
PEM	public expenditure management
PER	Public Expenditure Review
PET	Preparation for Effective Teaching

PFM	public finance management
PFP	Policy Framework Paper
PGBS	Partnership General Budget Support
PPE	pro-poor expenditure
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PQTR	Pupil Qualified Teacher Ratio
PTR	Pupil Teacher Ratio
PSIP	Public Sector Investment Programme
ROSC	Report on the Observance of Standards and Codes
RBM	Reserve Bank of Malawi
SACMEQ	Southern Africa Consortium for the Measurement of Educational Quality
SAF	Structural Adjustment Facility
SAL	Structural Adjustment Loan
SAP	Structural Adjustment Programme
SBS	sector budget support
SDR	Special Drawing Rights
Sida	Swedish Development Agency
SMP	Staff Monitored Programme
SOCAM	Society of Accountants in Malawi
TA	technical assistance
TOR	terms of reference
UDF	United Democratic Front (political party)
UN	United Nations
UNDP	United Nations Development Program
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNTA	United Nations Regular Programme of Technical Assistance
USAID	US Agency for International Development
USD	US Dollars
VAT	value added tax
WB	World Bank

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Remaining errors in the report are the responsibility of the authors. Findings and opinions in this report are those of the evaluation team and should not be ascribed to any of the agencies that sponsored the study.

Currency, Exchange Rate and Fiscal Year

Currency	Malawian Kwacha (MWK)
Exchange Rates	1 USD = MWK 132.720 1 EUR = MWK 159.416 (source: Financial Times 6 March 2006)
Fiscal Year	1 July – 30 June

EXECUTIVE SUMMARY

Introduction and Conceptual Framework

S1. Malawi is one of seven case studies in a joint evaluation of General Budget Support (GBS). Each country study has contributed to the Synthesis Report of the evaluation, but is also intended to be a free-standing report of value to country stakeholders.

S2. Although the evaluation focuses on more recent Partnership GBS (known as PGBS), it covers the period from 1994–2004 in order to assess whether and how PGBS differs from other variants of budget support. This is not a comparative evaluation of different aid modalities, although the assessment of PGBS requires examination of its interactions with project aid and other forms of programme aid.

S3. The joint donor approach to evaluation recognises that PGBS has to be evaluated as a whole, since it is not possible to separate out the effects of different financial contributions. However, there is a special interest in comparing various different approaches to the design and management of PGBS.

The Context for Budget Support to Malawi

S4. Malawi was (and remains) a highly aid dependent country throughout the 1994–2004 period. The share of external resources of total state budget receipts fluctuated between 33% and 57%, with project-tied aid constituting the main external source of funding. Following Malawi's first multi-party elections, the new government took office in May 1994. This led to significant increases in commitments by many bilateral donors and, gradually, several of these established representative offices in the country in order to promote closer dialogue and monitoring of their expanded country programmes.

S5. GBS to Malawi during the 1994–2004 period is, from a public finance perspective, a source of non-earmarked funding for the state budget. While donors have gradually shifted their definitions and terminology for aid instruments, the Malawi government has consistently considered all non-earmarked funding directly (transfers in the form of counter-value from balance of payment (BOP) support) or indirectly (debt relief freeing up other resources for general funding of the budget) as budget support although using the label "BOP" rather than BS.

S6. A key issue when evaluating GBS to Malawi has been the track records of successive governments in maintaining fiscal discipline since 1994. During 1994, in the run-up to the country's first multi-party elections, the overall fiscal deficit almost tripled – to 15% of gross domestic product (GDP). In 1998/99, the deficit reached 5.1% of GDP. From 2001 until the current government took office in July 2004, fiscal expenditure overruns have increased further year by year, with fiscal deficits of 8% of GDP in 2001 and 12% of GDP in 2003.

S7. There are three different periods through which the donor–donor dialogue and donor-government dialogue related to GBS can be described:

In the period 1994–1999, the International Monetary Fund (IMF) and the World Bank led the dialogue with the new government, emphasising macro-stabilisation, trade liberalisation and structural reforms, in particular those related to privatisation of state enterprises dominated

by the previous political regime. In addition, the dialogue following public expenditure reviews (PERs) centred on allocation of public resources for pro-poor expenditure (PPE).

From 2000–2004, more emphasis was placed on public finance management and on support for Malawi's Poverty Reduction Strategy (MPRS), which was introduced in 2000. A covenant for continued balance of payments support/budget support from several donors was based on performance under the Poverty Reduction and Growth Facility (PRGF) with the IMF. The donors increasingly linked their GBS specifically to performance in public finance management and the implementation of MPRS. During this period, a group of donors established a working arrangement under the name of the Common Approach to Budget Support (CABS), which initially included UK, Norway, Denmark (who subsequently withdrew from Malawi), and Sweden with the European Commission (EC) joining later. This period was marked by suspension of budget support following non-compliance with PRGF conditions.

Since July 2004, when a new government took office, a staff monitored programme (SMP) with the IMF resulted in a gradual building of more trust with Malawi's external partners. During this period, some of the GBS donors jointly developed a Performance Assessment Framework (PAF) and introduced a joint framework agreement with the Government of Malawi (GOM). Some of the donors have released previously suspended GBS as an incentive in the new government's efforts to implement fiscal management measures. (Subsequently the IMF has restarted a PRGF.)

S8. In this study, the GBS provided through the CABS group which is specifically linked to supporting the implementation of the MPRS, is defined as Partnership GBS (PGBS). Disbursements of PGBS-type budget support began in 2000/01, but were suspended in 2002/03. In the first two years, PGBS was equivalent to between 5% and 10% of GOM's expenditure. In 2003/04, PGBS restarted with flows equivalent to 2% of Government of Malawi expenditure, rising to 4% in 2004/05. At its peak in 2001/02, PGBS still represented only 12% of total ODA (official development assistance)

Main Evaluation Findings

The design of PGBS in Malawi responded to the local context but was inevitably risky.

S9. Since the mid-1980s, GBS in Malawi consisted of non-earmarked budget support for the state budget from a number of donors. The donors who ventured into the joint working arrangement of CABS (in the context of this evaluation labelled PGBS) in the early 2000s all had experience and knowledge of the local situation in Malawi. The design of PGBS was thus fairly well adjusted to the evolving, financial and economic, social, political and institutional context.

S10. The initial "design" of PGBS, with its focus on the MPRS, could be questioned in the light of the history of policy implementation and weak fiscal discipline by the GOM. This history raises the question of whether PGBS was appropriate for Malawi. The answer to this depends upon how risks were assessed before PGBS was undertaken and how they were dealt with. The underlying analysis recognised risks mainly in terms of the financial, political and economic circumstances and their likely developments. However, efforts to mitigate the risks were primarily focused on fiscal management rather than on political risks. In the risk analysis, political risks in terms of commitment and policy priorities were relatively understated, while positive signs of progress were often overstated. Since the 2004 election, the design has been adjusted to respond to the evolving context.

Was it the right decision to go ahead with PGBS in Malawi?

S11. A key question is whether the eventual poor fiscal performance should (or could) have been anticipated. It may be claimed that, given Malawi's poor history of fiscal management, one could have expected that it would not be able to meet PGBS conditions. On the other hand, it would have been difficult to foresee the significant further deterioration in fiscal discipline that occurred.

S12. Although the original CABS rationale did not emphasise PGBS funds acting as an incentive to leverage commitment, some donor officials were subsequently surprised that senior politicians acted in a way that risked receipt of what were significant funds. One commentator has noted:

They [the donors] saw fit to go ahead with budget support despite their knowledge of the weaknesses of the system – this involved a more or less conscious decision to engage in wishful thinking. Perhaps the lesson to be learnt ... is the dilemma facing donors where the poverty of populations demands donor support, but the dysfunction of governments makes it unlikely that even minimal management conditions will be met ... Aid officials are rarely politically naive, but may lack instruments to confront this dilemma. (Brian Van Arkadie, Personal Communication.)

S13. There are three possible interpretations of the subsequent problems with PGBS in Malawi:

- First, that Malawi failed to meet some absolute minimum entry standard on public finance management or other capacity.
- Second, that the appropriate decision-making process was one of weighing up the risks and benefits. In such a scenario, some failures are inevitable but do not necessarily reflect poor decision making.
- Third, the problems in Malawi were not due to inappropriate entry conditions but to the subsequent support given.

S14. These three interpretations are, of course, not mutually exclusive. There are indications that the risks were understated and that, as a result, some minimum standard was not met. Perhaps more could have been done to help build capacity; although, throughout the period 1994–2004, a number of donor efforts had been made in this regard with limited success. Ultimately, whether the appropriate decision-making process should have a minimum threshold cannot be determined from a single case.

S15. The findings of the Malawi case study do suggest that political governance is a key entry condition for PGBS. Analysis of the appropriateness of PGBS must include political analysis as a basis for its design, in addition to fiscal management reviews and assessment of public finance management capacity. The intentions of the government with respect to sound financial management and poverty reduction need to be established rather than assumed.

S16. The second issue is to reemphasise the general observation that conditionality is neither a substitute for, nor does it promote, ownership. This has clearly been the case in Malawi, where PGBS was supposed to promote reform in public finance management and other governance systems. The assumed incentives associated with PGBS were not effective in Malawi. PGBS may have created expectations of sustained non-earmarked donor inflows but, when suspended due to non-compliance with conditionalities, there were no sustained measures by the government to control expenditure. On the contrary, expenditure continued to far exceed budget ceilings, despite the shortfall in PGBS receipts. The result was an accumulation of increased domestic debt, increasing debt service costs and adverse effects on private investment and prospects for growth.

S17. The dialogue should be supported not only by fiscal reviews and assessments of performance measured by quantitative and qualitative targets, but also by analysis of two of the key entry conditions: political governance and commitment. Providing general budget support to a country with a long history of weakness in managing even its own domestic resources is not likely to lead to improved public sector performance. The objective of designing appropriate conditions and procedures for support will require analysis of the political system and processes, combined with dialogue at the levels of the political leadership and civil society, as well as at executive and administrative levels.

S18. Embarking on a PGBS process – with multiple process, output and outcome targets in support of ambitious poverty reduction policies – is unlikely to achieve the intended results where political governance, ownership and limited capacity are the binding constraints to policy implementation.

Harmonisation and Alignment

S19. The 2001–2004 PGBS by the CABS group represented a more closely coordinated effort among the donors. It served as a joint working arrangement to harmonise reviews and provide one, rather than several, avenues for Malawi government/donor dialogue. CABS has been the vehicle for improved dialogue and coordination.

S20. There have been some improvements in alignment with Malawi government policy instruments, including the MPRS, although these instruments are at an earlier stage of development. There is, however, a question of the extent to which it is possible to align meaningfully with weak systems.

S21. While the CABS PGBS has led to one coordinated dialogue with respective donors, the funding from each of the donors has been guided by separate bilateral agreements. These reveal that the donors have maintained different emphases, conditions and triggers for the release of funding (e.g. not all donors required the government to have a PRGF programme with the IMF). The CABS group can thus be said to have created a joint working relationship for improved coordination of the donor/government dialogue, but did not achieve full harmonisation of conditions linked to the support.

S22. In 2005, the CABS donors agreed on a common Performance Assessment Framework (PAF) to serve as a tool for review of government performance in implementing MPRS and public finance management measures. The various CABS donors, however, plan to use the PAF benchmarks differently. While they all intend to use PAF as a joint framework for review, the focus on each of the benchmarks differs. Some will apply the benchmarks for reviewing performance, while others will also use them as specific triggers for the release of funds. Different donors will also make use of different sub-sets of the indicators. Accordingly, the PAF appears as the sum of individual donors' preferences rather than a prioritised set of benchmarks equally shared by all.

Public Expenditure Performance

S23. The impact of GBS on public expenditure levels has been limited during the pre-2004 period. There has been no improvement in fiscal discipline, the potential positive effects on the cost of financing the budget, and on the transaction costs of aid have been restricted by the suspension of GBS. The transaction costs of PGBS itself have been low; but project funding has continued as the dominant donor approach. Thus the aggregate transaction costs of aid have not declined.

S24. Donors have been concerned to protect pro-poor expenditures (PPE) and this concern probably contributed to keeping a floor on such expenditures throughout the period of macroeconomic instability, though there was no shift towards PPEs away from non-PPE spending. Within this, PGBS donors played a part, but this contributed to an overall effect driven as much, if not more, by considerations for IMF PRGF conditionality and for HIPC as well as by other non-PGBS donors. Predictability of funding has been weakened by the interaction of donor conditionality and GOM fiscal indiscipline.

Planning and Budgeting Systems

S25. Considerable efforts by donors to support improved planning and budgeting systems during the period 1994–2004 have shown limited results. Major work on Medium Term Expenditure Frameworks (MTEFs) and on an Integrated Financial Management Information System (IFMIS) has provided little in the way of concrete results. This is reflected in the underlying problems of fiscal discipline. However, some progress was made during the 2000–2004 period on establishing an improved legal basis for public finance management.

S26. Since 2004, the changed political environment has led to an improvement in the planning and budgeting systems. This was facilitated by the earlier assistance. PGBS donors contributed to this effort, but significant support from non-PGBS donors was probably more important. PGBS donors have, however, been particularly significant in working on domestic accountability and transparency systems, most notably in anti-corruption where they are the key external financial partners of the Anti-Corruption Bureau (ACB).

Policies and Policy Processes

S27. PGBS has not contributed significantly to improving public policy processes and policies. Some progress on specific measures – such as legislation in public finance management and related fields – was achieved, but PGBS was only a partial contributor to this, and the impact of the changes was limited during the period up to 2004.

S28. PGBS has not significantly influenced the overall reform process in terms of ownership, participation and learning. Similarly, there has been little influence on policy content in terms of the balance between the public and private sector and the relationship between individual sector policies and public expenditure plans.

S29. The increased focus more recently on supporting political processes, in particular parliament and its oversight function, may result in improvements in fiscal discipline and increase “political ownership” of agreed policies. However, it is too early to assess the outcome of these interventions.

Macroeconomic Performance

S30. When reviewing policy reforms and fiscal discipline during 1994–2004, it is clear that some progress was made in terms of the structural reform measures agreed with the IMF and the World Bank during 1994–1999. However, lack of fiscal discipline has been evident throughout the period, with a significant increase in expenditure over-runs in the period 2001–2004 – which coincides with the period of PGBS.

S31. The situation limited the actual release of PGBS compared to commitments, which caused the fiscal situation to deteriorate further. Suspension of PGBS was not followed by sustained measures by the government to control expenditure. On the contrary, expenditure continued to exceed budget ceilings, despite shortfalls in PGBS receipts. The result was an accumulation of increased domestic debt and increasing debt service costs. This process led to a further crowding-out of private sector investments and, subsequently, GDP growth rates were far below projected levels. The underlying cause of these perverse effects on macroeconomic performance was the government's poor fiscal performance, which led the CABS donors to suspend PGBS which, in turn, further worsened the situation. (Perverse in the sense that they are contrary to the positive effects postulated in the enhanced evaluation framework for PGBS.)

Service Delivery

S32. The education and health sectors were considered by the study in relation to service delivery. Given the suspension of PGBS for the majority of the period, it was not possible to trace any discernible impacts of PGBS upon improvements in service delivery.

S33. The provision of services in both sectors in Malawi is at a very low level. There are substantial problems in delivery, and both have acute human resource problems associated with the HIV/AIDS pandemic. The few improvements observed are attributable to vertical programmes supported by project-tied aid and efforts by non-governmental organisations (NGOs).

Poverty Reduction

S34. It is not possible to reach conclusions on whether there has been any impact on poverty from PGBS. This is due to the limited funding of PGBS but, more importantly, to the time lags involved in discerning possible impacts and the absence of appropriate trend data.

Sustainability

S35. There is a moderate degree of learning by the Malawi government and its international partners, which has adjusted the PGBS approach in the light of experience. However, this learning process is mainly one of separate rather than shared learning. The adjustment has been concerned with inputs, conditionalities and dialogue rather than implementation and impact levels. Feedback to stakeholders beyond the Malawi government has been limited.

S36. Post-2004, the Malawi Government and politicians have learned that the donors' sanction of suspension of PGBS is real, while the donors have appreciated that a more limited objective is perhaps more appropriate for continued PGBS in the circumstances. And that suspension needs to be managed well, especially in the short term, to avoid fiscal shocks. While the focus on this "new" PGBS is on macroeconomic stability, the rationale is to prevent the potential poverty impacts of a severe economic crisis. Thus the long-term view is an optimistic one in which PGBS can play a positive role. This means that PGBS is being used in a similar way to the programme aid of the mid-1990s, where it focused on basic stabilisation measures and fiscal performance, rather than on the range of issues addressed in the MPRS.

Cross-Cutting Issues

S37. Overall, this evaluation has found only a limited relationship between the cross-cutting issues and PGBS. However, both gender – in terms of relevant education and health indicators – and HIV/AIDS were explicitly included as indicators in the performance assessment framework (PAF). Human rights and democracy are discussed in donor-government

relationships and influenced some donors' decisions over suspension in the 2001–04 period. Environmental issues – despite their importance – were not included.

S38. The focus on the public sector has caused a relative neglect of the private sector in donor strategies. This is, however, a general donor issue rather than a PGBS-specific issue. Government capacity is limited and remains a major constraint.

S39. PGBS has been associated with capacity building and targeted technical assistance, but other donors have continued to provide similar inputs. PGBS has not had any discernible influence on corruption. The CABS donors have, however, consistently supported the Anti-Corruption Bureau (ACB) which, under the new regime (post-2004), has shown itself to be proactive and seems to be receiving high-level support.

S40. Direct evidence of impacts on political governance is absent. However, there are some signs that PGBS created an environment and incentives for the post-2004 government to improve fiscal discipline, in return for a resumption of stable PGBS flows.

Assessment and Future Prospects of PGBS in Malawi

S41. The full logic of the framework for this evaluation, with assumed positive links between one level and the next, has not been tested in the case of Malawi, due to frequent suspensions linked to lack of compliance with conditionality. However, some positive immediate effects are observed (Level 2) from inputs (Level 1) in the form of harmonisation and alignment as well as some complementary capacity-building measures. For the reasons already discussed, there are few visible positive effects beyond Level 3. There are few significant changes at all in terms of service delivery (Level 4) and those that are observed can, for the most part, be attributed to vertical programmes supported by project-tied aid and NGOs rather than PGBS. Changes in poverty levels cannot be assessed due to the absence of reliable information (Level 5).

S42. PGBS has been restarted following the change of government in 2004. With signs of improved governance and fiscal discipline, the prospects for the more limited aims of this new PGBS are promising. This reflects donors treating PGBS as a medium to long-term obligation.

Main Recommendations for Malawi

Political Governance and PGBS Design

- R1 The assessment of whether to go ahead with PGBS should be based on an assessment of political governance and an additional commitment to reviews of fiscal performance and public finance management capacity.
- R2 Political governance and commitment are key issues to address, along with reliable public finance management systems and capacity for effectiveness of PGBS.
- R3 More effort by donors and the Malawi government needs to be put into capacity development of GOM systems, to enable real leadership on aid coordination.
- R4 More effort is needed by donors and GOM in developing policy formulation and implementation.

Harmonisation

- R5 Continued effort is required to make PGBS a vehicle for improving harmonisation for a wider group of donors.

Use of Conditionality

- R6 When designing PGBS conditionalities and sanctions, donors need to consider carefully the impact of suspension of PGBS on macroeconomic stabilisation, and to the extent possible, make a gradual reduction in the medium term rather than completely withdraw in the short term.

Predictability and Donor Commitment

- R7 The impact on predictability in the short term can be mitigated by disbursement arrangements which provide for suspension only in the medium term. Conditions should be fully harmonised, with full transparency on conditions for release.
- R8 Where donors undertake PGBS in difficult policy contexts (like Malawi), they should commit medium to long term.
- R9 Donors need to make clearer the relationship between conditionalities on PGBS and their commitment to other aid programmes.

Monitoring and Use of Indicators

- R10 Monitoring of PGBS, linked to outcome of PRGF, requires a baseline and effective monitoring system prior to, or in early stages of, the PGBS arrangement if performance-based monitoring with output and outcome targets is to be applied meaningfully.
- R11 Donors should use process rather than outcome indicators as triggers for disbursement.

Feedback

- R12 Donors and the government need to strengthen their processes of mutual learning.
- R13 Donors and government should strengthen feedback to all stakeholders including parliament and civil society.

PART A: CONTEXT/DESCRIPTION

A1. Introduction and Conceptual Framework

Introduction

A1.1 Malawi is one of seven case studies in a joint evaluation of general budget support (GBS). Although each country study contributes to the synthesis report of the evaluation, each is also intended as a free-standing report of value to country stakeholders. This chapter explains the background to the evaluation, its methodology and the process that has been followed in Malawi. Annex 1A to this report is a concise summary of the study methodology. Full details of the background and methodology of the multi-country evaluation are in the Final Inception Report (IDD & Associates 2005).

Objectives and Approach to the Evaluation

What is General Budget Support?

A1.2 Budget support is a form of programme aid whereby overseas development assistance (ODA) that is not linked to specific project activities is channelled directly to partner governments – who apply their own allocation, procurement and accounting systems. GBS (in contrast to sector budget support) is not earmarked to a particular sector or set of activities within the government budget. The foreign exchange in GBS is usually accompanied by other inputs: a process of dialogue and conditions attached to transfer, technical assistance and capacity building, and efforts at harmonisation and alignment by the international partners providing GBS. Other forms of programme aid (including debt relief and other balance of payments support) may also generate resources that can be used to finance the government budget. They could, therefore, also be considered as budget support. However, the present evaluation focuses on a particular form of budget support that has recently become prominent.

A1.3 A new rationale for GBS emerged in the late 1990s, closely linked to the development of poverty reduction strategies. So-called "new" or "partnership" GBS (or PGBS) focuses explicitly on poverty reduction; it attempts to support nationally-developed strategies rather than imposing external policy prescriptions. The range of expected effects from Partnership GBS is very wide. The terms of reference¹ for this study draw attention to:

- Improved *coordination* and *harmonisation* among international partners and *alignment* with partner country systems (including budget and result systems) and policies
- *Lower transaction costs*
- *Higher allocative efficiency of public expenditures*
- *Greater predictability* of funding (to avoid earlier "stop and go" problems of programme aid)
- *Increased effectiveness of the state and public administration* as GBS is aligned with and uses government allocation and financial management systems
- *Improved domestic accountability* through increased focus on a government's own accountability channels

¹ The full Terms of Reference are annexed to the Inception Report (IDD & Associates 2005).

Purpose and Focus of the Evaluation

A1.4 As summarised in the terms of reference:

The purpose of the evaluation is to establish to what extent, and under what circumstances (in what country contexts), GBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. The evaluation should be forward-looking and focused on providing lessons learned, while also addressing joint donor accountability at the country level.

A1.5 Although the evaluation focuses on the more recent 'Partnership GBS' (or PGBS), it examines the period 1994–2004 in order to assess whether and how PGBS differs from other variants of budget support. It is not a comparative evaluation of different aid modalities, although the assessment of PGBS does require examination of its interactions with project aid and other forms of programme aid. The joint donor approach to evaluation recognises that PGBS has to be evaluated as a whole, since it is not possible to separate out the effects of different international partners' financial contributions. However, there is a special interest in comparing various different approaches to the design and management of PGBS.

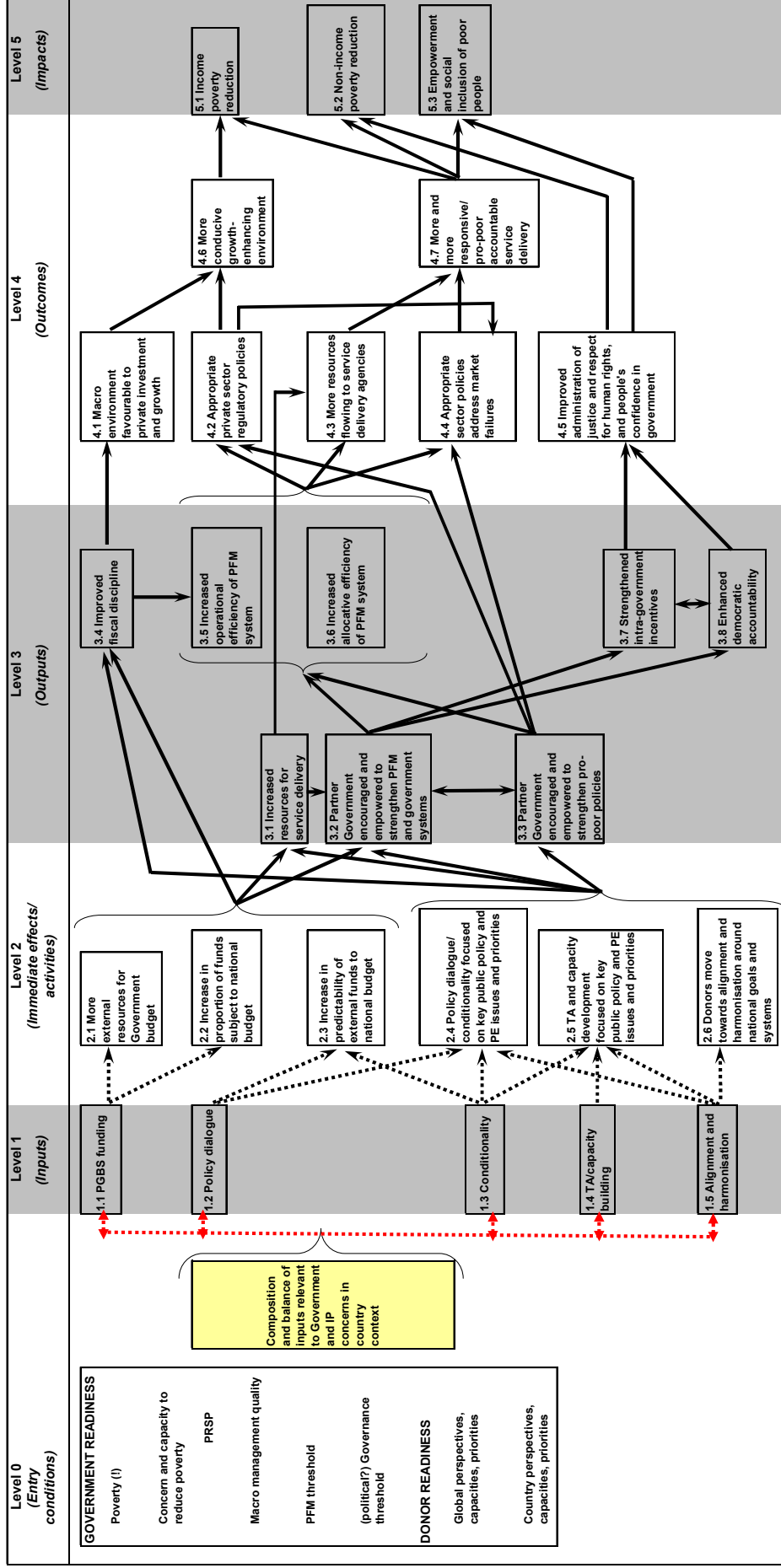
Evaluation Methodology

A1.6 The evaluation is based on a specially-developed methodology, which was further refined during the inception phase of the study. The Enhanced Evaluation Framework (EEF) has the following key elements:

- It applies the five standard evaluation criteria of the Organisation for Economic Cooperation and Development (OECD) development assistance committee: relevance, effectiveness, efficiency, impacts and sustainability.
- A logical framework depicts the possible sequence of effects of PGBS and allows them to be systematically tested. There are five main levels:
 - Level 1: the inputs (funds, plus dialogue and conditionality harmonisation and alignment, technical assistance and capacity building)
 - Level 2: the immediate effects (activities)
 - Level 3: outputs
 - Level 4: outcomes
 - Level 5: impacts.
- The entry conditions for PGBS (i.e. the circumstances in which PGBS is introduced) are conceived as "Level 0" of the logical framework.
- PGBS is conceived as having three main types of effects: flow-of-funds effects, institutional effects and policy effects. These effects overlap and interact with each other.
- There is particular attention to monitoring and feedback effects at all levels of the framework.
- The framework allows for the disaggregation of PGBS inputs, and notes their interaction with non-PGBS inputs.
- Similarly, it allows for the disaggregation of the poverty impacts of PGBS (income poverty, non-income dimensions reflected in the Millennium Development Goals and empowerment of the poor).

A1.7 Annex 1A sets out these elements of the EEF more fully. From them, a causality map has been developed (Figure A1.1 below), which depicts the main cause-and-effect links to be tested by the evaluation.

Figure A1.1: Causality Map for the Enhanced Evaluation Framework



Country Report Structure

A1.8 The methodology ensures a standard approach to the evaluation across the seven case-study countries. All seven country reports follow the same structure, based on the same overarching evaluation questions. To enhance consistency across the country studies, a simple rating system is used when addressing the evaluation questions posed in Part B of the report; this is explained in Annex 1A. The terms of reference require special attention to gender, environment, HIV/AIDS and democracy and human rights. These and a number of other cross-cutting themes are addressed in an additional section (Part C). A final section (Part D) presents the overall assessment and recommendations for Malawi. The report structure is summarised in Box A1.1. The final section of this chapter describes the study process in Malawi.

Box A1.1: Structure of the Country Report

Executive Summary

Part A: Context/Description

- A1. Introduction and Conceptual Framework
- A2. The Context for Budget Support in Malawi
- A3. The Evolution of Partnership GBS in Malawi

Part B: Evaluation Questions: Analysis and Main Findings

- B1. The Relevance of Partnership GBS
- B2. The Effects of Partnership GBS on Harmonisation and Alignment
- B3. The Effects of Partnership GBS on Public Expenditures
- B4. The Effects of Partnership GBS on Planning and Budgeting Systems
- B5. The Effects of Partnership GBS on Policies and Policy Processes
- B6. The Effects of Partnership GBS on Macroeconomic Performance
- B7. The Effects of Partnership GBS on the Delivery of Public Services
- B8. The Effects of Partnership GBS on Poverty Reduction
- B9. The Sustainability of Partnership GBS

Part C: Cross-Cutting Issues

- C1. Cross-Cutting Policy Issues (gender, environment, HIV/AIDS, democracy and human rights)
- C2. Public and Private Sector Issues
- C3. Government Capacity and Capacity Building
- C4. Quality of Partnership
- C4 Political Governance and Corruption

Part D: Synthesis – Overall Conclusions and Recommendations

- D1. Overall Assessment of PGBS in Malawi
- D2. PGBS in Malawi – Future Prospects
- D3. Summary of Conclusions and Recommendations

Bibliography

Annexes

- 1. Approach and Methods
- 2. Country Background
- 3. Aid to Malawi
- 4. Public Finance Management in Malawi
- 5. Summary of Causality Findings
- 6. The Health and Education Sectors in Malawi

The Evaluation in Malawi

A1.9 The team members for the Malawi GBS country study were John McGrath (Imani Development Ltd, Malawi), Philip Amis and Simon Delay (IDD, University of Birmingham) and Jens Claussen (Nordic Consulting Group, Norway) acting as team leader.

A1.10 The study included two visits to Malawi: an inception visit from 1–12 November 2004 and a follow up visit 5–19 June 2005. While the former visit focused on initial data collection and consultations with main stakeholders, the latter gave the team an opportunity to conduct a wider consultation process with representatives of the current and former political leadership and with civil society (see Annex 1B). It also enabled validation of data collected, in particular relating to GBS disbursements to Malawi for which the data provided by donors deviate from registration of receipts by the Reserve Bank of Malawi.

A1.11 The second mission concluded with a workshop organised with the assistance of DFID (the UK Department for International Development) Malawi, with participation by the main GBS donors as well as representatives of the Government of Malawi and civil society. The workshop provided an opportunity to discuss preliminary findings and served as an additional opportunity for quality assurance.

A1.12 The team collected a substantial volume of documentation, including numerous reviews, evaluations and studies of relevance to the evaluation (see Bibliography). This documentation enabled the team to study GBS processes throughout the 1994–2004 period, including GBS operations prior to the current PGBS-type operations under the joint donor framework of Common Approach to Budget Support (CABS). The team also met with a wide range of stakeholders (see Annex 1C).

A1.13 A specific challenge for the Malawi study has been the issue of ownership. PGBS dialogue in Malawi was characterised by a number of suspended disbursements during 2001–2004. The various stakeholders have provided differing explanations for these events. The donor side refers to non-compliance with conditions and suspension of the IMF Poverty Reduction and Growth Facility (PRGF). The government side sometimes claims lack of ownership of agreed conditions, sometimes lack of full understanding of the implications of signing up to the agreed targets, and sometimes claims that targets were too ambitious from the outset compared to the available capacity of government. Accordingly, specific emphasis was placed on discussion with the CABS donors and government representatives holding key positions (at both political and administrative levels) during the specific events. These consultations enabled the team to analyse the reasons underlying the suspension of PGBS and the extent of ownership of the policies supported by PGBS.

A1.14 This final draft responds to comments made on an earlier draft produced in September 2005.

A2. The Context for Budget Support in Malawi

Overview

A2.1 Malawi is a landlocked country in central Africa, bordered by Mozambique in the southeast, Tanzania in the northeast and Zambia in the west. It spans an area of almost 118,500 square kilometres, of which about 24,420 square kilometres are covered by Lake Malawi.

A2.2 About 75% of an estimated population of 12 million people live in rural areas (National Statistics Office 1998). With around 109 people per sq km of arable land, Malawi is one of the most densely populated African countries. Population growth and rural poverty have created a food security problem, with almost all suitable arable land under cultivation. A national sample survey of agriculture showed that 78% of rural households had less than 1 ha. of land, a situation that continues to worsen. This situation also creates environmental challenges in the form of deforestation.

Poverty and Poverty Reduction Strategy

A2.3 Malawi ranks amongst the 10 poorest countries in the world, with a gross national income (GNI) per capita of approximately USD 160 (2003). The national household survey data estimate that 65.3% of the Malawian population were living in poverty in 1998 (National Statistics Office 1998); while 28.7% were classified as ultra-poor, defined as those whose total consumption was less than 60% of the poverty line (National Economic Council 2000). The incidence of poverty is higher in rural areas, where 66.5% of the population are classified as poor compared to 54.9% of the urban population.

A2.4 Malawi's demographic trends are dominated by high birth and death rates. The high death rate is caused mainly by the effects of poverty, the HIV/AIDS epidemic, chronic malnutrition and substandard health services. About 16.4% of the adult population between the ages of 15 to 49 years are estimated to be HIV/AIDS positive. HIV/AIDS-related diseases account for some 70% of hospital in-patient deaths.

A2.5 In 2000, the government presented an interim poverty reduction strategy paper (PRSP). This was later developed as a comprehensive poverty reduction strategy and published in 2002 as the Malawi Poverty Reduction Strategy Paper (MSPRSP). The strategy is built on four pillars – representing the main strategic components grouping various activities and policies into a coherent framework for poverty reduction. The objective of the first pillar is to promote rapid sustainable pro-poor economic growth and structural transformation. The second pillar's objective is to enhance human capital development, while the third is to improve the quality of life of the most vulnerable. The fourth aims to promote good governance. The PRS strategy also seeks to mainstream key cross-cutting issues such as HIV/AIDS, gender, environment and science and technology.

Macroeconomic Management

A2.6 Malawi's economy remains very fragile with a narrow base, and lacking key social services and infrastructure. The size of its market and its landlocked location present a significant challenge to the provision of the cost-competitive and high-quality infrastructure required to compete in international markets. Malawi is a highly open economy, with imports amounting to nearly 34% of gross domestic product (GDP). Nearly 65% of these are

manufactured commodities such as vehicles, electrical and non-electrical goods, machinery and agricultural inputs such as fertilisers. Given the rapid liberalisation of global trade, and the diverse number of trade agreements to which Malawi is signatory, its economic position is somewhat precarious. It is an economy vulnerable to various shocks, making it difficult for the country to attain sustainable economic growth.

A2.7 Agriculture is the primary economic activity. It contributes approximately 35% to GDP, constitutes over 90% of exports and employs about 80% of the labour force (National Statistics Office 2004). The small manufacturing sector has contracted further over the past years and its capacity utilisation is currently estimated at less than 50%.

A2.8 Export earnings are dominated by one commodity, tobacco, which accounts for 65% of total exports. This makes export earnings highly vulnerable. Manufacturing exports account for about 10% of Malawi's total exports. Tourism, a major source of earnings for other countries in the region, provides only 1% of export revenue and has been declining.

A2.9 For a landlocked country, the Malawi transport infrastructure presents a particular challenge. During the period covered by the study, the government implemented a number of measures to improve the transport infrastructure. It privatised the Malawi railways and created the National Road Authority to improve road maintenance. Entry into the domestic market is free with the exception of foreign-registered vehicles on secondary routes, and the market is free to set freight and passenger rates. Despite these measures, both internal and external transport costs in Malawi are high and continue to be the major constraint on Malawi's competitiveness.

A2.10 With the introduction of stabilisation and reform measures, real GDP growth rose to an average of 12% during 1995–96, with inflation declining from 95% in mid-1995 to 10% by the end of 1996. The balance of payments (BOP) improved, with gross international reserves rising from zero in 1994 to 3.5 months of imports by 1996. The fiscal deficit (excluding grants) declined from 13.5% of GDP in 1995/96 to 7.5% of GDP in 1996/97. Structural measures were introduced to improve opportunities for smallholders and to liberalise exports. In tandem with favourable weather conditions, this resulted in a 40% increase in smallholder production in 1996.

A2.11 However, policy implementation deteriorated from 1997. The fiscal deficit in 1997/98 widened to 11.5% of GDP, and inflation doubled to 15% per year. Structural measures such as strengthening expenditure control and reforming the civil service were delayed. Important measures to improve revenue performance – i.e. the introduction of Value Added Tax (VAT) and the establishment of the Malawi Revenue Authority – were also delayed and the privatisation programme came to a standstill. In 1998, as in 1994, the government faced significant expenditure over-runs related to the costs of holding elections. GDP stagnated and inflation reached 53% in 1998 and 30% in 1999.

A2.12 From 2000 to the next election in June 2004, Malawi experienced further over-runs in public expenditure, fiscal deficits and even higher money growth rates. This resulted in a vicious cycle of greater recourse to domestic financing, rising interest rates, crowding out of the private sector, widening overall fiscal deficits and deteriorating public debt dynamics.

Public Finance Management

A2.13 Public finance management was weak in Malawi over the period of the study. Despite significant donor efforts to support capacity building and reform in this field, results were relatively poor. The fiscal control problems already referred to were accompanied by limited capacity in budgeting, accounting and auditing. The 2004 Assessment and Action Plan study (World Bank 2004b) assessed Malawi as meeting only 5 out of 16 Heavily Indebted Poor Countries (HIPC) indicators for public finance management, which was nevertheless a small improvement over 2001. (See Annex 4 for a more detailed discussion of public finance management.)

Governance

A2.14 Malawi became independent in 1964 and the first President, Hastings Banda, ruled under a one-party system until the 1993 referendum, when a vote in favour of a multi-party system led to elections in 1994. Bakili Muluzi emerged as President, heading a coalition led by the United Democratic Front (UDF) party. In 1999, the UDF won a second term, with Muluzi at its head. However, attempts to secure him a third term were ultimately thwarted and, in 2004, the UDF again won, now headed by Bingu wa Mutharika.

A2.15 The pattern of governance in Malawi accords significant power to leading individuals. While multiple parties exist, they do not compete over policies. The direction of government is thus dependent on a small number of key individuals. The political system also allows for easy defection between parties. This makes support for the President in parliament unreliable, especially where he lacks a well-developed personal network.

A2.16 Civil servants have an unusual pattern of remuneration. A small number of senior officials are very highly paid by regional standards, while salaries at lower levels are much more modest. The higher remuneration at the top is justified by reference to individual performance contracts, although performance has not been well managed in practice.

A2.17 Malawi has a relatively centralised system of governance, but is currently in the process of decentralising to the district level. This process is being implemented at varying speeds across different sectors.

A2.18 A notable feature of service delivery is the importance of non-state providers. This is particularly significant in the education and health sectors, where a substantial amount of service delivery is provided by faith-based organisations (see Annex 6 for a more detailed discussion of this issue). This is important to understanding in the Malawian context, where the public sector plays a far less direct role in providing services than in many other countries.

Aid Flows

A2.19 In the 1994–2004 period, Malawi was (and still is) highly aid-dependent – as measured by the total aid inflows and share of ODA compared to GNI. In May 1994, after 30 years of single-party rule, a new Malawian government took office, following the country's first multi-party elections. This led to significantly increased commitments by many bilateral donors. Gradually, several donors established a country presence in the form of representative offices, in order to promote closer dialogue and monitoring of their expanded country programmes.

A2.20 Since 1994, aid disbursements to Malawi have fluctuated between USD 375 million and USD 550 million. The fluctuations can be explained by delays in project implementation and subsequent disbursements, by increased aid flows in response to major droughts – in the form of quick-disbursing emergency-type programmes, and by significant fluctuations in balance of payments support/GBS budget support associated with policy reform conditions.

Table A2.1: Official Development Assistance by Type of Assistance (USD million)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
ODA Grants	299	350	287	211	293	336	338	317	331	468	482
ODA Loans	189	114	243	165	183	153	151	138	92	103	73
Total ODA	488	464	530	376	476	489	489	455	423	571	555
% of GNI	41	32	22	13	25	26	26	24	21	31	27

Source: OECD DAC International Development Statistics (online database) (OECD DAC 2005b).

A2.21 Aid inflows throughout have been fairly equally distributed between bilateral and multilateral aid, with OECD countries constituting the main sources of bilateral aid. Multilateral finance originated with the World Bank through a series of adjustment operations – as a continuation of policy-based lending which had started in the mid 1980s. Approximately 30% of multilateral lending has been provided as adjustment lending/GBS, while the other 70% has been for project investment lending in sectors like education, health, road transport and water supply, as well as emergency relief type operations.

Table A2.2: Official Development Assistance by Type of Donor (USD million)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
OECD Countries	256	230	272	183	213	237	281	212	234	320	330
Multilateral	228	232	256	191	263	247	202	232	179	227	222
Non-DAC Bilateral	4	3	2	2	1	5	6	11	10	2	3
Grand Total	488	464	530	375	476	489	489	455	423	571	555

Source: OECD/ DAC international development statistics (online database)

A2.22 The seven largest sources of external finance to Malawi have accounted for approximately 80% of ODA. Throughout the period of this evaluation, the World Bank International Development Association (IDA), the United Kingdom (UK), European Commission (EC), Japan, the United States (USA), Germany and the African Development Bank/African Development Fund (AfDB/AfDF) have been the dominant sources of funding. All at times provided a form of budget support as one modality of funding. Norway, Denmark (until 2002), Sweden and the Netherlands have also been significant donors of balance of payments support/GBS.

Table A2.3: Official Development Assistance by donor (USD million)

Donor	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	% of total 1994–2003
UK	59	51	86	29	58	77	97	73	50	112	119	21%
IDA	59	73	141	107	130	88	97	124	70	77	98	17%
EC	37	78	46	32	78	92	52	70	55	81	66	16%
US	28	58	32	27	20	28	59	31	61	60	57	10%
Japan	101	51	68	41	54	42	48	27	27	35	39	7%
Norway	7	6	5	5	14	12	7	10	16	28	27	5%
AfDF	41	17	16	31	17	32	18	10	24	30	26	5%
Germany	37	37	32	33	26	29	25	20	24	29	25	4%
Others	126	99	108	75	94	101	91	101	111	126	114	20%
Total	488	464	530	375	476	489	489	455	423	550	571	100%

Source: OECD DAC International Development Statistics (online database) (OECD DAC 2005b).

A2.23 The main sources of balance of payments support/budget support have been the World Bank, USA, UK and EC.

- **World Bank IDA** budget support has been associated with the continuous series of adjustment operations mentioned above, co-financed by Japan, Germany, AfDB and Denmark. These resources are labelled GBS since they were unearmarked resources to the state budget, and were linked to policy targets and general fiscal performance, not developments in particular sectors.
- **USA** has provided sector budget support (SBS) linked to specific reforms and interventions in education, smallholder agriculture and natural resources. These resources may be so labelled since they were released based on evidence of sector expenditure and/or achievements of agreed sector targets.
- **UK** has provided BOP support linked to different reforms, with a similar shift from trade liberalisation and deregulation to a focus on performance, expenditure allocations and fiscal management. It has done so as part of the joint working relationship with other bilateral donors under the heading of CABS .
- The same features apply to the **EC** Structural Adjustment Programme (SAP). The EC also provided additional emergency funding linked to food security operations, specifically during the drought in 1998/99. The latter funds were sometimes credited to the Ministry of Finance Treasury Account (budget support), sometimes not.
- **Norway, Sweden and Denmark** provided budget support under the heading of import support (IS) up until 1995/96. The support was linked to trade liberalisation and was provided as a means of improving Malawi's import capacity. Subsequently the donor countries gradually changed their focus to public expenditure management under the heading of macro financial support (MFS), before coordinating their support in the CABS group under the heading of GBS. Sweden applied stricter conditions and has released no funds since 2000, due to Malawi's non-compliance with PRGF conditions.
- As part of the general global policy shift of **Danish** aid towards a focus on fewer partner countries, development assistance to Malawi was significantly reduced from 2002 and disbursements in the form of budget support were discontinued.
- Part of **Norway's** funding was also provided as debt relief: i.e. not generating counter-value for funding the budget directly, but sometimes doing so indirectly through the saving of budget resources for debt service payments.² The resources were accordingly sometimes credited to the Ministry of Finance Treasury account (budget support), sometimes not.
- **Netherlands** programme aid has been provided throughout in the form of debt relief: i.e. generated "budget savings" by reduced debt service credited to the Ministry of Finance Treasury account.

A2.24 In addition, from 2000, Malawi was granted interim debt relief through the HIPC Initiative. These resources were credited to the Ministry of Finance Treasury account: i.e. treated as budget support.

² Norwegian debt relief has only been credited to the Treasury account no 4001 in the years the commitments were known prior to finalisation of the annual state budget.

A2.25 Analysis of aid flows to Malawi shows that the inflows are highly volatile (Collier 1999). In the case of Malawi (as reflected in Table A2.4), aid is significantly more volatile than domestic revenue, as measured by the coefficient of variance.³ Furthermore, foreign aid does not smooth out revenue shocks, but instead tends to increase when revenue is increasing (IMF 2004b). As Table A2.4 indicates, the least volatile funding is domestic revenue, followed by project-tied aid, then GBS. As can be expected, food aid is highly volatile compared to the other aid instruments. However, in contrast to other countries in Africa, aid to Malawi – and programme aid (including GBS) in particular – does not compensate for revenue shortfalls to level out financing gaps.

Table A2.4: Volatility of Foreign Aid Inflows included in the Central Government Operations 1994/05–2003/04 (% of GDP)

	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	Std. dev.	Mean	Coefficient of variation
Programme aid	9.9	5.7	8.3	4.1	9.2	5.6	9.4	1.9	0.8	2.5	3.36	5.74	0.59
Project aid	5.1	5.0	3.1	3.6	6.5	8.4	8.3	5.8	6.2	8.5	1.93	6.05	0.32
Food security	6.9	1.1	-	-	1.8	-	-	0.4	0.1	-	2.15	1.03	2.09
Other*	-	1.2	-	-	-	-	-	1.9	3.0	5.5	1.85	1.16	1.59
Total Aid inflows	21.9	13.0	11.4	7.7	17.5	14.1	17.8	10.1	10.1	16.5	4.39	14.01	0.31
Government revenue	16.9	17.3	15.5	14.8	18.1	17.4	18.3	17.2	20.8	23.5	2.52	17.98	0.14

Source: IMF.

Note: *From 2001 including HIPC.

³ The standard deviation in the share of GDP for the years compared to the average share of GDP in the same years. The higher the coefficient the larger the relative variation compared to the mean.

A3. The Evolution of Partnership GBS in Malawi

Introduction

A3.1 This chapter describes the history of the aid relationships that led to the development of PGBS in Malawi.

Aid Modalities

A3.2 Aid to Malawi during the period can be assessed from a public finance perspective as a source of funding for the state budget. While donors have gradually shifted their definitions and terminology for aid instruments, the Malawi government has throughout considered all non-earmarked direct funding (transfer in the form of counter-value from BOP support) or indirect funding (debt relief freeing up other resources for general funding in the budget) as budget support – under the label of “BOP Support”.

A3.3 Accordingly, the definition of budget support used by the Government of Malawi (as displayed in Table A3.1) includes all foreign exchange provided to the government that generates non-earmarked local currency for funding of the budget: i.e. in the evaluation framework covering all items under the definitions of financial programme aid as and when it has been credited to the Treasury revenue account.⁴ The government and the Reserve Bank of Malawi (RBM) do not distinguish between these modalities of aid when recording funding; however, the Debt and Aid Management Department of the Ministry of Finance and Economic Planning does, since different sources of funding attach different policy conditions.

Table A3.1: Malawi State Budget Actual Receipts excluding Domestic Borrowing by Source (MWK million at 1994 prices)

Receipts	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Domestic revenue	2,231	4,437	5,983	6,657	11,816	15,808	20,880	22,853	32,009	42,754
Budget support ⁵	1,306	1,462	3,185	1,849	5,524	5,118	11,309	5,083	5,883	10,331
Project-tied aid	1,184	1,591	889	1,720	4,808	7,688	9,807	7,761	9,646	20,283
Total inflow	4,720	7,490	10,058	10,226	22,149	28,614	41,996	35,697	47,538	73,368
Share of external finance	53%	41%	41%	35%	47%	45%	50%	36%	33%	42%
Share of budget support	28 %	20%	32%	18%	25%	18%	27%	14%	12%	14%
Net domestic financing	1,331	931	(696)	2,196	(2,655)	1,886	1,401	9,416	18,829	14,512

Source: Ministry of Finance (MOF), state accounts

Note: Does not necessarily reflect the same data from the RBM, due to lag in registration of transfers and GBS unaccounted for in the state accounts.

⁴ In Malawi some of the balance of payments support had not been credited to the Treasury account, and as such had no resource impact for the budget. The latter is the case mainly for IMF facilities, but also some food aid, bilateral debt relief and other balance of payments support. It is not, however, a procedure consistently applied to specific aid instruments, but appears instead to be determined by the extent funds committed have actually been included in the budget from the outset. (See Annex 1A for a discussion of the definition of budget support.)

⁵ The term budget support, when used by the Ministry of Finance, covers a broader range of programme aid than the definition of budget support in the context of this evaluation, since the former includes all resources provided as non-earmarked funding of the budget.

A3.4 As Table A3.1 illustrates, external finance constituted a significant volume and share of budget resources throughout the period. At the same time, Malawi has generated an impressive volume of domestic revenue compared to its GDP, especially in the latter part of the period. This observation can be directly associated with various adjustment operations and associated technical assistance to strengthen tax administration. However, some see the high share of tax revenue to GDP as an indication that GDP is being underestimated in the national accounts; it is certainly affected by the small relative size of the GDP.

A3.5 The volume and share of different forms of financial inflows to the budget have fluctuated substantially: i.e. there is high volatility of the different forms of inflows. This can be explained by the following:

- The changes in domestic revenue can be attributed to changes in overall national income. Malawi's economy is volatile and is frequently subject to external "shocks" – like drought and price fluctuation in its main export, tobacco.
- In 1998/99, a special effort was made to record project-tied aid not previously included in the budget. This effort led to a major increase in project-tied aid in the budget and state accounts: i.e. it does not reflect an actual increase of resources in the budget, but inflates budget figures compared to previous years.
- The volume of budget support has varied significantly. This is due to frequent suspensions when agreed fiscal targets were not met. Actual budget support resources have generally been reflected in both the state budget and account. This is because they are transferred through a foreign exchange facility that generates counterpart funds (local currency), which are immediately credited to the central Treasury account (in Malawi, labelled revenue account no. 4001).

A3.6 More detailed descriptions of the balance of payment/budget support operations and disbursement data are provided in Annex 3.

Table A3.2: Malawi – Balance of Payments Support Receipts by Source (USD million)⁶

Source	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
AfDB	13		9		14					
China			20							
Denmark			12	2	11	1	4	3		
EC	27	22	10	16	40	24	16			19
HIPC							8	28	42	51
IDA	24	73	4	32	64	30	1	55	13	22
IMF	17	23		10	18	11	12		23	9
KFW	11		5	2						
Netherland		4	9	2		1		4		
Norway	5				7	9	1			6
OECD			31	13						
Sweden			3	4	3					
Switzerland		2								
UK	43	18	33	26	33	31	62	18		17
US	25	17	12	7		5	15	13		9
Grand total	164	160	149	114	190	113	118	129	86	133

Source: RBM - based on actual balance of payments receipts.

⁶ BOP support as defined by the RBM and presented in this table covers a broader range of aid instruments than the narrower donor definitions used in the evaluation framework by including "budget support" and debt relief.

A3.7 As previously mentioned, the BOP support presented in Table A3.2 can be classified as different types of aid instruments according to their impact on public finance. As shown in Table A3.3, some of the BOP support did not generate counter value for the state budget. In most cases, this applied to the IMF; however, it also applied to some bilateral funding (even that intended as budget resources).

Table A3.3: Malawi – Balance of Payments Support Receipts by Type (USD million)

Type of Support	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
No resource for the budget	17	23	37	15	43	17		8	30	9
Debt relief credited Treasury		4	9	2	4	4	8	33	42	51
GBS credited Treasury	123	116	90	90	143	88	95	76	13	64
SBS credited Treasury	25	17	12	7		5	15	13		9
Grand total	164	160	149	114	190	113	118	129	86	133

Source: Reserve Bank of Malawi – based on actual balance of payments receipts

A3.8 The distinction between general and sector budget support in Table A3.3 (GBS and SBS) reflects the extent of earmarking and/or conditions associated with the support. The main source of sector budget support has been the USAID sector programme support. While transfers have been made to the Treasury revenue account and blended with other resources, for some programmes the releases have been made based on evidence of expenditure in a particular sector and/or based on achievements of agreed targets for a sector. The label GBS in this table is applied to all budget support. This includes earlier non-earmarked support focusing on policy change and reforms and, in later years, bilateral budget support provided in support of the Malawi Poverty Reduction Strategy Paper or MPRS (defined in the Evaluation Framework as Partnership GBS).

Extent of Programme Aid

A3.9 Malawi has been supported by a series of IMF facilities: a Standby Arrangement (1994); an Enhanced Structural Adjustment Facility (ESAF) (1996–1999); and a Poverty Reduction and Growth Facility (PRGF) (2000–2004). The ESAF was made available to support the government's 1995–1998 economic and structural reform programme. In December 2000, the IMF approved a three-year arrangement under PRGF following Malawi's presentation of an interim poverty reduction strategy, which was later developed into a full strategy in 2002 (MPRS).

A3.10 From 1994 to date, Malawi has implemented three World Bank-supported Fiscal Restructuring and Deregulation Programmes (FRDP), and is currently implementing a Fiscal Management and Accelerating Growth Program Project (FIMAG). These programmes involve the liberalisation of fiscal and monetary policies and trade liberalisation to encourage diversification of both imports and exports, as well as the privatisation of public enterprises. In an effort to establish a sound institutional mechanism to manage expenditure and ensure that priority sectors are financed, the development of a Medium Term Expenditure Framework (MTEF) was initiated.

A3.11 During the initial years of the period studied, GBS was associated with World Bank adjustment lending: bilateral BOP/GBS co-financed these adjustment operations. The

adjustment operations focused on reforms in areas such as trade liberalisation, privatisation and deregulation. Gradually the agenda shifted its focus to pro-poor budget allocations (social sectors and rural infrastructure) and public expenditure management with GBS provided directly by the donors. The operations were continuously linked to a programme with the IMF.

A3.12 The CABS group of donors (i.e. UK, Norway, Sweden, Denmark and EC) associated their GBS with PRGF. Suspensions of the PRGF led to a reduced inflow of GBS in subsequent years. The first half of 2004 was viewed as an exception until it emerged that a major share of expenditure was apparently used for the forthcoming May 2004 elections.

Developments in Aid Management and Coordination

A3.13 The donor-donor dialogue and donor-government dialogue related to GBS can be divided into three periods:

- In the period 1994–1999, the IMF and the World Bank led the dialogue with the new government. The emphasis was on trade liberalisation and structural reforms, particularly those related to privatisation of state enterprises dominated by the previous political regime. In addition, the dialogue, following public expenditure reviews, centred on allocation of public resources for pro-poor expenditures.
- From 2000–2004, more emphasis was placed on public finance management and support for the MPRS. A covenant for continued GBS became the PRGF agreement with IMF. Some bilateral donors actively promoted a more coordinated GBS under the framework of CABS, linking their support specifically to public finance management and MPRS performance. The attempt to coordinate was a continuation of a previous joint process of annual/semi-annual fiscal management reviews. However, each donor continued as before, with individual grant agreements stipulating individual performance targets associated with their funding, with PRGF as the common denominator. This period was characterised by frequent GBS suspensions.
- Since July 2004, when the new government took office, a staff monitored programme was implemented with the IMF with a view to gradually building more trust with Malawi's external partners. The first six months of the programme proved that the government was able to contain public spending below budget ceilings.⁷ The new government's intentions were further supported by release of bilateral GBS which had previously been suspended. During this period, the CABS donors also started the process of developing a Performance Assessment Framework (PAF) and a joint framework agreement to be introduced to the Government of Malawi. Other external partners, such as the World Bank and Germany, are considering becoming part of the CABS group.

Government's Desires and Expectations of Partnership GBS

A3.14 Malawi has, as previously mentioned, been highly dependent on external aid. A large and sustained proportion of this aid has been provided as project-tied aid, of which a significant share has bypassed the regular government budgeting process. With technical assistance from various donors, the government of Malawi has at times made attempts to capture these resources in the budget process. However, despite the fact that more project-tied aid has been included in the budget, the actual resource flow has, to a large extent, not featured in the state accounts. Cash continues to be released directly to spending agencies, bypassing the Treasury system. Consequently, reported actual expenditure is significantly underestimated.

⁷ With one exception: civil service pay, which rose, due to unforeseen expenditure linked to the overall civil service reform.

A3.15 In order to improve its planning and management of public resources, the Malawi government has promoted funding in the form of budget support. It has also welcomed the move by the CABS group to coordinate their dialogue with the government in support of the MPRS. However, as will be discussed later, expectations at times exceeded actual release of funding for reasons that are ambiguous. Some government officials claimed that CABS donors did not honour their commitments, while other observers, including representatives of the CABS donors, said that government failed to meet its obligations (especially with respect to being on-target with the PRGF) and implement stated policies, and that PGBS had been properly suspended.

Alternative/Complementary Innovations in Aid Management

A3.16 There have been a number of interventions in the form of technical assistance to support fiscal management in Malawi. These have included support for tax reform and management, introduction of a new Financial Management Information System (FMIS), introduction of a MTEF, including the introduction of output-Based budgeting and support to coordinate and capture project-tied aid in the budget process. In addition, the government of Malawi has received technical assistance from, among others, the World Bank for the introduction of a new Public Finance Act, Public Procurement Act and State Audit Act.

A3.17 Some of these measures were successfully implemented and key issues were also addressed in the PGBS dialogue. However, others have had limited success. The introduction of the MTEF is still at an early stage. The new FMIS was not successfully introduced (the new government will instead adopt the system used in Tanzania), and the output-based budgeting process suffers from difficulties in reconciling budget estimates by outputs with the regular chart of accounts. (See Chapter B4 for further discussion.)

A3.18 Recently several external partners (World Bank, UK, Norway, Germany and the AfDB) agreed to support a health sector programme developed by a sector-wide approach to programming (SWAp). The resources will be provided as budget support combined with significant technical assistance for capacity building. The Ministry of Health and Population has developed a framework for targeting an essential healthcare package (EHP) of services to the poor. The EHP is an attempt to promote an integrated approach (as opposed to the existing approach) through the implementation of independent vertical disease control programmes. The financial assistance will be provided as sector-based support, replacing previous project-tied aid and complementing GBS resources.

Perspectives of Different National Stakeholders

A3.19 For many national stakeholders, distinctions between different aid modalities are not a key issue. The key issue is donor action in general terms rather than specific reference to, for example, GBS or to the CABS group. This means that there is little if any direct attribution by national stakeholders of particular effects to GBS.

A3.20 Some sector ministries are aware of the distinction between project aid and budget support. They are concerned that GBS will make them too dependent on the Ministry of Finance and Economic Planning for resources whereas, with project aid or sector support, they can negotiate more directly with donors. Furthermore, government-wide problems might lead to suspension of GBS, threatening their sectoral activities. This issue was of particular concern in the health sector, where there is a perceived risk that, if GBS fails, the health SWAp fails, even though donors pointed out that the two were not necessarily linked.

PART B: EVALUATION QUESTIONS: ANALYSIS AND MAIN FINDINGS

B1. The Relevance of PGBS

How does the evolving PGBS design respond to the specific conditions, strengths and weaknesses of the country, to government priorities and to the priorities and principles of the international partners?

Introduction

B1.1 This chapter is concerned with Levels 0 and 1 of the Enhanced Evaluation Framework (EEF): i.e. relevance of the various PGBS inputs (funding, policy dialogue, conditionality, technical assistance/ capacity building and harmonisation and alignment). This and all subsequent chapters will focus on the GBS provided by the Common Approach to Budget Support (CABS) group from 2001 to the present. This is because the CABS group GBS is the only form of budget support that meets the criteria of partnership defined by GBS in the Inception phase of this study.

Relevant Facts: The Design of PGBS

Objectives and Intent of PGBS

B1.2 Denmark, Norway and Sweden initially provided balance of payments support in the form of import support, changing the label to Macro Financial Support (MFS) when, reflecting a changing trend in international aid, they shifted focus to public expenditure management.

B1.3 Gradually the above donors began cooperating with the United Kingdom and EC under the (CABS group), linking their GBS specifically to public finance management and the MPRS. It is this GBS which, in the context of this study, is labelled PGBS (see A1.3 above). All donors except Norway adopted conditionality related to the IMF PRGF programme

B1.4 The rationale for entering into a joint working arrangement under the name of CABS can be summarised as follows:

- Nearly all respondents identified **harmonisation** as one of the major objectives of the CABS PGBS. This appeared to derive both from general donor strategy and in response to a perceived need for greater harmonisation in Malawi.
- The improved **dialogue** opportunities created by CABS were also emphasised by a number of respondents, addressing an area of perceived weakness in Malawi. For example, CABS provided a regular high-level meeting which enabled not only dialogue between donors and the Malawi government, but also created a rare opportunity for cross-ministry dialogue amongst government officials.
- Another objective was seen as reducing **transaction costs**, partly through alignment with GOM processes and partly through the impact of harmonisation on reduced monitoring and review costs.

B1.5 Some donors explicitly identified poverty reduction as the ultimate purpose of CABS assistance, while other observers noted that the CABS goal was initially macroeconomic orientated, gradually becoming more broadly poverty-related as the poverty reduction strategy paper agenda emerged.

Level and Nature of PGBS Funding

B1.6 Table B1.1 shows the amount of PGBS provided by the CABS group donors between 2000/01 and 2003/04.

Table B1.1: Malawi – Budget Support from CABS Group Receipts by Source (USD million)

Source	1999/00	2000/01	2001/02	2002/03	2003/04
Denmark	2	4	3		
EC		16			19
Norway	2	0			6
Sweden					
UK		62	18		17
Total		82	21	0	42

Source: Reserve Bank of Malawi - based on actual balance of payments receipts.

B1.7 The figures above include only those transfers registered in the Treasury account of Malawi which deviate from disbursement records by donors. With total ODA disbursements ranging from USD 420 million to USD 555 million for the above years, PGBS consisted at its peak in 2000/2001 of approximately 12% of total ODA. While pledged figures were higher, actual PGBS disbursements were a relatively small proportion of total ODA and total CABS total flows. Sector support, projects and technical assistance remained the dominant aid instruments throughout the study period. It is important to keep this issue in mind in an evaluation which attempts to attribute change to a single aid instrument, with the consequent risk of overemphasising the impact of PGBS.

Policy Dialogue and Conditionality

B1.8 The assessment of the policy dialogue in this evaluation is focused on the CABS review process. This was initially a quarterly set of meetings, later reduced to twice a year. The meetings are attended by CABS representatives and government officials. The agenda derives mainly from the CABS reviews. These are not just restricted to CABS conditionalities, but have a broad coverage of government performance, including macroeconomic performance and governance.

B1.9 The full members of the CABS group are (since 2002, when Denmark left) EC, Norway, Sweden and the UK. The World Bank, IMF and Germany attend as observers. In 2005, the World Bank and Germany were discussing becoming full members. For CABS members other than Sweden, participation is by in-country staff with economists typically taking a lead in day-to-day activities. Sweden has no in-country representation, but key meetings are attended by visiting missions.

B1.10 From the outset, each of the CABS members had separate agreements specifying separate conditions with the Government of Malawi. All except Norway specified that they were on track with the IMF PRGF as an explicit condition. Initially, the CABS conditions were focused on macroeconomic and public finance management, but they subsequently became more focused on conditions drawn from the MPRS documentation. General poverty indicators were replaced with a concern with the MPRS monitoring framework itself. The EC has a system whereby some disbursement is explicitly tied to outcome indicators. In 2005, a Performance Assessment Framework (PAF) was being developed. This aggregates the CABS indicators into a single matrix.

Technical Assistance and Capacity Building

B1.11 There is a substantial amount of technical assistance in Malawi that is relevant to, but not directly part of, PGBS. As such, very little is explicitly linked to PGBS. However, there are some exceptions: for example, DFID provided for GBP 300,000 of technical assistance in their GBS proposal in 2000. The CABS group has sought to coordinate the relevant technical assistance by sharing information and avoiding duplication. However, beyond conventional coordination efforts, technical assistance remains funded by and managed through individual donor projects.

Assessment against Evaluation Criteria

Relevance to the Context

The extent to which the strengths and weaknesses of the financial, economic, social, political and institutional context are taken into account in the evolving PGBS design.⁸

Level: *

Trend: +

Confidence: ***

Political context

B1.12 Donors providing PGBS through the CABS group in Malawi were all experienced and were aware of a range of problems which created risks for the success of PGBS. For bilateral donors, PGBS introduced new risks not applicable to earlier forms of non-earmarked aid, by focusing attention on the poverty reduction effects of spending and the overall quality of governance. Other specific risks identified included several where the design of PGBS could potentially mitigate the risk. These are discussed in detail below. In addition, there were risks such as HIV/AIDS and the effects of climate which the PGBS design itself could do little to address, although other donor strategies are concerned to address them through separate instruments.

B1.13 The donors reflected a range of political problems in their risk analyses, including possible opportunistic behaviour by politicians and senior officials, corruption and turnover of key stakeholders. The importance of personalities and key individuals is reflected in the analyses undertaken, and the fragility of the position of ministers was understood. Some of these issues are discussed in Box B1.2 below.

Box B1.2: Political Logic or Economic Rationale – are we asking the right questions of government?

The nature of donor-host nation relations (in this case Malawi) implicitly assumes a conventional role for government; namely that the government's primary role or aims are to develop the economy, to deliver services to its citizens but also to win elections. This is essentially an economic rationale. This perception is reinforced by the tendency of donor personnel and practice to focus primarily on government officials (civil servants) rather than politicians. Thus some of the Malawian government's recent decisions (see the lack of expenditure control leading to a large domestic debt) are seen as unsustainable and economically mistaken.

An alternative view is that some governments are much more concerned with maintaining themselves and the patronage system that comes from government. In this approach, service delivery and balanced budgets are not even "intermediate objectives". This makes the Malawian government's behaviour after the suspension of PGBS in 2002 entirely logical; the importance of maintaining the State is paradoxically more explicable given the shortage of other resources and the weakness of the private sector (See Chabal and Daloz 1999 for a general discussion of these issues).

⁸ For a description of the ratings applied see Annex 1A.

B1.14 In general, the risks identified in relation to public finance management and macroeconomic problems were accompanied by a significant effort to overcome them in the CABS design. They included conditionality, dialogue and technical assistance. Similarly, some capacity problems received attention. Deeper political and institutional problems were less well reflected in the design, and the lack of political commitment to reform was, with hindsight, understated, even though governance had been a prevailing issue and concern since 1994 – as evidenced by, among other factors, weak fiscal discipline due to interventions by individual politicians.

B1.15 Overall, the design responded to the context. But, with hindsight, it did not fully consider the extent of political commitment to the agenda promoted by PGBS. Accordingly, one could question whether PGBS was the correct response in the context.

B1.16 While there is discussion about the pace of public sector reform and the dangers of uncontrolled borrowing, the underlying question of political will is not explicitly discussed. Short-term signs of positive steps – such as the emphasis in the 2000 budget on the quality of public expenditure – are taken as reasons for optimism that risks will be mitigated. A possible explanation offered by at least one donor was that there was a high-level headquarters decision that saw the then political leadership as one to be supported. If so, this may have meant that subsequent local political analysis understated the risks and assumed that the political will existed. However, respondents for that donor who were involved on the ground argued that the decision was made entirely locally.

B1.17 Most of the donor discussion on risk analyses centred around risks of public finance and macroeconomic management. Whilst these are clearly related to broader political and institutional factors, the measures adopted in the design of the PGBS to mitigate risks focused mainly on specifically public finance management and economic measures (as discussed below). Beyond the overall dialogue and conditionality, efforts to improve political commitment (for example, by strengthening parliament or civil society) were not very noticeable in the early years of CABS. One exception is the fact that the CABS group was active in supporting the Anti-Corruption Bureau (ACB). Following suspension of PGBS, donor interest in work with, for example, parliament and civil society, did however increase.

Institutional and social

B1.18 Donor analysis clearly recognised capacity constraints within the government of Malawi, partly because of the fundamental problems these create and partly because of the immediate impact on PGBS – including the ability of the government to report to donors. This is reflected in the design to the extent that associated technical assistance and capacity-building measures are included within CABS donor programmes, and more widely in increased donor support to technical assistance and capacity-building through projects. The latter, however, tend to focus on public finance. Macroeconomic management issues: wider aspects of capacity, including strategic coordination at the core of government, received less attention.

B1.19 There had been some thinking that PGBS would be accompanied by the development of sector programmes, including SWApS. The risk analyses highlight a failure to proceed with this as a potential risk. Donor action to mitigate this risk has been limited because of the evident capacity constraints in most sectors. In practice, progress on SWApS has been significant only in the health sector, where capacity is judged to be better than in other relevant sectors.

B1.20 The highly centralised nature of Malawi's public sector is implicitly acknowledged by the CABS donors, who have generally not emphasised decentralisation reforms (unlike some non-CABS donors – see Chapter B10). This is a consistent approach which introduces decentralisation efforts only after appropriate strengthening of the centre.

B1.21 Some observers have seen poor donor-government relations in Malawi as reflecting a large social distance between the donor and Malawi government communities. If so, making dialogue effective is much harder and the PGBS approach may have over-estimated the impact of policy dialogue.

Financial and economic

B1.22 Clearly, donors were aware of a range of problems relating to macroeconomic management and public finance management: including, off-budget spending; lack of budgetary control; poor quality expenditures; arrears; weaknesses in procurement systems and procedures; poor accounting, and under-resourced auditing.

B1.23 A number of donor officials involved at the beginning of CABS suggested to the team that analysis of these factors was in the early stages of development, or even that the process of assessment was hurried. Donors had, however, been involved in earlier reform efforts and were aware of budget performance issues.

B1.24 The importance attached to these problems is crucial in the history of GBS in Malawi. While donors were aware of the history of problems, donor assessments tend to highlight positive signs such as the proposed introduction of an Integrated Financial Management Information System (IFMIS), or discussions about improving the legislative basis of the auditor. Risks relating to public finance management and macroeconomic issues are rated, for example, by DFID in its 2000 Malawi submission as “medium probability” and “medium impact”. Many of the positive signs, however, represent intentions rather than actual progress; and formal risk reviews report public finance management risks on a narrow basis (e.g. risk of over-borrowing) rather than across the wide range of public finance management and economic management problems that were known to exist. Many observers would argue that the actual risks are of high impact and some would claim they were highly probable.

B1.25 Efforts to mitigate these risks within the PGBS design involved a focus on public finance management and macro issues in the conditionality, as well as general budget support operations throughout the evaluation period (1994–2004). The early CABS conditionality emphasised these over outcome-based aspects of poverty. There was also considerable support to technical assistance in these fields (both directly linked to CABS and through broader donor efforts) and progress on public finance management and macro-management was the focus of much of the subsequent policy dialogue. Thus, in a sense, the design did much to confront the problems in the public finance management and macro-context. The main question, however, is whether the context was so difficult that any form of GBS was bound to run into serious difficulties in the short term – had the experience of GBS operations to Malawi prior to the CABS PGBS been taken into account.

B1.26 These problems raise the question of whether a donor policy of setting an absolute minimum threshold of public finance management capacity before proceeding with PGBS would have been effective or desirable. The evidence from the Malawi case alone cannot determine this; but some observers clearly believe that Malawi demonstrates the problems of proceeding with GBS where basic public finance management capacity is weak.

Dialogue, Conditionality and Ownership

The extent to which the PGBS policy dialogue and conditionalities are consistent with high levels of ownership by government and sensitivity to country constraints.

Level: *

Trend: =

Confidence: ***

B1.27 Conditionality in the early stages of the CABS support reflected mainly public finance management and economic issues. These were broadly similar to much of the IMF conditionality. Other non-earmarked support, such as World Bank structural-adjustment support, tended to have more specific objectives – relating, for example, to privatisation and public sector reform. Over time, the CABS conditionalities became much more closely linked to the emerging poverty reduction strategy agenda. The PGBS design and conditionalities were thus consistent with the MRPSP and also with the agreed benchmarks in the PRGF. It may be claimed that the PGBS dialogue was too complex – attempting to focus on various general and sector specific issues in a situation where even basic economic management and political commitment were not in place.

B1.28 Questions have been raised as to whether the political leadership itself fully understood the implications of the conditions linked to PRGF. There is no evidence that there was real ownership of these commitments, nor was the conditionality based on real commitment. In addition, some senior Malawi government officials claim that the targets set were too ambitious from the outset, in the light of the government’s lack of capacity to meet them. Furthermore, targets were not clearly communicated to relevant sector ministries and there was insufficient consultation by the Ministry of Finance on the achievability of sector targets.

B1.29 Since the new government took office in July 2004, PGBS has restarted, with the main focus on basic public finance management performance and macro stabilisation. In effect, this has meant a greater focus on overall deficit financing for stabilisation rather than poverty-focused GBS (influencing allocation). Arguably this has made the new PGBS design much more sensitive to country constraints than the initial design, and similar to the GBS operations prior to PGBS. This is discussed in more detail in Chapter B9.

Poverty Orientation

The extent to which the PGBS design reflects objectives and strategies related to all the dimensions of poverty reduction.

Level: *

Trend: =

Confidence: **

B1.30 All the dimensions of poverty reduction were reflected in the MPRS, although it emphasises a particular strategy for addressing those concerns: i.e. mainly through social service delivery. However, there is a large gap between the stated intentions of the MPRS and actual government commitment to implement this poverty strategy. The new government that took office in May 2004 emphasised the Malawi Economic Growth Strategy (MEGS), which focused more on growth, employment and income generation than did the MPRS.

Coherence and Consistency of the Design

Coherence and consistency of the PGBS design, taking into account the extent to which the different partners (various IPs and Government) show differences in expectations and approaches related to PGBS or some of its components.

Level: **

Trend: =

Confidence: **

B1.31 Broadly speaking, the PGBS design was coherent and consistent in that the main focus was on the MPRS. However, there was some tension between the MPRS focus and the more practical focus on fiscal management, which was the IMF's main concern. Furthermore, it is problematic to align with domestic policy instruments where these are not themselves well developed and coherent – nor implemented, as evidenced by a decade of deviation between allocation as reflected in the annual state budgets and actual expenditure as evidenced by the state accounts.

Response to Previous Weaknesses in Aid Management

The extent to which the PGBS design responds to analyses of previous weaknesses in aid management systems and processes.

Level: *

Trend: +

Confidence: ***

B1.32 As with past GBS and numerous project interventions, the PGBS design was intended *inter alia* to address a number of weaknesses in aid management systems and processes. Several of these are discussed in subsequent chapters, including better harmonisation and alignment; ownership (B2); transaction costs (B3), and policy dialogue (B5). The limited number of donors involved in the CABS group, and their suspension of PGBS disbursements, meant that these gains were achieved only to a limited extent.

B1.33 One specific problem of previous aid management was that of project-tied interventions not being captured by the budget. Complementary technical assistance efforts by, among others, some of the CABS donors, have tried to address this issue by assisting the government in establishing systems for registration of external resources. Although this has improved the value of the information concerning public finance, most of the aid is not captured by the regular budget process and continues to be released outside the Treasury system. Thus, it remains unrecorded in the state accounts, the main instrument of government economic management. This issue is not specific to Malawi, but alignment with state budget, budget execution and accounting processes is one of the rationales for budget support in general. The improvements brought about by PGBS were, however, anticipated in earlier non-earmarked funding arrangements.

Principal Causality Chains

B1.34 This analysis focuses attention on whether the entry conditions captured in level 0 of the causality chain were adequately met. The aspirations of the PGBS donors (as reflected in their design) were in line with the needs of Malawi and with the official government strategy represented by the MPRS. However, the risks of lack of political commitment were understated, and it is thus questionable whether appropriate entry criteria were satisfied for PGBS (or any GBS) in 2000.

Counterfactual

B1.35 The clearest counterfactual was to have continued with project aid. This “business as usual” scenario – given the relatively modest amounts going to PGBS – is close to what is in fact happening. There are some examples of successful vertical programmes, especially in the health sector.

B1.36 PGBS in Malawi is a new label for GBS, following a long history of earlier GBS operations. From the beginning of the evaluation period, it is difficult to find evidence of successful GBS operations having contributed more than basic policy change to institutional development and capacity building. The case of Malawi shows that conditionality has worked only to a limited extent.

B2. Effects of PGBS on Harmonisation and Alignment

Has PGBS contributed to greater harmonisation and alignment of the aid process?

Introduction

B2.1 Harmonisation and alignment relates to Level 1 of the EEF and can be expected to have an impact on causality chains by moving from Level 1.5 harmonisation and alignment to Level 2.6, international partners moving towards alignment and harmonisation around national goals and targets.

Relevant Facts

B2.2 The 2001–2004 PGBS by the CABS group represented a more closely coordinated effort among the donors, through joint working arrangements aimed at harmonising reviews and one, rather than several, avenues for the government/donor dialogue. This represented a moderate advance on earlier initiatives for improving donor harmonisation. While the CABS PGBS has led to one coordinated dialogue with the relevant donors, the funding from each of the donors has been guided by separate bilateral agreements and disbursement arrangements.

B2.3 These bilateral agreements reveal that the donors have maintained different emphases, conditions and triggers for release of funding (e.g. not all donors required the government to have a PRGF programme with the IMF). The CABS group can thus be said to have created a joint working relationship for improved coordination of donor/government dialogue, but not full harmonisation of conditions linked to the support.

B2.4 In 2005, the CABS donors agreed on a draft common PAF to serve as a tool for review of government performance in implementing public finance management and policy measures. The various CABS donors will, however, use the PAF benchmarks differently. While they all intend to use PAF as a joint framework for review, their focus on the various benchmarks differs. Some will apply the benchmarks for review of performance, while others will use them also as triggers for releases, and yet other donors will use different sub-sets of the indicators. PAF appears as the sum of individual donors' preferences rather than as a prioritised set of benchmarks shared equally by all.

B2.5 From the government's perspective, the CABS PGBS appeared at times as one single source of funding. One example is the CABS group's decision to suspend releases of PGBS. This was, to a large extent, coordinated, despite the fact that donors did not apply the same conditions in their individual bilateral agreements. Another is the perception by the Malawi government that some individual CABS members have a dominating influence on the group. This reflects significant differences in terms of the analytical capacities of donors and, accordingly, their influence on the dialogue.

B2.6 Some of the CABS donors have significant authority delegated to their Malawi office. This makes the process of decision-making easier and the dialogue more informative for the Malawi government. Others require headquarter decisions on all major issues. One donor, Sweden, does not have a presence in the country. Their GBS is managed by the Ministry of Foreign Affairs in Stockholm, rather than through their delegated cooperation arrangement with Norway for project aid in Malawi. This means that the key venue for their participation is during the semi-annual reviews.

B2.7 The key GBS player for the Malawi government, however, is the IMF. A programme with the IMF is seen as the condition underlying CABS GBS releases. According to Malawi government officials, even Norway which, according to its agreement with the government, did not link its support to a PRGF programme with the IMF, acted as if it did at times when CABS GBS was suspended.

Assessment against Evaluation Criteria

Policy Alignment

The extent to which PGBS has contributed to increased IP alignment with government policies at national and sector levels through:			
(a) aligning aid objectives and conditions with government objectives and targets			
General Situation:	Level: **	Trend: +	Confidence: **
PGBS Influence:	Effect: *	Efficiency: **	Confidence: **

B2.8 The MPRS helped generally to align aid with key government priorities as reflected by many donor interventions, both sector support and project-tied aid. Even NGOs have been applying the MPRS as reference for their support. The CABS GBS was also provided as support for the implementation of the MPRS and improvements in fiscal management. In addition, the CABS joint donor arrangement also served to coordinate the donor/Malawi government dialogue. The CABS joint reviews have also focused on fiscal targets and the extent to which resources have been allocated to pro-poor expenditure.

B2.9 The objectives and conditions for CABS PGBS have been fully aligned with the Malawi government's stated policies and fiscal-management targets. However, aligning with official policies and targets is one thing, the actual commitment of the partner country to implement the policies and targets the donors align to is another.

Government Leadership

(b) increasingly relying on government aid coordination, analytic work, TA management			
General Situation:	Level: *	Trend: =	Confidence: ***
PGBS Influence:	Effect: null	Efficiency: null	Confidence: ***

B2.10 The Malawi government has only to a limited extent been in the driver's seat of aid coordination: for example, it has not undertaken substantial analytic work. The CABS group, as one among several coordination arrangements, was seen by donors as moderately successful as an arrangement for harmonisation. It was a welcome step for a more coordinated and less demanding procedure for donor dialogue.

B2.11 Management of technical assistance has not changed and is still guided by donor procedures. Complementary technical assistance has been managed by contracts with donors, not by the beneficiary government institution. The CABS process, however, served to coordinate their inputs.

Alignment with Government Systems

Government planning and budget cycles

The extent to which PGBS has contributed to increased IP alignment with government systems at national and sectoral levels through:

(c) aligning fund commitment and disbursement with government planning and budget cycles

General Situation:	Level: *	Trend: +	Confidence: ***
PGBS Influence:	Effect: *	Efficiency: **	Confidence: **

B2.12 The CABS GBS donors gradually began to align commitments and disbursements more closely to the Malawi government budget cycle and budget execution procedures. In recent years, they introduced disbursement plans as one outcome of the March reviews, which served to improve GOM revenue forecast and cash planning.

B2.13 Recently some of the PGBS donors have decided to make an advance release of the full amount committed at the beginning of the fiscal year, contributing to further improvement in Malawi government cash management. This means that review of past performance for a full fiscal year n-1 will have an impact on funding for the fiscal year n+1, not the year in which the review was conducted (for which only two quarters of fiscal information would be available).

Government implementation systems

(d) increasingly relying on government cash management, procurement, implementation, monitoring, reporting and auditing.

General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect: *	Efficiency: **	Confidence: **

B2.14 To the extent that GBS actually flows, it inevitably does use government systems. As previously mentioned, the CABS PGBS funds (as with all GBS funds) are fully integrated into the cash management system of the Government of Malawi. Efforts have been made to develop the arrangement gradually, to improve the Malawi government cash management process.

B2.15 Monitoring and reporting procedures, including audits for some of the CABS donors, have relied entirely on Malawi government procedures, while others have included additional safeguard measures (like external audits).

B2.16 As with GBS elsewhere, CABS PGBS has relied on partner country reporting. This reduces the requirement for the Malawi government to meet the special reporting requirements donors commonly require for project-tied aid. However, the quality of the reporting has been weak and most reviews of CABS GBS have been based on budget execution figures (funds officially released to spending agencies), not accounting figures (actual expenditure). These figures serve to monitor fiscal discipline (releases versus budget allocation) but do not allow for analysis of actual out-turns compared to targets. Introduction of the Integrated Financial Management Information System (IFMIS) was intended to ensure more timely and reliable expenditure data, but implementation of a new IFMIS system has been substantially delayed.

Harmonisation Among Donors and Modalities

The extent to which PGBS has contributed to improving overall coordination and complementarities of IPs' programmes.			
General Situation:	Level: **	Trend: +	Confidence: ***
PGBS Influence:	Effect: **	Efficiency: ***	Confidence: **

B2.17 The CABS GBS arrangement has successfully served as an arrangement for joint reviews and coordinated government /donor dialogue. On the other hand, the CABS arrangement has not included some major GBS donors, in particular the World Bank, except in an observer status. Indeed the period between 2000 and 2004 has been seen as problematic in terms of the relationship between the World Bank in Malawi and other donors. However, the World Bank has recently indicated likely full participation in the arrangement to improve overall coordination of GBS to Malawi through the CABS arrangement.

B2.18 The CABS group has served as a working group for coordination and harmonisation of GBS. It has effectively also served to coordinate complementary technical assistance inputs associated with many of the public finance management issues linked to GBS. As noted above, management of these inputs has not been harmonised or aligned, but has continued to follow individual donor systems.

B2.19 In conclusion, PGBS has been an effective vehicle for improving donor harmonisation in Malawi. However, key issues have still not been addressed, such as a common approach to the application of an agreed PAF. In section D2 below we discuss the proposed PAF.

The extent to which there have been specific complementarities between PGBS and other forms of aid.			
General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect: **	Efficiency: **	Confidence: **

B2.20 In recent years, there have been processes to develop sector programmes in health and education, with joint and coordinated external partner arrangements for disbursement of support. Although the process has been subject to delays, a joint donor health sector budget support arrangement with complementary technical assistance was formally approved and signed in 2004. This arrangement was to some extent influenced by the CABS GBS arrangement (in as much as it was informed by the CABS process) and represents a disbursement arrangement similar to PGBS aligned with Malawi's public finance management .

Principal Causality Chains

B2.21 This chapter has looked at the causality chain of harmonisation and alignment inputs (1.5), leading to donors moving towards an alignment with and harmonisation around national goals and systems. In this context, the CABS PGBS, although limited to being a joint process for donor/government dialogue and providing joint working relationships for PGBS reviews, has also effectively served as a coordinated and harmonised aid instrument – despite the fact that PGBS from the various donors has been guided by individual donor conditions. The chapter has argued that this principal causality chain is moderately effective; however, the extent to which these changes were specifically the result of PGBS rather than more general donor policy trends towards harmonisation cannot easily be determined.

Counterfactual

B2.22 Harmonisation and alignment have improved since the formation of the CABS group providing PGBS. However, earlier GBS from the same donors was frequently delegated to the World Bank through co-financing of adjustment lending. As such, the CABS group has represented a new and additional avenue for GBS, even though it has been based on many of the same basic conditions as the main multilateral agencies (IMF and the World Bank). Thus one possible counterfactual would have been harmonisation through delegation to a single partner. More conventionally, donors could have continued with project assistance but placed greater emphasis on coordinating strategies and sharing analytical tools. A move to greater use of SWAps could have facilitated a more fundamental form of harmonisation and alignment than projects. Neither of the latter approaches would have had the same effects as CABS GBS, although they might have extended across more donors. Continued co-financing with World Bank operations would have contributed more to harmonisation and perhaps alignment of GBS, although this may have been less acceptable to individual bilateral donors.

B3. The Effects of Partnership GBS on Performance of Public Expenditures

How efficient, effective and sustainable has been the contribution of PGBS to the performance of public expenditures?

Introduction

B3.1 This chapter relates to the transition from level 2 (immediate effects) to level 3 (outputs) of the EEF. It will examine two streams of PGBS inputs and effects:

- Whether an increase in funds subject to the national budget (2.2) and an increase in predictability of external funds to the national budget (2.3) leads to partner governments being empowered to strengthen systems, resulting in increased operational and allocative efficiency of PFM (3.5/3.6).
- Whether policy dialogue/conditionality/technical assistance capacity building focused on key public policy issues (2.4/2.5), and as a result led to increased resources for service delivery (3.1).

B3.2 Attributing GBS effects on public expenditure is difficult for the reasons discussed elsewhere in the report. GBS reflects part of a concerted donor effort in Malawi, and unpacking the impact of individual elements of that effort is problematic. This chapter reviews the evidence available. As in other aspects of the Malawi case, the volatility of PGBS flows has to be taken into consideration.

Relevant Facts

B3.3 The overall pattern of public expenditure during the period of PGBS is shown below.

Table B3.1: Public Expenditure in Malawi (% of GDP)

	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Projected
Total expenditure	33.3	31.9	38.3	42.8	43.9
Total current expenditure	22.6	24.6	30.9	31.6	32.2
Wages and salaries	5.2	6.9	6.8	6.6	7.7
Total interest	4.6	5.1	6.9	10.6	8.7
Domestic interest payments	3.0	3.9	5.5	9.2	7.4
Foreign interest payments	1.6	1.2	1.3	1.5	1.3
Other current expenditure	12.2	12.5	17.2	14.4	15.8
Foreign-funded development	8.6	5.8	5.9	9.4	9.3
Domestic-funded development	1.5	1.5	1.3	1.8	1.2

Sources: IMF 2002b; IMF 2004b; IMF 2005.

B3.4 Total central government expenditure rises over the period relative to GDP. This is a reflection of a range of factors, including the significant rise in domestic debt repayments and additional unbudgeted expenditures, including costs related to the famine in 2002/03 (estimated to be 3.8% of GDP).

B3.5 Table B3.2 shows actual pro-poor expenditures as a percentage of GDP. Information on the efficiency of public expenditure is severely limited. Donor attention has concentrated on coverage of basic services such as primary education, where there are significant problems relating to access and class sizes. These are arguably higher priorities than raising the quality of spending.

Table B3.2: Pro-Poor Expenditures (% of GDP)

	2001/02	2002/03	2003/04	2004/05 (estimate)
PPEs as % of GDP	6.6	7.2	6.8	7.5

Source: IMF 2004b.

B3.6 This observation on public expenditure is similar to that of the World Bank Public Expenditure Review in 2001, which noted that there were two main measures by which public expenditures would be assessed. First was the extent to which public spending improves economic efficiency by intervening in areas where there are significant market failures; and second was the extent to which public expenditure promotes equity. To promote efficiency, the following measures are suggested:

- shifting resources away from headquarters to regional/district cost centres and providing more resources for front line services,
- focusing on implementing staff recruitment, training and deployment in order to mitigate the serious human resource constraint to quality service delivery,
- addressing the impact of HIV/AIDS by introducing life skills into the school curriculum – through teacher training and by introducing a provision for funeral costs.

B3.7 There are concerns over some aspects of the composition of expenditure, such as the relatively high remuneration of senior civil servants and the level of expenditure on some administrative costs such as travel and subsistence.

Assessment against Evaluation Criteria

Influence on Expenditure Allocation

The influence of PGBS funds on the levels and shares of pro-poor expenditures.			
General Situation:	Level: **	Trend: +	Confidence: ***
PGBS Influence:	Effect: *	Efficiency: *	Confidence: **

B3.8 The impact of PGBS funds on public spending is difficult to assess. In one sense, PGBS did provide funds, albeit to a limited extent, and in that sense public expenditure was higher than otherwise. The problem in understanding the effect of PGBS on public expenditure levels stems from the poor record of fiscal discipline over a sustained period. The weakness in holding domestic expenditures in line with available and sustainable resources means that the impact of a change in available resources, as with GBS, did not have an automatic and clearly defined effect on public spending. Perhaps the clearest evidence for this is that, when GBS funds were suspended during the period 2002–2003, the subsequent over-spend exceeded the amount of the GBS resources lost.

B3.9 Thus one extreme interpretation of the impact of GBS on the level of spending is that the level of spending was completely independent of actual GBS inflows. Although this seems

implausible, officials and politicians interviewed clearly did consider that GBS provided additional funds. It seems more likely that the promise of GBS had a ratchet effect on spending, raising actual spending levels and budgeted levels above what they would otherwise have been. However, in the absence of actual GBS financial flows, this ratcheting-up of spending plans was neither appropriate nor sustainable.

B3.10 Since the 2004 presidential election, there has been comparatively little reliable out-turn information on which to base a judgement about the impact of GBS. In terms of budgeted spending, clearly GBS has enabled plans for spending which are greater than they would otherwise have been. This, however, provides only limited insight into the total effect of GBS. Indeed, the rationale for support by some CABS donors places GBS explicitly in the role of supporting budget expenditures to avoid a macroeconomic crisis.

B3.11 The effect of GBS on the level and share of pro-poor expenditure may be more significant than on total spending. However, any impact in terms of maintaining pro-poor expenditure seems likely to have come as much from the general policy dialogue process and conditionality as from the direct effect of the increased flow of funds.

B3.12 State accounting figures do suggest that pro-poor expenditures were protected at least at a basic level during this period. However, a number of caveats need to be recorded. The definition of pro-poor expenditure is fairly broad (see Box 3.1 below). It includes, for example, secondary as well as primary education; it also includes expenditure on some growth-generating activities like tourism and wildlife where the direct impact on the poor is debatable. Significantly, the definition of pro-poor expenditure has changed across the period – most notably by the inclusion of teachers' salaries and learning materials from 2002/03, which represent around 3% of GDP. This makes comparisons between years difficult.

B3.13 More importantly, the counterfactual here is especially difficult – the level of spending in the absence of donor support is hard to determine. There is some evidence that spending on non-pro-poor expenditure items – including election-related costs, maize and the costs of the administration – rose faster than did pro-poor expenditure. The 2003/04 Annual Progress Report for the MPRS, for example, records that, during 2003/04, "*overall government expenditures were increased while PPEs were held constant in absolute terms*". It may however be that, in the absence of donor pressure over pro-poor expenditure, the share of pro-poor expenditure would have declined even faster in favour of other types of spending. The impression gained during interviews was that donor pressure had some impact and did contribute to protection of these expenditures in absolute terms, even if it was not able to generate a substantial switch in resources towards pro-poor expenditure and away from other expenditure.

B3.14 The impact of donor pressure is important, but clearly does not derive solely or even primarily from PGBS-related causes. Concern with pro-poor expenditure is represented by general donor support to the poverty reduction strategy process, in the HIPC programme and in IMF conditionality where pro-poor spending represented a PRGF Quantitative Benchmark. CABS donors were actively monitoring and reporting on pro-poor expenditure, however, and the Malawi government can have been in little doubt as to donor preferences – see for example the February 2003 CABS Aide Memoire:

...In terms of PPE ORTs [other recurrent transactions i.e. non-wage current expenditure], however, CABS partners were concerned to note that releases were substantially below budget allocations. They wondered whether some of this was due to seasonality. They sought additional information to enable them to base a judgement on adequate evidence. Subject to this

consideration, CABS partners urged Government to catch up over the rest of the financial year the ground lost in the first half, without losing aggregate fiscal control (CABS 2003).

Box B3.1: Definition and Tracking of Pro-Poor Expenditures in Malawi

In Malawi, Pro-Poor Expenditures (PPEs) was a concept introduced as part of HIPC negotiations. In order to ensure that HIPC resources would result in an increase of pro-poor expenditures, a subset of high-priority activities within the three pillars of the interim-MPRS was identified as priority Pro-Poor Expenditures (PPEs), and specifically monitored. Although the use of HIPC resources cannot be directly tracked to PPEs, the total level of annual funding for PPEs was expected to increase by at least as much as the HIPC debt relief provision. The 2001/02 budget was the first budget to include PPEs in its budget plan.

The PPEs have since become a standard feature of the budget process. In the event of shortfalls in revenues, funding for PPE expenditures would be protected to ensure uninterrupted service delivery and hence PPEs are also referred to as Protected Pro-poor Expenditures.

The following constitute the PPE in accordance with the Malawi government budget classification system (Ministry of Finance, Malawi).

Pillar 1: Pro-Poor Growth

Agriculture	Agriculture Extension and Small Scale Irrigation Research extension and farmer technology
Water	Rural Water Supplies Borehole Construction/Dam
Roads	Rural Feeder Roads
Natural Resources	Small-scale mining Small-scale fish farming
Labour	Technical and Vocational Training Technical Entrepreneurial Vocational Training Authority
Commerce	Small-scale and Medium Enterprise Promotion
Tourism	Promotion of tourism Conservation & Protection of Wildlife

Pillar 2: Human Capital Development

Education	Primary Education <i>Teaching and Learning Materials</i> <i>Teachers' Salaries</i> Secondary Education <i>Teaching and Learning Materials</i> <i>Teachers' Salaries</i> Teacher Training Teacher housing Preventive Health Care Curative Health Care Infrastructure development and maintenance Health Workers' Training Drugs Health Workers Salaries Health technical services Clinical and population services Family Welfare Services Children Services Adult Literacy Education Youth, sports and culture
Health	
Gender, Community Services, Sports and Culture	

Pillar 3: Improving Life of the Most Vulnerable

Agriculture	Targeted Inputs Program
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Pillar 4: Good Governance

Police	Community Policing Police Officer Training Crime and investigation prevention
Cross-Cutting	Gender Mainstreaming

B3.15 On balance, PGBS-related dialogue and conditionality supported the protection of PPEs. However, the fact that PPE levels were maintained cannot be attributed with any degree of certainty to PGBS over any other form of aid.

Discretionary Expenditure

The extent to which the PGBS funds have contributed to the increase in the proportion of external funds subject to the national budget			
General Situation:	Level: *	Trend: =	Confidence: ***
PGBS Influence:	Effect: null	Efficiency: null	Confidence: ***

B3.16 PGBS funds, like other forms of GBS, provide discretionary external funding of the national budget. The extent of increase in discretionary funding has been limited and volatile. Compared to the 1994–1999 period, the shift to PGBS in 2000 did not lead to an overall increase of total GBS inflow. In effect, PGBS flows represented a continuation of past GBS by the same donors under a new working arrangement with emphasis on MPRS. It did not represent additional non-earmarked resources for the budget and substitute project-tied aid. During 2000–2004, total actual GBS flows declined significantly due to suspension of PGBS, which led to a reduction rather than an increase in discretionary funding for the budget.

Predictability

The extent to which the scheduling and delivery of PGBS funds have contributed to the overall predictability of aid flows and public expenditures.			
General Situation:	Level: *	Trend: +	Confidence: ***
PGBS Influence:	Effect: perverse	Efficiency: na	Confidence: ***

B3.17 The delivery of PGBS in Malawi has been a major concern for the government. Disputes about the responsibility for non-delivery remain, but it is clear that, at a detailed level within some years, it was hard for the government to predict actual flows because of uncertainty over the use of donor discretion. Wiser counsels in government were aware that failure to meet basic conditionality meant that GBS was likely to be suspended, but it was not possible to be certain when. This made predictability of public expenditure difficult and has not helped good PFM, although it is far from the only cause of poor aggregate fiscal discipline or poor allocative efficiency. The impact of low predictability falls much more in the short-term (within the budget year) where the scope for adjustment in a country with low reserves is limited. Adjustment in the longer term is possible but, even here, uncertainty remained across the period in Malawi about when (and whether) donors would resume GBS.

B3.18 From the Malawi government's perspective, the fluctuations in GBS inflows were also due to the shift in conditions by donors from trade liberalisation to public expenditure management and to the performance of pro-poor policies. This shift reduced the predictability of GBS inflows because it was more difficult to meet the related performance conditions. This is especially the case for conditions linked to outcomes of actions taken, rather than to undertaking the actions themselves (process indicators). Outcomes are less predictable and may be beyond the direct control of government (e.g. achieving sector targets or changes in welfare indicators).⁹

⁹ Note that by outcome indicator we refer to indicators reflecting the results of government actions in terms of policy objectives such as infant mortality and literacy. The EC uses a broader definition of outcome indicator.

B3.19 In practice, in recent years there has been an increasingly coordinated process of the IMF working with individual GBS donors to agree GBS disbursement figures for inclusion in Malawi government budgets. This appears to have been done conservatively, with only fairly certain figures included. This has probably improved the accuracy of revenue forecasts, although the impact of donor discretion on releases of funds in the period 2004-05 around the election and its aftermath means that it is hard to be certain. If there is a gain in predictability, however, that has probably been at the cost of government ownership: the involvement of the Malawi government itself in forecasting donor receipts has been limited. This in turn reflects a range of underlying problems discussed elsewhere – the limited capacity of the government in key PFM fields, but also the relatively poor dialogue between the donors and the government, resulting in the government relying on IMF figures.

B3.20 This raises interesting questions about how well understood the GBS conditionality was across government, and thus the extent to which donors' responses to breach of conditionality came as a surprise. This is explored in Box B3.2.

Box B3.2: Was the Suspension of GBS in Malawi a Surprise?

The macroeconomic problems that followed suspension of GBS in Malawi from 2002 were severe and, within the country, there is sometimes a causal linking of the suspension to these problems as if the fault were the donors'. Donors, on the other hand, point to the breach of conditionality by the government, most notably being off-track with the PRGF, and argue that the government should have expected suspension and should have taken action accordingly.

The team discussed this with a number of those involved, both politicians and civil servants. Civil servants in the executive, particularly those at the heart of the policy dialogue in the Ministry of Finance, saw that suspension was inevitable if weak fiscal discipline continued. They may have been uncertain of the precise timing of suspension, but regarded it as bound to happen. They argued that they had sought better financial controls because of their concern about the likely consequences of suspension, but were not adequately supported by key politicians.

Some ministers and parliamentarians shared this view and argued that the problem lay at the very top of the political executive, where there was a failure to understand that donors would indeed suspend. This may have been exacerbated by donors initially exercising their discretion not to suspend immediately.

When suspension did happen, civil servants involved said that it did come as a surprise to those at the top of the political ladder, who thought perhaps that they had done enough to comply with donor conditions despite being in breach of formal conditionality. This may suggest that policy dialogue had not been sufficient to reach the top of the political ladder.

Efficiency of Expenditure

The extent to which the scheduling and delivery of PGBS funds have contributed to the overall efficiency of public expenditures and aid flows.			
General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect: *	Efficiency: *	Confidence: **

B3.21 Limited flows of PGBS funds mean that flow-of-funds effects on efficiency are difficult to observe. As noted above, the priority in donor activity and dialogue has been over the allocation of resources – especially the extent of broad pro-poverty expenditure – and on maintaining budget discipline. However, there has been some activity concerning basic issues of expenditure efficiency with respect to administrative spending. PGBS donors have supported reform of civil service pay and pressed for reductions in some administrative costs, notably for travel and subsistence, but this has represented a collective donor effort with some specific technical assistance: e.g. on civil service remuneration, clearly provided outside of PGBS.

Transaction Costs

The influence of PGBS on the transaction costs of the budget process and utilising aid.			
General Situation:	Level: *	Trend: =	Confidence: ***
PGBS Influence:	Effect: *	Efficiency: ***	Confidence: ***

B3.22 The PGBS dialogue that does take place is a relatively low-cost exercise for the government, involving only a small number of meetings per year with modest participation. Government interviewees did not see this as burdensome. There were suggestions from some donor interviewees that, if anything, perhaps the dialogue needed to be a longer and more frequent process and involve more political levels if it was to be really effective. Given the cost-effectiveness of the existing dialogue, a modest increase in the transaction costs – involving more counterparts and more political levels, having longer or more frequent meetings – would not be problematic. This could go some way towards closing the gap noted by some observers between donor staff and government counterparts.

B3.23 On the donor side, while CABS missions required resources, the costs involved appear modest compared with an equivalent amount of project or sector expenditure; moreover, the costs have been shared across the CABS group in a way which has lowered them for each individual donor. Because the amount of funds disbursed this way has been modest, the actual impact on government total transaction costs has been limited. However, the CABS disbursement mechanism could have coped with much larger amounts of money with much more significant impact on transaction costs had the underlying conditions for GBS been more accommodating.

B3.24 An overall reduction in the transaction costs of aid to Malawi would have required a significant shift of resources away from project aid in favour of budget support.

B3.25 In considering transaction costs, it is important to include all phases of the policy process. It is therefore quite possible that some aid modalities have relatively high up-front transaction costs, but that these may be balanced by relatively low transaction costs in implementation. This pattern is likely to be the case with PGBS, while project funding is likely to have low up-front transaction costs but high implementation transaction costs. This implies that the savings in transaction costs from PGBS will tend to be somewhat greater than those expressed.

B3.26 Some interviewees did question whether there was a degree of overlap in activities between CABS donors and the work of other partners, notably the IMF and the World Bank. Inevitably their analyses covered much of the same ground, but the duplication of resources is not great – given the use by the CABS group of IMF and World Bank analyses where available. As the CABS group grows, there are likely to be further savings in donor-side transaction costs in total, provided the larger group is well coordinated.

Principal Causality Chains

B3.27 PGBS has had only limited effects in Malawi from Level 2 to Level 3. This is partly a function of the limited disbursements which have meant that flow-of-funds effects have not been strong or sustainable. The absence of any track record of good fiscal management has meant that there was always a significant risk of suspension; thus the greater predictability of resource flows anticipated by conventional GBS thinking was never likely.

B3.28 Effects resulting from conditionality and policy dialogue have been present but have not been unique to PGBS: instead PGBS factors have reinforced non-PGBS effects. The underlying governance problems of the 2000–2004 period have meant that the overall effect of these donor pressures has been weak.

B3.29 The implication of this limited causality chain between Levels 2 and 3 is that we cannot expect stronger effects further down the causality chain; we can, however, check to determine the plausibility of potential effects further down the chain.

Counterfactual

B3.30 It is tempting to consider a counterfactual of much greater actual GBS funding. In practice, it is hard to conceive that the CABS group could have continued to disburse in the presence of weak governance arrangements, and that a failure to sanction this might well have worsened government performance on public expenditure.

B3.31 The most realistic counterfactual is for greater project assistance. In such a situation, it seems likely that donor pressure through dialogue on PPE and better management would have continued. In such a situation, it is hard to claim that PGBS would have altered outcomes greatly. The question remains to what extent a project approach or PGBS would be better at getting to grips with the more systemic problems of government. Unfortunately, it is not possible to make a clear statement on this, but the following seems pertinent: a project approach may be more successful in concentrated areas, but weaker with respect to overall problems, while a PGBS approach might be better at the overall picture but perhaps lack the necessary depth of reform.

B3.32 When comparing PGBS with earlier periods of GBS, it is evident that PGBS did not positively influence fiscal discipline. Even though there are observed changes in harmonisation and attempts to improve alignment non-compliance, with PGBS, conditionality leads to suspension, reduced levels of GBS and more volatile aid flows.

B4. The Effects of Partnership GBS on Planning and Budgeting Systems

How efficient, effective and sustainable has been the contribution of PGBS to improving government ownership, planning and management capacity, and accountability of the budgetary process?

Introduction

B4.1 This question traces through the causality chain from Level 2 to 3 by examining the impact of policy dialogue, conditionality, technical assistance and international partner harmonisation and alignment on the operational and allocative efficiency of PFM systems, strengthened intra-governmental incentives and enhanced democratic accountability.

B4.2 The history of GBS in Malawi means that, as in other aspects of the EEF, it is necessary to look both at how GBS has positively impacted on planning and budgeting systems, and also at the effect that the suspension of GBS has had on those systems.

Relevant Facts

B4.3 Overall, PFM quality remains weak in Malawi, although there are some modest improvements in performance in a number of respects. Annex 4 uses an assessment against PEFA indicators to outline the level and trend of PFM processes in Malawi during the relevant period.

B4.4 The weakness noted exists over a broad scope of PFM activities, rather than being restricted to a narrow aspect. Thus budgeting, financial control, cash management, accounting and auditing all suffer from significant weaknesses. In terms of the classic division of PFM issues into aggregate fiscal discipline, allocative efficiency and operational efficiency, all are problematic. However, the weakness in aggregate fiscal discipline is fundamental, making concerted efforts to improve efficiency difficult.

B4.5 Areas where performance has been better have been in revenue management, where Malawi's performance reflects well against regional comparators and in the use of PPE indicators.

B4.6 The trend until 2004 was for only very modest improvement in PFM processes. Where these have occurred, however, they have often represented the putting in place of better procedures or legal instruments. However, the impact of these changes requires further work for full implementation.

B4.7 The Government of Malawi and donor efforts in a number of demanding fields – such as the introduction of an Integrated Financial Management Information System (IFMIS) and a Medium Term Expenditure Framework (MTEF) – have been much more disappointing and have had only limited success. This is suggestive of a lack of government commitment to effective PFM. The concern which had always existed around aggregate fiscal discipline clearly re-surfaced during the period and, if anything, budgetary control worsened. Some of this may have been partly caused by external events, including maize shortages. However, most observers see the problem as deriving from national political leadership.

B4.8 Since 2004, there has been an improved domestic focus on fiscal control by the executive, and this has enabled some of the foundations laid in the earlier period to play a more productive role. Additionally, there are signs that the parliament is taking its role in PFM more seriously, with improved scrutiny of executive action.

B4.9 The CABS group has clearly been concerned with improving technical assistance and this has reinforced efforts by non-PGBS donors in the field. The group has acted as a focus for donor harmonisation in this respect. However the donor effort on PFM pre-dated CABS.

B4.10 A number of activities were, however, undertaken during this period which did relate to budgetary processes. Key among these was the passing in 2003 of a series of new Acts of Parliament, covering public finance management, public audit and public procurement. A further Act revised the Corrupt Practices Act. These were generally welcomed as introducing improved arrangements, including a clearer mandate for public audit and better arrangements for enforcing spending limits. However, the effective implementation of many of these measures did not take place until the arrival of the new administration (and, in some cases, actual enforcement is still awaited). Most observers do not report concrete benefits from these changes during the period of the Muluzi administration.

B4.11 Similarly, as discussed in the previous chapter, gains in protecting PPEs were supported by the CABS group, but were also part of the IMF PRGF conditionality, so it is hard to distinguish the causes of these gains.

B4.12 A large number of other reform initiatives in the field of budget management in the period 2000-04 were supported by donors, including the CABS group. With the benefit of hindsight, most of these initiatives had limited effect. In particular, the work on MTEFs and on IFMIS both entailed much effort by donors but produced little in the way of concrete results.

B4.13 In the period since the election in 2004, there have been renewed signs of commitment to proper budgetary practices. The government has dropped the vote for "special activities", which has been a vehicle for unbudgeted expenditure. There has been some attention given to the cost of official travel, with a move of the Presidential residence accompanying a planned reduction in these costs by 25%. There has been substantial improvement in the enforcement of the budget, with the Accountant General (AG) now given backing for his demands for monthly returns from ministries, with releases of cash dependent on returns being submitted. This appears to be providing fairly effective control of total cash spending at ministry level. There is less progress in terms of ensuring accurate classification of spending and it is possible that discipline at line item level (or even programme level) remains poor.

B4.14 There are further intentions to introduce a number of measures to improve detailed financial control including:

- Centralising control of bank accounts
- Decentralising responsibility for spending resources in a number of key sectors, including education, healthcare and agriculture
- Introducing an IFMIS, beginning in July 2005.

Assessment against Evaluation Criteria

Systemic Effects on the Budget Process

Ownership

The extent to which an increase in predictable and discretionary resources has helped to increase ownership of the budget process and commitment to improved budgeting.			
General Situation:	Level: *	Trend: +	Confidence: ***
PGBS Influence:	Effect: null	Efficiency: na	Confidence: **

B4.15 The issue of how predictable resources have been is, as discussed above, controversial. Certainly, GBS inflows have been volatile and volatility increased during the period of PGBS. Some officials involved in budget-making told us that they had advised caution in forecasting GBS receipts in some years following the 2001 suspension. They suggested that no receipts should be assumed until transfers were made. Ultimately this suggestion was not followed, but it is unclear whether this was caused by donor pressure or by domestic decisions.

B4.16 Concerns within the government over the reliability of donor inflows are likely to have limited the extent to which government stakeholders altered their behaviours in response to changes in financial flows. None of the government sources claimed that the specifically non-earmarked nature of PGBS transfers that did take place had any effect on their budgetary behaviour. Any impact – in terms of generating a commitment to better and more efficient budget allocation processes – is thus likely to have been generated through the influence of policy dialogue, conditionality and/or technical assistance rather than through the flow of funds.

B4.17 Certainly, some political sources told the team that they were concerned about the way donors would interpret any pessimistic forecasting of GBS receipts in the budget. The concern was that this might signal a lack of political will to deal with fiscal discipline, which had been the key underlying PFM reason for suspension. This creates the ironic position where a partner government might adopt a position of poor fiscal discipline (unrealistic budgeting or PGBS receipts) in order to send a signal that it was committed to good fiscal discipline.

B4.18 Most observers currently in government, and many of those formerly involved in government, assert that the key weakness of the Muluzi administration in the years leading up to 2004 was a failure to take fiscal discipline seriously. This in turn relates to poor commitment to the PRS process and a failure to confront the problems of patronage and corruption in government. The CABS group thus faced difficult challenges in attempting to introduce GBS. By linking GBS to IMF PRGF conditionality, they sought to address this issue of government commitment directly. None of the team's sources, however, identified any increased commitment during the period 2000–04. The consensus view amongst those talked to was that the government was interested in gaining the GBS receipts (because any aid was desirable and non-earmarked aid especially attractive for a mixture of both good and bad reasons), but that they did the minimum possible to get that money.

B4.19 Opinions differ on how far this was a cynical calculation (or miscalculation) of what donors would tolerate, and how far it was a failure to understand donor conditionality and how donors would apply that conditionality. The team formed the impression that, at the highest level of government, there was no commitment to improving budget practices and little understanding of the nature of the GBS that was on offer. Other players in government did have more commitment to improved processes (and had done so before PGBS) and realised that sustained GBS was conditional on delivering improvements. But, without full support at political levels, this potential for leveraging commitment could not be delivered. The World Bank, in its

Completion Report for the Fiscal Restructuring and Deregulation Programmes (FRDP) in 2003, similarly noted this lack of commitment to improved expenditure management and contrasted it with other reforms:

In a number of areas the key constraint appears to be Government commitment. This is most notably the case with regard to public expenditure management. Budgets have not been established at realistic levels. Once they have been approved there is inadequate effort to ensure that even the budgeted levels are adhered to, much less to relate outflows to available resources. The President's Office is a notable offender in terms of exceeding budget ceilings. Similarly, the failure to impose hard-budget constraints on parastatals, notably the financing of ADMARC's [Agricultural Development and Marketing Corporation] maize operations, has been a primary cause of large deficits and is at the root of macroeconomic instability. In the areas where there was genuine commitment – moving ahead with privatisation and implementing the social safety net – the progress was much greater (World Bank 2003c)

B4.20 The attribution to PGBS of those changes that did take place happen is problematic. They certainly were the subject of CABS dialogue, and government officials will not have been in doubt of the CABS group's concern to see them passed. For example, the CABS Aide Memoire of September 2002 was reporting:

The Public Finance Management Bill (PFMB) and the Audit Bill were reported to be being amended following consultations. The team welcomed the plan to present the PFMB to Parliament in October. They were however concerned to learn that the Audit Bill was unlikely to be ready for presentation to Parliament before the first quarter of 2003. These Bills are not only important for some bilateral agreements, but also significant elements of the overall improvement in public financial management systems (CABS 2002b).

B4.21 However, CABS were not the only force backing these reforms. The World Bank in particular had the legislation on public finance, audit and procurement as part of its FRDP policy matrix and provided technical assistance in support. The linking of CABS support to this perhaps assisted, but does not appear to have been the major driving force.

B4.22 The progress of the recent period in improving fiscal discipline is widely welcomed by development partners and by independent observers within Malawi. It is, however, difficult to attribute these attempts to PGBS. Senior officials argued that it represented a new commitment which could be attributed to a new political leadership rather than driven by GBS conditionality or policy dialogue. However, there is a broader sense that the country's leadership is aware that donors are willing to fund Malawi's development provided governance improves. Moreover, while the understanding of GBS as a policy instrument may not add to that, the instrument has served to support a new government orientation, even if has not created that orientation. Similarly, those officials influenced by earlier policy dialogue and technical assistance (some of it GBS-related) have been empowered.

Accountability

The extent to which the increased use of government systems and processes helped to improve the accountability of public expenditures.			
General Situation:	Level: *	Trend: +	Confidence: ***
PGBS Influence:	Effect: *	Efficiency: *	Confidence: **

B4.23 GBS could influence accountability in a number of ways: by bringing more donor expenditure into domestic accountability systems; by subjecting domestic spending to more accountability to donors, or by improving existing accountability mechanisms because of the greater importance of the budget under GBS supported by policy dialogue and TA.

B4.24 The immediate effect of the CABS GBS in the period from 2000 to 2004 is not, on the surface, promising. Fiscal discipline was weak, resulting in the suspension of the PRGF and GBS. This rather suggests that accountability also remained weak. The counterfactual position is difficult to judge however: i.e. what would have happened in the absence of GBS? The overspending following suspension in fact exceeded the amount of the forgone GBS receipts. If anything, the position appears to be that domestic accountability for spending was unaffected by GBS at the macro level.

B4.25 Policy dialogue with donors, including the CABS donors, continued to stress basic fiscal discipline, and considerable support was provided through technical assistance during this period. This related to a number of aspects of governance connected to accountability, including support to the Auditor General (AG), the Anti-Corruption Bureau (ACB), parliamentary oversight and the role of non-governmental organisations (NGOs). During the period up to 2004, the concrete results of this support were disappointing – large backlogs of audit reports remained, audits remained focused on detail at the expense of reviewing systemic failings, the ACB was at times handicapped by a failure to prosecute offenders and parliament had limited impact. Behind this, a key cause remained the lack of top-level commitment to real reform.

B4.26 It is, however, arguable that these initiatives did lay the foundations for greater success when a more favourable political climate appeared. Thus, since 2004, there has been some catching up of the audit report backlog, the ACB appears less shackled in prosecution (although in a compromise arrangement, the Director of Public Prosecution can still block prosecution if he provides reasons) and parliamentary committees are showing some real signs of holding the government to account. The government has also appeared more willing to provide detailed spending information to donors.

B4.27 With donor support, Malawi is seeking to decentralise control in a number of sectors, including health and education. This is being done explicitly on the grounds that it will improve accountability by bringing greater transparency to local spending. The grounds for this are debatable, with concerns over the effectiveness of local administrative and financial competence, the possibility of local elite capture, and the extent of effective local accountability to clients.

B4.28 The role of GBS in this is hard to distinguish from the overall donor effort. The CABS group has supported these measures in its policy dialogue, and this has certainly added to the support these initiatives have received. However, they have been the subject of technical assistance from non-CABS donors, including the World Bank, Canada, USA and Japan. Donor support to the ACB, however, has been mainly from several individual members of the CABS group – which planned a basket-funding approach from 2005. Funding the ACB provides a visible commitment to confronting corruption, which may reflect a donor concern with the way GBS is perceived in their home countries, as well as providing valuable support to what has proved a useful function in recent years.

B4.29 Overall accountability has improved significantly, but mainly since the election of 2004, and the influence of donors has been more through policy dialogue and technical assistance than through the increased flow of funds. The GBS donors represent a key part of the donor community in Malawi, and their voices are strongly represented in the policy dialogue and technical assistance that has helped bring about this improvement. It is, however, but it is hard to conclude that GBS has done more to bring this about than alternative aid modes would have. The exception may be the ACB, where GBS may have altered the priorities of the donors involved and raised the value of supporting the ACB function.

Durability

The extent to which PGBS supports government in internalising such improvements (ensuring the sustainability of the whole process).			
General Situation:	Level: *	Trend: =	Confidence: ***
PGBS Influence:	Effect: *	Efficiency: *	Confidence: **

B4.30 A large number of senior officials were convinced of the value of the recent reforms in budget management and in accountability, and can, in many ways, be said to have internalised these benefits. Worries remain over sustainability, however: officials generally pointed to the need to have top-level support for their actions, and said that support remains fragile given Malawi's political system and political culture. A number of activities are dependent on donor financing and it is not clear that they would be prioritised by the Government of Malawi in the absence of earmarked project funding. Many reforms, like expenditure tracking, remain in their early stages or are incomplete, such as the capacity developments in the AG's department. Continued donor effort is thus required to support these developments.

B4.31 It is important, however, not to overstate the gains above. There have been many false dawns in Malawi's PFM systems in the past and, given past problems, the plans to introduce an IFMIS rapidly (based on the relative success of Tanzania) seem overly optimistic. Decentralisation is discussed below. The centralising of bank accounts does seem more plausible. There also remains a question mark over "arrears". By the end of the financial year 2003/04, these had risen to MWK 10 billion, representing spending that had taken place but had not been funded. The measures introduced under the former administration to deal with this, by making permanent secretaries directly responsible for unfunded spending within their ministries, had still not been implemented in 2005. Current figures for these arrears were not available although an exercise was under way to measure them. Some suggestions to the team implied that these had, in fact, increased. Certainly no one claimed they had been reduced as had been promised at the start of the 2004/05 budget. Similarly, some critics claimed that the relative success of the new regime in improving fiscal discipline reflected more generous donor support rather than improved commitment.

B4.32 A study by Durevall and Erlandsson (2005) reviewed a range of PFM reforms and highlighted four reasons for the relative failure in PFM reform:

First, the preferences of the President, the by far most important person when it comes to monitoring and accountability, have in practice been ignored. When the President's preferences are not in line with the goals, the reforms are unlikely to be implemented properly. Second, the incentive structure of civil servants needs to be consistent with the objective of reform implementation. Now there are explicit and implicit contracts with the government that are perverse in the sense that they reduce effort and make capacity building very difficult. Third, the sequencing and prioritisation of reforms have not been adequate. For instance, there has to be a reform of the pay structure before reforms that require a lot of capacity building are implemented. Moreover, it is necessary to get the basics right before embarking on complicated reforms. Finally, the WB seems to have been too optimistic about the progress of reforms and has not paid enough attention to preferences and incentives within the Malawi government. Another way to summarise our findings is that PFM reforms have focused on improving the technical aspects of the budget system, while largely ignoring the preferences and incentives of the different actors.

B4.33 PGBS has not been able to overcome these problems – commitments of PGBS funding did not serve as an incentive during times of disbursements, nor did suspension serve as an incentive. This may be due to the fact that the more fundamental incentive problems within the system had not been addressed.

Capacity Development

The extent to which PGBS is supporting capacity development in PFM.			
General Situation:	Level: **	Trend: +	Confidence: ***
PGBS Influence:	Effect: *	Efficiency: *	Confidence: **

B4.34 Capacity development in PFM has been a long-standing priority for Malawi, but one where progress has been limited. Arguably, technical assistance provided was in excess of the capacity or willingness to change during much of the period 2000 to 2004. Donor sources suggested to us that, at times, government stakeholders viewed technical assistance with suspicion and thought it was constrained in its capacity-building role.

B4.35 Both donor and government sources were critical of the lack of value of much of the effort expended on IFMIS from 1996. This reflects not so much a failure concerned with aid modalities, but a more fundamental problem concerning Malawi's commitment to capacity development. The IMF's conclusion in its 2004 Ex-Post Assessment was that, ultimately, Malawi's experience with IMF-supported programmes raised issues of selectivity (whether programmes should be supported where ownership and commitment were insufficient) more than of programme design or of conditionality.

B4.36 Much of the specific donor support provided to capacity-building in PFM came from non-PGBS donors, and there is no indication that this would not have happened without the presence of PGBS. For the CABS group, however, PGBS undoubtedly did focus attention on PFM issues through, for example, their fiduciary concerns. Thus it may have had an impact on increasing the CABS group work in this field. Until the arrival of the new government in 2004, however, there was no sign of the increased focus of the CABS group creating a more favourable environment for PFM reform.

Principal Causality Chains

B4.37 The most persuasive causal links are:

- Through 2.4 in the EEF – from policy dialogue and conditionality focused on key public policy issues and priorities – to 3.5 – increased operational efficiency of PFM systems. There is a *moderate link* in this instance with a *medium level* of confidence in this judgement, but there are also stronger links from non-GBS inputs to the same effects. The improved results in the recent period are more attributable to domestic political effects than to GBS or donor action.
- From 2.4 to 3.8 – increased accountability – there has been a weak effect, with GBS policy dialogue and conditionality adding to the overall donor effort to promote improved accountability.

Counterfactual

B4.38 The counterfactual in the Malawi case is confused by the suspension of GBS. In one sense, the counterfactual is GBS funds flowing as planned. Alternatively donors could have abandoned GBS altogether and focused more clearly on project aid (or on sector aid in those sectors where capacity seemed adequate). In practice, most of the limited gains discussed here derive from policy dialogue and technical assistance and it is hard to distinguish PGBS inputs from others. While the promise of PGBS may have focused the minds of PGBS donors on financial management processes, it seems likely that there would also have been strong support in this field without GBS – as suggested by the continued efforts of non-GBS donors on PFM functions. Given this, it is hard to conclude that PGBS made much difference compared with the likely alternative of a substantial continued donor effort on the PFM function without PGBS.

B5. The Effects of Partnership GBS on Policies and Policy Processes

How efficient, effective and sustainable has been the contribution of PGBS to improving public policy processes and policies?

Introduction

B5.1 This chapter focuses on tracing causality from Levels 2 to 4 in the EEF to evaluate whether:

Policy dialogue/conditionality focused on key public policy and public expenditure issues and priorities (2.4); technical assistance and capacity development focused on key public policy and public expenditure issues (2.5), and international partners moving towards alignment and harmonisation around national goals and systems (2.6). This has led to pro-poor policies and targeting (3.3), which in turn lead to appropriate sector policies to address market failure (4.4) and appropriate private sector regulatory policies (4.2).

B5.2 The analysis begins by providing an overview of policy-making processes in Malawi. then continues with an assessment of whether the PGBS process has played a role in enhancing either policy or policy processes.

Relevant Facts

B5.3 Since 1994, official statements from the Malawi Government have placed poverty reduction at the top of its agenda. Similarly, virtually all bilateral and multilateral donor agencies in Malawi have agreed to make poverty reduction their overriding objective. The 1995 Policy Framework for Poverty Alleviation Programme identified poverty alleviation as an overriding objective. This would depend on a dynamically growing economy, with the principal tool for redressing poverty being the establishment of an economic environment to expand earning opportunities and encourage private sector initiative – through liberalisation of markets, reorientation and rationalisation of public expenditure and outward-looking trade policies.

B5.4 The MPRS process in Malawi involved national public, private sector, civil society and external partners. It was perceived as a process with wide participation and a policy that the Malawi government was itself subscribing to. The PRGF and CABS GBS were linked to implementation of the MPRS, conditioned on overall sound fiscal management.

B5.5 However, as previously mentioned, actual implementation proved otherwise. As some studies seem to suggest, the actual process of implementation is driven by other motives. To understand the underlying political motives and processes in Malawi would have required significantly more work in analysing them (see Box 5.1).

Box B5.1: The Budget as Theatre

“From the process of planning and formulation the budget, through its implementation and oversight, our study finds that the budget process in Malawi provides no realistic estimate of revenue or spending. The budget process is a theatre that masks the real distribution and spending. All the actors, from civil society, government, and donors seem aware that many of their statements and actions have little bearing on actual distribution of resources. Yet, all stakeholders ‘act’ as if the budget planning and formulation will actually have a bearing on the actual implementation and distribution of resources.”

Source: Rakner et al 2004.

B5.6 During the initial years of the 1994–2004 period, GBS was associated with World Bank adjustment lending, with many bilateral donors co-financing adjustment operations. The adjustment operations focused on reforms in areas such as trade liberalisation, privatisation and deregulation. Gradually the agenda shifted focus to pro-poor budget allocations (social sectors and rural infrastructure) and public expenditure management (PEM). The operations were continuously tied to a programme with the IMF.

B5.7 In 1999, the process of elaborating a PRS was initiated and, in December 2000, the government signed a poverty reduction and growth facility (PRGF) with IMF. The CABS group of donors associated their GBS (PGBS) with the PRGF. Just after signing the PRGF agreement, in early 2001, the programme was suspended, which led to a suspension of PGBS. The funds were suspended until October 2003 when the IMF board approved the findings of the first review of PRGF. This coincided with Malawi’s introduction of legislation aiming at improvements in PFM (Public Finance Management Act, Public Procurement Act and Public Audit Act). However, in the period leading up to the 2004 elections, a PRGF review could not be completed, due to significant over-runs in public expenditure, and PGBS from the CABS group was again suspended.

B5.8 Throughout 1994–2004, the Malawi government consistently failed to demonstrate an ability to manage public finance in accordance with agreed policies as reflected by the annual state budget. Fiscal discipline remained weak throughout the 1994–2004 period and significantly deteriorated from 2001, coinciding with the signing of the PRGF and the CABS donors establishing a joint working arrangement. The few measures periodically introduced to strengthen financial management have had limited success and have not been sustained.

B5.9 A number of studies of financial management in Malawi have concluded that the government has displayed “lack of political will” to implement policies in accordance with stated objectives (Fozzard et al 2002; Bwalya et al 2004; Durevall and Erlandsson 2005; IMF 2004c). While measuring “political will” is not a straightforward issue, the CABS PGBS period has been characterised by an even weaker fiscal “discipline” than in the past and limited progress in implementing the MPRS.

B5.10 With the new 2004 government entering into an agreement for a staff monitored programme (SMP) with IMF as a confidence-building measure on improved fiscal management, PGBS was released by Norway and the UK. Finally, there has been increased focus on supporting political processes, and this may improve ownership and participation in the reform process. It is, however, too early to determine the outcome of these developments.

Assessment against Evaluation Criteria

Influence on Reform Process

Ownership and effectiveness

The extent to which PGBS (allowing for the time lags of its operations) has helped (is helping) to establish/maintain a comprehensive, coherent and effective pro-poor reform process, owned by the government.			
General Situation:	Level: *	Trend: =	Confidence: ***
PGBS Influence:	Effect: *	Efficiency: *	Confidence: ***

B5.11 It may be claimed that the 1994–1999 GBS dialogue gradually led to changes and supported implementation of structural reforms – although at a pace and extent far below target. However, when shifting focus to PEM and MPRS targets, the lack of fiscal discipline and incidences of financial mismanagement became more visible and contributed to limited trust in the government’s “real ownership and political will”.

B5.12 It would be a considerable exaggeration to describe the reform process in Malawi as owned by the government and to characterise it as comprehensive, coherent and effective. Instead, the reform process has been piecemeal and patchy, with relatively low levels of political ownership. The lack of fiscal discipline is also consistent with a lack of political will, inertia and a system of administration dominated by patronage and a weak civil service.

Participation

... in which, an appropriate range of stakeholders is involved in policy formulation and review			
General Situation:	Level: **	Trend: +	Confidence: ***
PGBS Influence:	Effect: *	Efficiency: *	Confidence: **

B5.13 Overall, the PGBS dialogue has supported the reform process and reinforced commitment, for example, to the MPRS process in particular. The level of participation has been judged to have been moderate. The inclusion of a wider range of stakeholders has not been a priority issue in the dialogue, which has focused mainly on the immediate relationship with the executive. In that respect, the participation within the executive on policy dialogue has focused on core executive functions like finance, and the involvement of politicians, sector ministries and other agencies has been limited. This may have reduced understanding of PGBS conditionality and hampered achievement outside the limited group concerned with negotiation.

B5.14 Many of the conditionalities did not involve all the relevant stakeholders at administrative levels: e.g. education targets did not involve discussion with the education ministry. Many benchmarks and triggers have been sector targets, including some related to outcomes (in terms of policy objectives like literacy and infant mortality). They were considered triggers for release on the assumption that there is a direct and rapid link between intent (as reflected in plans and budgets like size and composition of health sector budget) and actual outcomes (improvement in health indicators).

Learning

.. in which, policy processes encourage both government and IPs to learn from experience and adapt policies to country circumstances			
General Situation:	Level: **	Trend: +	Confidence: ***
PGBS Influence:	Effect: *	Efficiency: *	Confidence: **

B5.15 There is evidence that there has been some learning and that it is improving. The experience of 1994–1999 suggested that conditionalities linked to GBS were too ambitious. The result appears to have been some lessons learned by some of the CABS donors. These gradually shifted the focus of their PGBS to basic issues related to economic management. There was thus less emphasis on PRSP benchmarks, using them more as a basis for reviewing performance in overall policy and not as triggers for release.

B5.16 There are also suggestions that the problems – especially in the period prior to 2004 – of the lack of political support and understanding have also been learnt. There has been an increased emphasis on strengthening the role of parliamentarians (who formally approve the budget), to enable them to oversee its implementation. A dialogue with an increased focus on “convincing the political leadership”, combined with strong support for civil society involvement, is beginning to emerge. This may generate stronger commitment to policies supported by PGBS in the future. The likely impact of these developments will be an improved basis for dialogue, better oversight and monitoring of PFM and an improved basis for future PGBS linked to fiscal performance and policy implementation. It is, however, too early to assess the actual outcome of this change in focus by PGBS donors.

Influence on Policy Content

Public and private sectors

.. in which, policies address major market failures, the regulatory environment and the appropriate balance between public and private sectors			
General Situation:	Level: *	Trend: =	Confidence: ***
PGBS Influence:	Effect: null	Efficiency: null	Confidence: **

B5.17 The clearest potential example in Malawi in terms of market failures relates to food security. This is not directly addressed by PGBS – although, in 2005, the IMF was concerned with predictions of agricultural and food security before discussing continuing support. However, it should be noted that food security is a major concern of most donors in Malawi – including the CABS group. Furthermore, the MPRS contained the conventional mix of policies and priorities found in most PRSPs, with protected PPEs as a mechanism to safeguard against shortfalls in revenue and a significant focus on raising public services for poverty alleviation.

B5.18 In relation to the appropriate balance between the public and private sectors, the new government taking office in 2004 felt it was necessary to address some weaknesses in the MPRS. The latter did not fully recognise the importance of promoting growth, in particular in agriculture and small scale enterprises which provide the key income generating activities of the majority of the population. Accordingly, the Malawi Economic Growth Strategy (MEGS) was introduced, with an emphasis on a stable macroeconomic environment and measures to create a conducive and enabling environment for trade and private sector development. However, this potential shift in priorities reflects a national policy shift rather than a shift attributable to PGBS, which has a narrower focus on fiscal management and pro-poor expenditure.

Sector policies

.. .in which, appropriate sector policies complement public expenditures			
General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect: *	Efficiency:*	Confidence: **

B5.19 The relationship between appropriate sector policies and public expenditure will be discussed for the health and education sectors in Chapter B8 and in Annex 6. Overall, there has been a very weak link and coordination between sector policies, and PGBS has had very little influence upon sector policies. This is partly caused by the relative lack of sector support and planning, particularly the absence of an effective MTEF process.

Principal Causality Chains

B5.20 The principal causality chain discussed here assumes that policy dialogue/conditionality/technical assistance and capacity building focus upon key public policy and public expenditure issues and priorities (2.4/2.5). International partners move towards alignment and harmonisation around national goals and systems (2.6), leading to pro-poor policies and targeting (3.3), which in turn lead to appropriate sector policies to address market failures (4.4) and appropriate private sector regulatory policies (4.2).

B5.21 As this causality chain is not directly dependent upon funding, it is one that – at least in theory – may not be affected by the suspension of PGBS. However, the material presented in this chapter suggests that these links are weak in Malawi and accordingly have limited effect. The explanation for this seems as much to do with the weak policy environment and capacity as with the intervention of PGBS.

Counterfactual

B5.22 In terms of the counterfactual, the key questions to ask, given the weaknesses identified, are whether there is any other way of delivering results in terms of policy development and, in such a situation, whether anything would work effectively. There is evidence to suggest that other aid instruments – like project aid – did work more effectively – not in achieving policy change, but in supporting continued service delivery. Project aid in the form of technical assistance was, however, largely ineffective in bringing about intended policy and institutional reforms, although some achievements were made in PFM.

B6. The Effects of Partnership GBS on Macroeconomic Performance

How efficient, effective and sustainable has been the contribution of PGBS to macroeconomic performance?

Introduction

B6.1 This chapter relates to the transition from Level 2 (immediate effects) to Level 4 (outcomes) of EEF. It will cover two streams of effects/ PGBS inputs (i.e. all Level 2 immediate effects/ activities as they relate to improved fiscal discipline and a growth-friendly macro environment) postulated in this framework.

B6.2 The main causal hypotheses of the EEF concerning the PGBS to be addressed in this chapter are:

1. that more external resources for the Malawi government budget (2.1), an increase in the proportion of funds subject to the national budget (2.2) and an increase in predictability of external funds to the national budget (2.3) result in improved fiscal discipline (3.4) and therefore a macroeconomic environment favourable to private investment and growth (4.1) and a more conducive growth enhancing environment (4.6).
2. that policy dialogue/conditionality focused on key public policy and public expenditure issues (2.4), technical assistance and capacity development focused on key public policy and public expenditure issues (2.5) and international partners moving towards alignment and harmonisation around national goals and systems lead to improved fiscal discipline (3.4) and therefore a macroeconomic environment favourable to private investment and growth (4.1) and a more conducive growth enhancing environment (4.6).

B6.3 This chapter will first survey the macroeconomic performance of Malawi, followed by an evaluation of the PGBS in relation to the four judgement criteria.

Relevant Facts

B6.4 During the 1990s, Malawi's GDP grew by about 3.0% per annum on average, which is about 0.8 percentage points above the population growth rate of 2.2%. Much of the GDP growth can be traced to growth in agriculture. However, analysis carried out indicates that the growth rates are inconsistent with the trends in crop production, yields and the implied household calorie consumption. In addition, the per capita consumption data from the Integrated Household Survey (IHS) 1998, and the relatively unchanging social indicators, imply a much lower growth in per capita GDP than reported in official statistics.

B6.5 Low growth during 1994–2004 can be attributed to a high degree of macroeconomic volatility, with sharp falls in output followed by periods of recovery. There are three main factors behind the observed volatility:

- The sharp fall in output during 1994 and low growth in 1998 and 2000–2001 can be directly traced to droughts.

- Deterioration in fiscal performance, especially in 1994 and during 2001–2004, has affected growth through high inflation and interest rates.
- Rapid recovery during 1995 and 1996 can be traced to the acceleration in the implementation of reforms, especially the liberalisation of smallholder agriculture.

B6.6 Investment rates in Malawi have been low and falling. Gross fixed investment fell from about 26% of GDP in 1994 to only 8% of GDP in 2003. Private investment fell from 11% to only 1.5% during the same period. Public investment has been primarily directed to health, education, and rural roads financed by external project-tied aid.

B6.7 Domestic savings rates are low in Malawi, even by developing country standards. Gross domestic savings averaged about 4% during 1994–2001, in contrast to 16.6% in sub-Saharan Africa as a whole. Most of the domestic savings in Malawi are private savings. Government savings have been low or negative in many years, especially in 2002–2003, due to high budget deficits stemming from weak fiscal discipline.

Table B6.1: Savings and Investment 1994–2003 (% of GDP)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Gross national savings	28.6	17.1	11.9	11.7	13.4	14.4	13.6	13.9	10.1	8.8
Domestic savings	5.1	3.3	2.2	-0.7	7.9	-0.6	3.4	4.8	-7.1	-6.4
Net factor income	-3.6	-3.3	-1.7	-1.4	-2.2	-1.5	-1.1	-1.9	-2.1	-2.4
Net private transfers	1.7	-0.3	-0.6	-0.3	-0.8	0.5	0.5	0.6	0.7	0.8
National Savings	12.8	10.7	4.9	0.9	11.1	4.7	9.7	10.9	-2.6	-2.5
Foreign savings	15.8	6.4	7.0	10.8	2.2	9.6	3.9	3.0	12.7	11.3
Gross national investment	28.6	17.1	11.9	11.7	13.4	14.4	13.6	13.9	10.1	8.8
Gross Fixed Capital Formation	26.3	14.5	9.4	9.4	11.0	12.4	12.4	12.8	9.2	8.0
Public	14.9	9.5	6.3	6.8	8.7	10.1	10.1	10.4	7.4	6.5
Private	11.4	5.1	3.1	2.6	2.3	2.3	2.3	2.4	1.7	1.5
Stock Building	2.3	2.5	2.5	2.3	2.4	2.0	1.2	1.1	0.9	0.8

Source: IMF.

B6.8 Malawi has implemented a number of external sector reforms since 1994. Since 1996, the exchange rate has been market-determined, with no export tax, no quantitative restrictions on imports, and a low average tariff rate of 12%. Malawi's current account deficit before grants has been significant over the entire period. Most of the deficit has been financed by external aid, making the country highly dependent on aid to maintain its import capacity. With large external inflows, Malawi was, in the initial years of the period, able to increase foreign exchange reserves to above four months of imports, and had no restrictions on its trade account. However, from 2001, the situation deteriorated and overall foreign exchange reserves were reduced to 1.8 months of imports in 2004.

B6.9 During the 1980s, Malawi's trade and exchange rate regime was restrictive and complex, featuring restrictive licensing requirements, regulation of export proceeds and high tariffs. In the 1990s, the government implemented a series of measures liberalising the trade regime associated with World Bank adjustment lending. Consequently, Malawi today has a highly liberal and transparent trade regime. In Malawi, there are no non-tariff barriers, no general licensing requirements for exports or export tariffs, the tariff structure has a maximum tariff of 25%, and there are only three non-zero tariff bands.

B6.10 In 2000, Malawi's external debt amounted to 146% of GDP. Malawi's ratio of debt service to exports of goods and non-factor services was 21% and the net present value (NPV) of the debt/GDP ratio on an accrual basis was 86%. This made Malawi a highly indebted country, eligible for HIPC relief. Malawi was granted HIPC relief, amounting to 42% of its debt, after reaching the HIPC decision point in December 2000.

B6.11 Malawi is highly vulnerable to two kinds of external shocks on the supply side:

- Food production remains highly vulnerable to weather. Poor weather, combined with the logistical and institutional problems in the importation of food, leads directly to high food prices.
- With Malawi's high dependence on imports, changes in terms of trade and resulting movements in the exchange rate translate directly into high prices of non-food consumer goods.

Assessment against Evaluation Criteria

Macroeconomic Effects

Fiscal discipline and macroeconomic stability

The extent to which PGBS has contributed to fiscal discipline and macroeconomic stability.			
General Situation:	Level: *	Trend: +	Confidence: ***
PGBS Influence:	Effect: perverse	Efficiency: null	Confidence: ***

B6.12 Malawi is more dependent on foreign aid to finance its BOP and public expenditure than most other African countries. High aid dependence has created problems for monetary management, and has been an important factor behind the observed fiscal volatility.

B6.13 The resulting high and un-programmed level of domestic borrowing can be attributed to large expenditure over-runs in certain areas when compared to the approved annual budget. But it can also be attributed to programming of donor GBS commitments subject to substantial delays in actual releases or suspensions due to non-compliance with policy conditions. This appears to confirm the general point that GBS can be seriously unstable initially, and only becomes dependable if agreement is reached to sustain it.

B6.14 Poor financial performance of the parastatals, resulting in their borrowing directly from the market, leads to unpredictable central government borrowing. Parastatal corporations are often unable to service their debt, which is underwritten by the government. The government is then obliged to take on obligations that were not budgeted for at the beginning of the year, and borrow from the market to meet them. This can be linked to delays in implementation of restructuring state-owned enterprises, one of the prevailing issues associated with World Bank adjustment lending (GBS).

B6.15 The experience of PGBS in Malawi during 2001–2004 clearly did not contribute to fiscal discipline and macroeconomic stability. There is some hope that, with the new government in July 2004 and the new releases by the CABS group, macroeconomic stability may improve. It is, however, too early to say whether the process of restarting PGBS will eventually be supporting a process of improved fiscal discipline and, if so, to determine the relative importance of the PGBS dialogue and the IMF SMP dialogue.

Cost of budget finance

The extent to which PGBS funding has reduced the cost of budget financing.			
General Situation:	Level: *	Trend: +	Confidence: ***
PGBS Influence:	Effect: *	Efficiency: ***	Confidence: **

B6.16 In a basic sense, the effect of PGBS flows that actually took place has been to reduce the cost of financing expenditure – given that the main alternative (with an already strong domestic revenue effort) was domestic borrowing at high rates of interest. The reintroduction by some donors of PGBS in 2004–2005 has been explicitly to recognise the costs of borrowing and their macroeconomic impact when clearly more spending in social sectors was necessary to bring about achievement of the Millennium Development Goals.

B6.17 The positive effect of new PGBS inflows is, however, weakened by its limited volume; higher levels of PGBS and more consistent flows would have had a much greater effect. The issue is illustrated most clearly during the suspension of GBS, when domestic borrowing rates sometimes reached as high as 50% (though not all this borrowing derived from GBS suspension itself).

Private investment

The extent to which PGBS funding of public expenditures has adversely affected private investment.			
General Situation:	Level: null	Trend: +	Confidence: **
PGBS Influence:	Effect: perverse	Efficiency: null	Confidence: **

B6.18 Financing of PE, and in particular the significant expenditure over-runs compared to the budget, has, as mentioned above, resulted in crowding-out of private investment due to increasing domestic debt financing the Malawi government. Investment rates in Malawi have been falling, particularly during the 2001–2004 period.

B6.19 PGBS has not contributed to any positive change in fiscal management. If PGBS had not been suspended, it might have lessened the adverse impact through reduction in domestic borrowing. However, it is on this issue that Malawi government officials and donors present different views. On the donor side, many claim that if PGBS had not been suspended the fiscal deficit would have been more or less the same (budget over-runs increased even more), while many government officials claim that a large share of the fiscal deficit can be attributed to projected PGBS inflows (even though there were budget over-runs).

Domestic revenue

The extent to which PGBS funding of public expenditure has adversely affected domestic revenue collection.			
General Situation:	Level: ***	Trend: +	Confidence: ***
PGBS Influence:	Effect: null	Efficiency: null	Confidence: **

B6.20 Complementary interventions prior to and during PGBS, notably through World Bank technical assistance, have resulted in improvements in the tax regime and administration, despite significant delays in introducing value added tax (VAT).

B6.21 Malawi's good performance on domestic revenue, supported by donor assistance to the Malawi Revenue Authority (MRA), does not appear to have been directly influenced by PGBS. The possible negative effect on revenue caused by providing alternative non-earmarked revenue has not emerged, while donor commitment to the MRA predates PGBS and continues, despite the suspension of PGBS. There is no evidence of a crowding out of domestic revenue effort during the period of PGBS and, indeed, Malawi's record on collecting domestic revenues is good by African standards, with domestic revenue effort during the period from 2000–2003 being around 19% of GDP and higher still towards the end of the period.

Facilitating Institutional Change

The extent to which such improvement has been stable over the years and has allowed changes in institutional behaviour (private sector investment, central bank decisions, etc.).

General Situation:	Level: null	Trend: =	Confidence: **
PGBS Influence:	Effect: null	Efficiency: null	Confidence: **

B6.22 The entire period of PGBS has been subject to volatility of resource flows, both for the Reserve Bank of Malawi (RBM), which projected external flows according to pledges, and for the MOF, using pledges as projected budget support when formulating the budget each year. Although the RBM and the MOF suggested that they should discount GBS pledges when making their own projections, this was not considered acceptable by some of the external partners since it effectively meant that the government did not plan to comply with agreed targets. From a fiscal planning and management perspective, PGBS has had little impact on institutional behaviour and did not contribute to improved private sector investment and central bank decisions.

Principal Causality Chains

B6.23 The experience of PGBS in Malawi has been a reduction in non-earmarked external resources to the Malawi government budget (2.1) and funds in the national budget (2.2) relative to earlier unearmarked support, reduced predictability of external funds to the national budget (2.3), had no impact on improving fiscal discipline (3.4) with the macroeconomic environment deteriorating with adverse impact on private investment and growth (4.1) and a less conducive growth-enhancing environment (4.6). The macroeconomic situation became worse under the PGBS period subject for this evaluation. To what extent this can be attributed to PGBS is, however, subject to debate. Some government officials claim that predictability of GBS flows were reduced with PGBS, while donors claim that the conditionality was clear and suspensions highly predictable.

B6.24 There was little evidence that the link between policy dialogue/conditionality focussing on key public policy and public expenditure issues (2.4) technical assistance and capacity development focussing on key public policy and public expenditure issues (2.5) and international partners moving towards alignment and harmonisation around national goals and systems could potentially have led to improved fiscal discipline (3.4) and thus a macroeconomic environment favourable to private investment and growth (4.1) and a more conducive growth-enhancing environment (4.6).

Counterfactual

B6.25 There are two possible counterfactuals :

1. If PGBS had been disbursed despite evidence of weak fiscal discipline.
2. If PGBS had instead been disbursed in the form of project-tied aid with no opportunities for government to reallocate resources for other purposes (as it did when the releases were actually made).

B6.26 In the first case, it might have changed the fiscal performance. PGBS releases would most likely not have increased expenditure by the same amount: i.e. part of the PGBS would have offset accumulation of domestic debt. However, even if this had been the case, it would not have supported a sustainable fiscal situation since the annual expenditure overruns far exceeded the amounts of PGBS suspended.

B6.27 If PGBS had instead been tied to projects or specific sectors (earmarked sector expenditure), it could have ensured that PPE was maintained and even increased in the sectors for which it was earmarked and reduced the accumulation of domestic debt. However it would, as above, not have changed the general weakness in fiscal discipline, nor have led to a sustainable fiscal position.

B7. The Effects of Partnership GBS on the Delivery of Public Services

How efficient, effective and sustainable has been the contribution of PGBS to improving government performance in public service delivery?

Introduction

B7.1 This chapter is concerned with the above question, particularly the relationship between outputs (Level 3) and outcomes (Level 4). The hypothetical causal links relate to:

1. The extent to which more resources flowing to service delivery (3.1) lead to more resources flowing to service delivery agencies (4.3), leading to more responsive and pro-poor [accountable] service delivery (4.7) (flow-of-funds effects).
2. The extent to which partner governments are empowered to strengthen pro-poor policies (3.3) leading to appropriate sector policies [including market failures] (4.4), leading to more responsive and pro-poor [accountable] service delivery (4.7) (policy effects).
3. The extent to which increased operational and allocative efficiency of PFM and (3.5/3.6) lead to appropriate sector policies [include market failures] (4.4), leading to more responsive and pro-poor [accountable] service delivery (4.7) (institutional effects).

B7.2 While GBS in Malawi has a long history, the PGBS arrangement subject for this evaluation ran only for a very short time in 2001 and after 2004 very little improvement could be expected from flow of funds effects (1 above). However PGBS is assumed to represent a combination of inputs (funds, policy advice through dialogue, complementary technical assistance). Accordingly, PGBS impact may be linked to PGBS inputs other than fund flows (under 2 and 3 above).

B7.3 In this chapter we shall consider these links in the case of the education and health sectors. This section is primarily concerned with inputs and outputs in these two sectors, while the outcome and poverty impacts will be discussed in Chapter B8.

Relevant Facts

B7.4 The basic details of inputs, outputs and general performance of the health and education sectors in Malawi are discussed at greater length in Annex 6. Both sectors are characterised by very low levels of service delivery: the education sector is characterised by a relatively broad coverage, but with very low levels and quality of service delivery. The health sector is characterised by low levels of delivery and coverage. Both sectors have very deep inequalities in respect of access.

B7.5 Both sectors have a plurality of service providers, with very significant inputs and provision being provided by non-governmental organisations. This severely questions the extent to which the public sector and Malawi government are a major provider of social services in Malawi. It is impossible to determine any positive impacts from PGBS in the delivery of services. Expenditure levels for these sectors and pro-poor expenditure were largely maintained, regardless of whether PGBS was flowing or suspended. To some extent, this is the result of the successful implementation of pre-poor expenditures, a concept introduced by HIPC, not the PGBS process.

B7.6 A number of other initiatives are relevant. A pilot expenditure-tracking exercise in education has produced a draft report that highlights a range of real problems in planned expenditure which is not reaching the front-line for which it is budgeted. It is not, however, clear how this will be taken forward – knowledge of the study in relevant parts of government seemed patchy and it is unclear how the exercise might be expanded to other sectors or be mainstreamed to become a routine function.

B7.7 NGOs are involved in undertaking reviews of the value of expenditure and have produced useful reports, including those of the Malawi Economic Justice Network and related sector bodies in education and health.

B7.8 Finally, there are clear signs that the new post-2004 government intends to pursue a more “growth-orientated” rather than a “service delivery” approach to poverty reduction. This is partly seen in the new private sector growth strategy which complements the original MPRS. In 2005/6, it is proposed that the two will be merged into a comprehensive development strategy/plan, which will replace the above two documents. Indeed, some government officials asserted that there would be no pro-poor expenditure in this new document¹⁰. There were clear expressions of concern from donors about future expenditure patterns in both the ministries of Health and Education.

Assessment against Evaluation Criteria

Pro-poor Public Service Delivery

The extent to which PGBS has contributed to increasing the efficiency and effectiveness of pro-poor public service delivery and improving the access of poor people.			
General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect: null	Efficiency: null	Confidence: **

B7.9 The overall efficiency and effectiveness of pro-poor service delivery and access to the poor is judged to be low – albeit with some limited examples of improvement in the health sector. No evidence was found that PGBS has had any impact on the quantitative and qualitative aspects of service delivery.

Capacity and Responsiveness of Service Delivery Institutions

The extent to which PGBS has contributed towards developing the sustainable capacity of service delivery institutions.			
General Situation:	Level: *	Trend: =	Confidence: **
PGBS Influence:	Effect: null	Efficiency: null	Confidence: **

B7.10 There is no evidence of technical assistance/capacity building associated with PGBS having enhanced the capacities of core institutions in a sustainable way from their already low base. As mentioned below, the post-2004 improvements in PFM have not yet got beyond the broad ministry level. The tracking study mentioned has so far taken place only in the education sector, although there are some intentions to roll out similar studies more widely in the public sector. However, this initiative and the technical assistance associated with it has been primarily supported independently of the PGBS.

¹⁰ The donor response to this is unknown but is likely continue to be in favour of PPEs.

The extent to which PGBS has contributed towards service delivery institutions becoming more responsive to beneficiaries.			
General Situation:	Level: *	Trend: =	Confidence: **
PGBS Influence:	Effect: not found	Efficiency: null	Confidence: **

B7.11 Overall, service delivery institutions in Malawi are not particularly responsive to their beneficiaries (see Annex 6 for a more detailed discussion of the education and health sectors). Again there is effectively no evidence with which to address the question of the impact of PGBS. The following points are relevant: firstly there is very little evidence that the recent (post 2004) improvements in PFM have fed through to the sector level. However, as noted above, there is some evidence of a shift in power between line ministries and the Ministry of Finance, with the latter representing delivery institutions and potential beneficiaries.

Principal Causality Chains

B7.12 It was not possible to test the main causality chain: that increases in service delivery (3.3) leading to more resources going to service delivery agencies (4.3), leading to more pro-poor service delivery (4.7), as there was insufficient time for the effects to take place and an insufficient quantity of resources flowing. There was also very little evidence to make a judgement on the second causality chain linking pro-poor policies (3.3) to appropriate sector policies (3.3) and to more responsive and pro-poor service delivery (4.7). There was some limited evidence that pro-poor expenditure may have had some effect in this context. While the concept of pro-poor expenditure was introduced through the HIPC process, the PGBS donors linked their support to promoting increased pro-poor expenditure. Finally, it was not possible to make any judgement on the extent to which improvements in operational and allocative efficiency (3.3/3.6) led to appropriate sector policies (4.4) led to more responsive and pro-poor service delivery (4.7).

Counterfactual

B7.13 There are two counterfactuals to consider: a situation with no PGBS and a situation in which planned PGBS resources had instead been earmarked to pro-poor expenditure or specific sectoral support.

B7.14 A situation without PGBS which would have broadly reduced the available resource envelope and, to some extent, limited the ability to maintain PPEs.

B7.15 Instead of continuing to pursue a PGBS process with a broad set of objectives and targets, the resources could have been earmarked or specifically linked to pro-poor expenditure or to specific sectors like health and education, focusing on increasing capacity and outreach of service delivery. With hindsight, this might seem a more appropriate method that would have avoided the difficulties of optimistically providing PGBS with all the problems outlined above. This approach would have had to confront the capacity constraints at the sector level and the coordination of a variety of stakeholders. This was to some extent achieved in the development of the health SWAp from 2002 to 2004. However, this is conjecture on a very limited evidence base and would not have resolved the problems related to overall weak fiscal management which impact across all sectors and expenditure.

B8. The Effects of Partnership GBS on Poverty Reduction

How far has PGBS strengthened government impact on poverty?

Introduction

B8.1 This chapter is concerned with tracing through the outcomes (Level 4) to the impacts (Level 5). The four main causal hypotheses in the EEF to be tested in this chapter are that PGBS has:

1. Led to the empowerment and social inclusion of poor people (5.3), through more responsive service delivery (4.7).
2. Reduced income poverty (5.1) by increasing the scope for a more conducive growth-enhancing environment (4.6).
3. Increased the empowerment and social inclusion of the poor (5.3) through more pro-poor and accountable service delivery (4.7).
4. Reduced income and non-income poverty (5.1), (5.2) through improved administration of justice and respect for human rights and people's confidence in government (4.5).

B8.2 Since there has not been sufficient time for PGBS to have had any effect on poverty, the chapter focuses on discussing the potential or possible impacts.

Relevant Facts

B8.3 Poverty in Malawi is widespread, relatively uniform and chronic. The 1997/1998 Malawi Integrated Household Survey (IHS) is the main source of recent data (National Economic Council 2000).¹¹ Table B8.1 below provides details of those below poverty and ultra poverty lines based on consumption data. Thus nearly 60% are below the poverty line and nearly 30 % below the ultra poverty line (defined as those having consumption at 60% of the poverty line). This is amongst the highest percentages in Sub Saharan Africa. The second notable feature illustrated in Table B8.1 below is the relatively uniform nature of poverty by region and by rural and urban categories.

Table B8.1: Headcount of Poverty and Ultra Poverty Lines and Gini Coefficients 1998

Area	Poverty headcount (%)	Ultra Poverty headcount (%)	Gini coefficient (consumption data)
MALAWI	59.6	28.7	0.401
Southern region	61.8	31.8	0.423
Central region	56.6	25.3	0.383
Northern region	61.5	28.4	0.362
Rural	60.6	29.3	0.374
Urban	50.8	23.8	0.520

Source: National Economic Council 2000.

¹¹ Unless directly mentioned it should be assumed that all recent poverty data comes from this source.

B8.4 The Gini coefficient for Malawi is 0.401; it is noteworthy that the coefficient is significantly higher in urban areas at 0.502. The richest 10% account for 31.8% of total consumption, while the richest 20% account for 46.8% in Malawi in general (this figure reaches 58.4% for the urban sector). Meanwhile, the poorest 20% consumes only 6.3% of total consumption.

B8.5 Unfortunately, the problems of comparison are so great that it was impossible to make any meaningful comparisons backwards from 1997/98. Furthermore, and for this study more importantly, it also is impossible to determine the trends in poverty since 1997/98. Analysis of trends will be possible only when the 2004/2005 IHS survey data are made available.¹²

B8.6 Table B8.2 below provides a broad picture of the evolution of the non-income dimensions of poverty in Malawi during the 1990s. Additional data on Millennium Development Goals (MDGs) are provided in Annex 2, Table 2A.1. While the reliability of data is a common caveat among development economists and analysts, it should perhaps be treated with more concern in Malawi than elsewhere. The lack of congruence of the data from different sources is also worth noting. The implicitly confident picture that emerges from UN websites that are monitoring the MDGs is very difficult to reconcile with the actual workings of some ministries in Malawi in terms of data collection. The accuracy of a substantial amount of the data collected must remain questionable; this is also clearly potentially exacerbated by the process whereby some donors are using outcome indicators as triggers for conditionality.

B8.7 Nevertheless, the picture that emerges from Table 8.2 below¹³ suggests that poverty in other dimensions remained broadly unchanged. Life expectancy declines mainly as a result of HIV/AIDS, there is some improvement in under five (U5) mortality rates, while maternal mortality rates almost double during the 1990s. This extraordinary increase is to a large extent associated with a complex set of issues associated with HIV/AIDS. The figures for nutritional status remain unchanged.

Table B8.2: Evolution of Non-Income Dimensions of Poverty in the 1990s.

Indicator	1992	2000
Life expectancy (years)	44	37.8
Under five mortality (per 1,000 live births)	220	189
Maternal mortality rate (per 100,000)	620(1986-92)	1,120(1994-00)
Illiteracy rate, adult total (% of people age 15+)	46	40
Fertility rate	6.7	6.3
Children vaccinated (%)	81.8	70.1
Low weight for height (wasted children, %)	5.4	5.5
Low height for age (stunted children, %)	48.7	49.0
Low weight for age (%)	27.2	25.4

Source: World Bank 2004b

¹² With the problems of population growth, high inequality, de-agrarianisation, declines in soil fertility, the impact of HIV/AIDS, food shortages and droughts, fiscal problems and slow economic growth, the most likely prediction is that the 2004/5 survey will show an increase in poverty levels.

¹³ According to the World Bank these figures are based on various annual Demographic and Health Surveys (DHS) and are comparable [and perhaps more reliable] (WB 2004b: 5). However, elsewhere it is noted that these were only carried out in 1992 and 2000 (Wold et al 2004: 19).

Assessment against Evaluation Criteria

Basic Services for the Poor

The extent to which PGBS (allowing for the time lags of its operations) has strengthened – or is strengthening – the impact of government on the different dimensions of poverty reduction, including

(a) the use of health, education and other basic services by poor groups.

General Situation:	Level: *	Trend: =	Confidence: **
PGBS Influence:	Effect: not found	Efficiency: null	Confidence: **

B8.8 The relationship between PGBS and service delivery was examined in chapter B7, and clearly there is a degree of overlap with this chapter. It is not possible to make a judgement on this relationship as the evidence for changes in service delivery is almost non-existent, and there are no reliable indicators of changes in the non-income dimension of poverty. However, from the evidence available, there are very few grounds to maintain that there has been a positive impact. The evidence of outputs in health and education discussed in Annex 6 suggest a static picture, albeit at very low levels of service delivery.

Income Poverty

The extent to which PGBS (allowing for the time lags of its operations) has strengthened – or is strengthening – the impact of government on the different dimensions of poverty reduction, including

(b) the improvement of the macroeconomic environment leading to increased incomes and economic opportunities for the poor.

General Situation:	Level: *	Trend: =	Confidence: *
PGBS Influence:	Effect: not found	Efficiency: null	Confidence: **

B8.9 It is impossible to make a judgement on this relationship, as there are no reliable data to determine the changes in income poverty, albeit from a low level. There is good evidence (see chapter 6) that the recent fiscal situation in Malawi has resulted in high interest rates which, it has been argued, have the impact of crowding out the private sector and subsequent economic opportunities. This is likely to have had a negative effect on income poverty.

Empowerment

The extent to which PGBS (allowing for the time lags of its operations) has strengthened – or is strengthening – the impact of government on the different dimensions of poverty reduction, including

(c) the empowerment of poor people because of improvements in the accountability of government, greater participation in processes of decision making, or improvements in the administration of justice.

General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect: not found	Efficiency: null	Confidence: **

B8.10 It is not possible to make any meaningful observation on this relationship, as there is no available measure of empowerment and social inclusion. The trend in terms of empowerment, however, with moves to democracy and decentralisation, is generally positive. The only area where there is a potential link to PGBS is in relation to the process of decentralisation. The expressed logic behind this emphasis on decentralisation is that the empowering of local

government (and, by implication, local people) will through increased accountability improve service delivery. This impact could not be found. Decentralisation is no more than an intention. There is currently no implementation experience, nor is it self-evident that decentralisation will lead to greater empowerment of the poor.

B8.11 Malawi's transition to multi-party democracy in 1994 is clearly important here. To the extent that there are changes in the administration of justice and human rights, it seems they are more dependent upon the nature and changes of the government and the role of NGOs than any potential impact of PGBS.

Principal Causality Chains

B8.12 As stated earlier, it is only possible to discuss the potential impacts from PGBS. This is for two reasons: firstly, it is too early to see any actual impact, and, secondly, the lack of actual PGBS disbursements reduces the likelihood of impact. Recent work on the determinants of poverty, based on the 1997/98 IHS data, is relevant: the most powerful and sustained ways of reducing poverty are found to be a) higher levels of educational attainment, especially for women and girls and b) the reallocation of household labour away from agriculture to manufacturing and services. This clearly supports the importance of the service delivery link (4.3–4.7) to income (5.1) and non-income dimensions of poverty (5.2).

B8.13 There is also research evidence that does suggest the importance of the link between the macroeconomic framework through a more conducive growth environment (4.6) having an impact upon income poverty (5.1). However, poverty elasticity for Malawi on the basis of the 1997/1998 Malawi IHS is estimated at 1.073. This means that a 1% growth in per capita incomes will result in a 1.073% reduction in the proportion of those living below the poverty line; by international standards, including those of sub-Saharan Africa, the figure is low (WB 2004b). The conclusion is that, while economic growth is the main lever to reduce poverty, in Malawi, it appears to be a relatively inefficient mechanism.

Counterfactual

B8.14 The most relevant counterfactual is continued project and sectoral assistance. The relative success of vertical programmes in health (immunisation, bed nets and TB) suggests that funds spent in such programmes might have had a greater impact. However, this impact is often on narrow aspects of poverty and may also reflect the greater capacity of the Ministry of Health compared to other sectors. It was also argued that moving funds from NGOs to PGBS did not benefit the poor: i.e. rather than providing non-earmarked funding for a public sector with very low capacity in even managing its own revenue, external resources could have been allocated to institutions and organisations able to deliver services.

B9. The Sustainability of Partnership GBS

Is the PGBS process itself sustainable?

Introduction

B9.1 This chapter is primarily concerned with the specified feedback loops in the EEF. It will first review the experience of PGBS in Malawi before discussing the appropriate feedback loops

Relevant Facts

B9.2 The monitoring of MPRS, and by implication the impact of PGBS, is based on existing structures. Thus the Ministry of Finance and Economic Planning (MOFEP) is expected to provide the main input data in terms of expenditure patterns. The outcome and impact monitoring will broadly use other sources such as the IHS and Demographic and Health Survey (DHS) surveys.

B9.3 The monitoring structure is as follows: the main focus is the MPRS monitoring committee. This reports to the cabinet committee on the economy; meanwhile the MPRS committee is supported by the Technical Working Committees, which are themselves supported by the Ministry of Finance (inputs and outputs), the National Economic Council (Poverty analysis, outcomes and impacts) and the National Statistical Office (surveys and databank).

B9.4 The primary feedback loop is via the annual monitoring exercise of the MPRS (Ministry of Economic Planning and Development – MEPD 2005). The first annual review highlighted issues associated with implementation: these included little adherence to implementation of MPRS activities; lack of guidelines to assist sectors to translate MPRS into the budget and diversion of resources meant for MPRS to other uses.

B9.5 The second annual review was produced in June 2005, and focused on assessing inputs, outputs and to some extent the outcomes of the strategy. These are analysed in terms of the four pillars of the strategy. As far as the data allows it, there is an attempt to measure progress against targets.

B9.6 This overall structure is more of an ambition than an overall design for implementation: there are, in fact, many weaknesses in the system. There are problems of overall co-ordination. There are severe capacity constraints, especially in relation to district level data collection. There are serious problems with the data quality, thus for example the MOF can provide figures only for planned rather than actual expenditure. There are issues around the frequency of the social surveys and a tendency to focus on impact monitoring; and finally the entire system is seen to be too donor-driven.

B9.7 However there are some signs that the monitoring and evaluation systems are improving and that there is a real effort to link them into the major household and demographic and health surveys in 2005. There is also a process of rationalisation and prioritisation of government data sources. Furthermore, it is intended that each district will have a specific officer responsible for information and data.

Assessment against Evaluation Criteria

Shared Learning between Government and Donors

The extent to which PGBS allows a shared learning process between Government and IPs with flexible mechanisms for adjusting to experience (including adjustment to maximise the complementarities amongst different forms of aid).

Level: *

Trend: =

Confidence: **

B9.8 The history of PGBS in Malawi must lead to a questioning of the extent to which the PGBS process is sustainable. One interpretation is that, because of the on/off nature of Malawi and its never-ending struggle for fiscal discipline, the sustainability of PGBS is very much an issue. Indeed, while there are some improvements in 2004, there is little evidence upon which to base any great confidence that Malawi has the appropriate conditions for PGBS. In this context, the question of whether the PGBS process continues is as much a function of donor policies as it is of the state of Malawian public finance.

B9.9 An alternative observation is to note that PGBS has shown itself to be sustainable in Malawi in that, after a two to three year suspension, the process in 2004/05 has started again or, put another way, that the donors did not walk away but effectively kept their “offers” on the table. There is an important lesson here in terms of creating incentives for change, and a beneficial legacy that it is important that the donors remain in the process.¹⁴ This is discussed further in Box B9.1.

Box B9.1: PGBS – Suspension and Incentives

There are interesting interpretations of what has been the political legacy of the suspension of PGBS. Three overlapping interpretations were presented.

At the most extreme, it was suggested that suspension of PGBS facilitated the change of government in 2004. However, this fails to explain the process by which the new government emerged. Nobody we interviewed attributed the emergence of Bingu as president directly to PGBS.

A second possibility is that the potential for new releases of PGBS (if basic conditions were met) influenced the changed policy priorities of the new government. However, there is no evidence from statements by the new government or the President’s speeches of an explicit link between GBS and the government’s strengthened priority for fiscal discipline. Nevertheless, one interpretation of the appointment of a former senior IMF official as Minister of Finance is that the new president did recognise both the need for better financial discipline and for a visible commitment to it. This may well have been influenced by observation of donors’ responses during the GBS suspension period and the opportunities for additional PGBS.

A more modest interpretation is that the suspension made clear the possibility of donors providing non-earmarked budget resources for the new regime – donors had always effectively left the offer of GBS “on the table”. The new regime was certainly very clear on its need for donor support, of which PGBS is clearly part.

A final and perhaps most significant legacy of the suspension is that it provided support and justification for a more financially-disciplined approach from those technocrats who were favourably disposed to such an approach, by changing the balance of power within the government. An interesting observation is that these positive gains were achieved only because the donors maintained their dialogue and commitment, even when the funds were suspended. The learning point is that a “walking away” strategy might not have achieved the same result.

¹⁴ This is clearly different to an “exit” strategy from PGBS.

B9.10 There is no doubt that both donors and the Malawi government learned some lessons in the period 2001 to 2005. On the Malawian side, the donors are serious and will suspend aid; while on the donor side, more simple forms of PGBS with limited objectives are appropriate, and reforms cannot be implemented only through performance-based aid instruments like PGBS. However, to describe this as “a shared learning process” seems somewhat inappropriate; it would appear that the learning and change of the PGBS occurred on the Malawian and the donor side independently.

Comprehensive and Effective Review and Adjustment

The extent to which such a process encompasses all the three main flows of PGBS (funds, institutions and policies) with adjustments related to actual results at all stages in the chains of causality (from quality of inputs to overall poverty impact).

Level: *

Trend: +

Confidence: *

B9.11 The process of providing a comprehensive review in Malawi has been hampered by the weakness of the data sources from which to judge the impact of PGBS in terms of funds, institutions and policies. However, there are some signs in the MPRS monitoring system that efforts are underway to improve this situation.

B9.12 It is relevant here to argue for the importance of process indicators and intermediate indicators in the review process; broadly speaking, they have not been widely used in Malawi. This to some extent reflects the weakness of the governmental systems in Malawi. However, and somewhat paradoxically, process and intermediate indicators are useful in weak policy and administrative contexts, where it is unlikely that there is expectation of a particular change or (in this case) PGBS to have an impact on an output. It is simply too demanding to try and measure the entire causality chain in one step. Furthermore, the attribution problem is lessened in these intermediate steps. Effective monitoring and review must therefore seek to find ways of monitoring intermediate outcomes and process indicators.

B9.13 The learning process seems to have encompassed mainly the nature of the funds and the nature of the dialogue. Two points are worth making. Firstly, the 2004/05 approach by DFID to PGBS entails a much more limited set of objectives – with fiscal discipline and balancing the domestic budget as the main aims and poverty reduction very much a second objective. Although macroeconomic stability is the main objective, the ultimate rationale is to prevent a worsening of poverty as a result of a severe economic crisis. This is effectively reintroducing the basic targets commonly used for non-earmarked funds prior to the introduction of a PGBS approach.

B9.14 The second learning point is that DFID disbursed all its annual funds in one tranche. There seemed to be two implicit reasons for this: firstly to show the Malawian side that the money was coming, and, secondly, there seemed to be a desire to disburse and foreclose any subsequent discussion about support in the remainder of the financial year. This, in fact, reflects a broader DFID policy towards PGBS disbursement. One aspect of this is the learning from the 2001–2004 period that the short-term costs of suspension (where the government cannot adjust spending plans downwards within a year) are so severe that donors may want to avoid it, with the impact of suspension instead falling in the medium term so the government has a more realistic chance of adjusting spending plans.

Feedback to Stakeholders

The extent to which the process provides appropriate and timely feedback to all stakeholders so as to ensure the continuity and durability of PGBS.

Level: *

Trend: =

Confidence: *

B9.15 Again, this is not an easy question to answer given the short time that PGBS has been operating. The main vehicle for providing feedback seems to be the annual monitoring of the MPRS. The 2003/4 report was available in June 2005. This report (and the previous one) is delivered to the relevant parliamentary committees who then use it to hold the government to account. This seemed to be quite an active process – with the 2002/3 report stimulating a discussion on domestic debt and expenditure patterns. This feedback is primarily concerned with the MPRS and the overall economic situation rather than anything specific to PGBS. There are some signs that the processes of feedback are improving.

B9.16 Most of the PGBS feedback occurred during the CABS meetings. In addition, there was feedback both within the country and from each donor organisation to its headquarters. Within the country, the Malawi Economic Justice Network (MEJN) was concerned with the process of monitoring the success or otherwise of PGBS. There did seem to be a process of feedback within donor organisations, but mostly on an informal basis.

Principal Causality Chains

B9.17 The main causality chains are the feedback loops from the analysis of poverty at Level 5 (5.1 and 5.2) to process of PGBS design in Levels 0 and 1 and all levels in between. There is very clear evidence from this study of the extent to which a learning process has taken place. This has not primarily taken place by monitoring poverty outcomes, but from a more holistic understanding of the impact of PGBS and the lessons to be learnt from its suspension.

Counterfactual

B9.18 It is worth considering to what extent these feedback loops could have been achieved by different aid modalities. As discussed, this is difficult to determine, as the information has come from a variety of different sources and is supported by different aid modalities. In fact, a considerable amount of the work supporting the monitoring and evaluation systems has come in the form of project aid. However, it should also be noted that the PGBS approach does seem to have led to consideration of the data requirements and monitoring systems in a broader context and in a more holistic and integrated fashion.

PART C: CROSS-CUTTING ISSUES

C1. Cross-Cutting Policy Issues

Gender

C1.1 There are five main areas in which gender issues have appeared in this evaluation. First, there is a very specific problem of female-headed households in rural Malawi and its interaction with poverty. Second, there is the impact of HIV/AIDS on women's livelihood strategies, in particular the need for women to work as carers of those infected. The third area is that health care access is very heavily gender-biased: i.e. women are sometimes prevented by patrimonial structures from seeking medical treatment. The fourth area is the problem of the decline in numbers of female teachers in rural schools. Female teachers often do not want to work in such areas because of a lack of housing, and this has an impact on girls' attendance in schools. This is particularly an issue with respect to a series of sex-related issues: e.g. abuse, contraception and pregnancy. The fifth is the question of insufficient promotion of women to decision-making positions.

C1.2 The clearest statement linking gender to PGBS is the June 2005 draft Performance Assessment Framework for CABS. The following gender-related indicators are suggested in the draft:

- Primary school enrolment (rates for both male and female populations)
- Primary school drop out rates (rates for both male and female populations)
- Women in decision-making positions
- Maternal health: deliveries attended by skilled health staff

C1.3 In total, six of the proposed 23 indicators have a gender dimension which implies to some extent that the subject is being addressed. As yet there has been no implementation experience to assess developments measured by these indicators nor to what extent the PGBS dialogue has promoted more attention to these issues.

HIV/AIDS

C1.4 HIV/AIDS in Malawi is at crisis proportions.¹⁵ The adult prevalence rate is about 14%, which puts Malawi amongst the 16 worst affected countries in the world. As the MPRS notes, HIV/AIDS is not just a health issue, but critically undermines development and growth efforts. Nearly 95% of those infected are in the economically active 15-49 age group.

C1.5 There are three ways through which HIV/AIDS impacts on the growth potential of the Malawian economy. Firstly and most directly, by reducing life expectancy and increasing child and infant mortality. Life expectancy at 37.8 years and a population growth rate at 2.1% in 2000 are forecast to decline to 34.8 years and 1.7% by 2010. Secondly, HIV/AIDS affects the economic efficiency of the working population through absenteeism, high turnover and poor health of those at work. As discussed in Chapter B7, it is also having a devastating impact on human resources in the education and health sectors. This is one of the most critical problems facing both the health and education sectors and is a major constraint on effective service delivery.

¹⁵ This section is primarily drawn from the World Bank 2004 Country Economic Memorandum (WB 2004a).

C1.6 The third major influence is by diverting both public and private resources into expenditures related to the disease. A World Bank study notes that the cost of providing even a modest coverage to HIV/AIDS – including 10% on anti-retroviral drugs (ARVs) – would amount to 6.5% of GDP by 2010, which is double the total public and private expenditure on health (World Bank 2004a).

C1.7 Malawi adopted a National HIV/AIDS Strategic Framework in 1999, and in July 2001 the government established a national AIDS Commission as an independent entity to provide leadership for the national HIV/AIDS effort. The Aids Commission¹⁶ currently receives support and funding from the World Bank and the Global Fund to Fight AIDS, Tuberculosis and Malaria; an ARV programme is currently being rolled out. Support is also received from a number of other donors, including Norway, Sida, DFID, CIDA, USAID, and UNDP. While this is a very welcome development, there are concerns that the HIV/AIDS programmes are putting substantial pressures on the existing health care system. This is particularly in terms of personnel moving to higher paid jobs and working for HIV/AIDS NGOs and projects.

C1.8 The clearest link between PGBS and HIV/AIDS is via the draft PAF (and previous EC) indicators. HIV prevalence among adults in the 15–49 age group is included as an indicator. The PAF identifies the baseline in 2003 as 14.4% for the 15–49 age group, with targets for 2004 (14.4%), 2005 (14.2%) and 2006 (14%). There appear to be many problems in setting such targets. It was argued by some commentators that an input or process indicator would be more appropriate than an output indicator so that the Government of Malawi is not held accountable for indicators in which there are many factors outside its control. This may create perverse incentives that favour initiatives designed to improve the statistics rather than the underlying problems. This creates the anomalous situation in which an increase in the HIV/AIDS incidence would reduce the amounts of external funds available. Finally, there are questions over the reliability of the available data. Use of such indicators may be valid in overall monitoring, but they are problematic as triggers for disbursement and for overall assessment of GOM efforts to address the issue.

Environment

C1.9 Natural resource management and environmental issues in general are of great significance to Malawi's economy, due to the importance of smallholder agriculture to the overall economy: 84 % of agricultural output comes from smallholders cultivating less than one hectare (World Bank 2004b).

C1.10 There are serious problems to be addressed associated with land management and soil fertility. The soil fertility in Malawi is declining – harvested crops are systematically removing nutrients, which are only being partially replaced by fertiliser. This makes current farming systems unsustainable and threatens further environmental degradation. The problem derives from the high cost of fertiliser, poor access of smallholders to advisory services and poor decision-making on technology and diversification. Deforestation is also becoming a major issue.

C1.11 There is no clear observable relationship between PGBS and the environment; furthermore, it was not expressed as an issue by the donor community. In this context, it is not surprising that there is no environmental indicator in the draft PAF. In the longer term, PGBS could potentially be used as a vehicle for engaging the government on such issues.

¹⁶ It was not possible to gain information from the AIDS commission.

Democracy and Human Rights

C1.12 The relationship between democracy/human rights and PGBS is not clear. In the 2001/2 suspension of PGBS, it was suggested that some of the donor community were partly motivated by Malawi's democracy and human rights situation, particularly in respect of the suggestion that President Muluzi might seek a third term and related to the wider issue of corruption.

C1.13 A deteriorating democracy and human rights situation would most likely have affected the overall attitude of bilateral donors to Malawi. This would probably have added to the arguments for suspension of PGBS. The text of the 2005 draft PAF notes that human rights and democratic principles are "fundamental ... essential elements of the JFA" (Joint Financing Arrangement). In the bilateral agreements between the PGBS donors and the Government of Malawi, democratic development and respect for human rights are stated as specific conditions; however this is not an issue specific to GBS agreements but to other aid instruments and joint financing arrangements in general.¹⁷

C1.14 Both PGBS and non-PGBS donors are also involved in project work aimed at strengthening democratic institutions, civil society and addressing human rights issues. The gradual recognition by the PGBS donors that too little emphasis had been put on the national political processes and systems guiding public sector management has led them to increase efforts to support capacity building of key democratic institutions like Parliament and its committees – among others, those specifically mandated to monitor policy implementation in key areas and implementation of public expenditure.

¹⁷ Among others it is a condition in the Joint Finance Arrangement (JFA) template used by the several OECD donors in developing JFA arrangements in all partner countries.

C2. Public and Private Sector Issues

Balance between Public and Private Sectors

C2.1 The balance between the public and private sectors is an important issue in Malawi. As discussed in Chapter 6, the policy of financing the domestic debt through Treasury bills has driven up interest rates at the expense of the private sector. There is significant evidence of the public sector crowding out the private sector. However, it should also be noted that Malawi in general is not a favourable environment for private sector development. This is both in terms of physical (landlocked nature) and economic environments.

C2.2 There is a potential tension in Malawi between PGBS and private-sector driven growth. The policy dialogue and conditionality associated with PGBS has focused largely on the performance of the public sector and, more especially, service delivery in the social sector ministries. This may divert the limited managerial and reform capacity of the government and donor staff too much away from private sector concerns.

C2.3 PGBS may also bring a focus on public sector solutions to problems rather than not-for-profit or private provision (perhaps with public funding). As we have seen, non-state providers are significant in both the health and education sectors in Malawi.

C2.4 As noted earlier, the MPRS aims at reducing poverty by empowering the poor. It is built around four strategic pillars, of which the first emphasises the promotion of sustainable pro-poor growth. However, many stakeholders, including the private sector, have observed that policies aimed at meeting this strategic objective are insufficient to achieve the sustained, broad-based high economic growth of at least 6 per cent required to reduce poverty by half by the year 2015.

C2.5 To close this gap, therefore, Cabinet directed that the Ministry of Economic Planning and Development (MEPD) should coordinate the formulation of the Malawi Economic Growth Strategy. This initiative was discussed with a parallel private sector recovery initiative, spearheaded by the National Action Group (NAG).¹⁸

C2.6 The main objective of the Malawi Economic Growth Strategy is to generate high and sustainable broad-based economic growth. The approach is to stimulate economic growth through promotion of trade¹⁹ and investment. The Economic Growth Strategy has been developed through a consultative process involving both the public and private sectors under the taskforce led by MEPD.

C2.7 The Malawi Economic Growth Strategy has been built upon lessons from the economic development experiences of other countries in the world. A central development issue is the interaction between government and markets or the relationship of the public to the private sectors. In this strategy, the role of the government is to set the legal and regulatory framework, provide infrastructure and essential services to the poor, and intervene cautiously to remedy market failures.

¹⁸ A high level forum for chief executives of leading businesses and representatives of businesses, government 'economic' ministers and donors that support the private sector.

¹⁹ Trade refers to export-oriented and import-substitution trade.

C2.8 It is premised on the following principles: a stable political system and political will; macroeconomic policies that promote sustainable economic stability; policies promoting outward orientation and competition; the need to promote domestic supply of competitive goods and services of an international quality suitable for domestic consumption and exports; a favourable climate for enterprise; quality and supportive institutions, and highly-skilled human resources

C2.9 From 2004, the government has been more enthusiastic about economic growth, and the new Comprehensive Development Strategy scheduled for 2006 will integrate the growth strategy with the MPRS approach.

C2.10 The importance of the private sector is implicitly acknowledged in the draft PAF, with the indicator on interest payments as a percentage of GOM expenditure. However, the inclusion of this indicator in the PAF reflects, first and foremost, the concern with general fiscal management rather than the importance of a pro-poor growth policy. Other key private sector development issues, such as privatisation, infrastructure investments and trade related issues, are specially addressed.

C3. Government Capacity and Capacity Building

Government Capacity and Capacity Building

C3.1 Limited government capacity in public sector management and delivery of basic services is a key issue in Malawi and has been so throughout the period covered by the evaluation. Low levels of public sector management capacity are one of the major constraints on Malawi's economic performance and delivery of services. The links between PGBS and technical assistance can be seen in the Inventory in Annex 3B. Both PGBS and non-PGBS donors have been actively involved in capacity-building projects.

C3.2 GBS has focused attention throughout on the need for capacity building in public sector management and PFM in particular, not excluding PGBS. However, GBS and later PGBS have had only limited success as incentives for improved PFM. This raises the question as to whether more resources devoted to capacity building through other aid instruments, before or as complementary assistance to PGBS, would have improved financial management *before* or during the disbursement of PGBS funds. In the case of Malawi, however, capacity development and GBS were provided throughout the evaluation period. This suggests that there were other more fundamental issues that needed to be addressed. As previously mentioned, these issues were related to political governance and commitment which, with hindsight, required more emphasis – with complementary assistance targeting relevant institutions. This observation is supported by the fact that much more donor attention has gradually been devoted to these issues via the PGBS.

C3.3 The World Bank's latest assessment of capacity building in Malawi from 1994 to 2004 (2005a) makes sorry reading. This assessment covers the same period as the evaluation study. Firstly, it notes that building government capacity has been a stated government objective over the time period, but that the improvements have been modest. In addition, it has frequently been noted that capacity building is central to poverty reduction.

C3.4 While the review notes that there have been some improvements in accountability, these have been nullified – at least until 2004 – by a process of centralised decision-making and resource allocation and with increases in corruption. The poor performance of the public sector is attributable to four factors: firstly, a lack of a core capacity to implement reforms; secondly, doubts within government about whether reforms are realistic; thirdly, cynicism among some senior civil servants that reform, talked about for so long, will ever be implemented; and finally, a lack of political incentives to encourage a reform process.

C3.5 Interestingly, the World Bank's capacity-building initiatives over the time period have narrowed from a wide reform agenda to a limited reform agenda focusing on PFM. This focus on PFM is not the result of success or a priority per se, but more the result of a failure to effect any substantial reform. In terms of sectors – the study considered four – transport was seen as the best; social sectors were intermediate, while the PFM sector was judged to be the worst. In terms of relevance, it is interesting to note that this review uses a very similar argument to the one argued in this evaluation in chapters B1 and B2. Thus

While the underlying diagnosis [i.e. that undertaken in advance of the relevant WB projects] is generally good, economic analysis has tended to be better than the analysis of the underlying political conditions. The shift in power and conflicting interests among actors are poorly captured, and the political incentives for privatisation and public sector reforms have been overestimated. This has often led to simplistic conclusions about 'lack of commitment' in Bank reviews of the results of what were unrealistic strategies and timelines.

C3.6 The review is also critical of development partners. The piecemeal and uncoordinated nature of much technical assistance is noted. Furthermore, the World Bank's own reliance on project implementation units is also noted. The World Bank "has not developed a clear capacity building strategy to guide its activities in Malawi despite continuously identifying lack of capacity as central to poor performance". The World Bank's own staff are criticised for excessive turnover, an overly theoretical approach and a tendency to underestimate the difficulties in making structural changes. Finally, the review notes that there is no "champion" of reform on the Government of Malawi side.

C3.7 In summary, Malawi is a very poor and weak capacity building context for PGBS. Needless to say, despite all of this, capacity remains both a) critical to the success and the positive impact of PGBS and, b) an area lacking a coherent approach.

C3.8 An area where capacity development has been relatively successful has been in relation to civil society organisations. The Malawi Economic Justice Network has been an active NGO engaged in monitoring government expenditure. This has been supported indirectly by the PGBS donors often via NGOs; however, the support is not directly linked to PGBS. Over the last few years, it has produced a series of reports on government expenditure in health and education, comparing actual and planned expenditures at both the national and local levels. This draws on actual survey work. While this work is simple and basic, it is the only attempt at such monitoring that is currently being undertaken. However, the availability of reliable data means that more sophisticated monitoring is currently not possible.

Decentralisation

C3.9 Malawi is currently implementing a strategy of decentralising some public services to elected local governments. This is supported by the World Bank and some other donors. The health and education sectors are in the process of devolving their funds to district levels. As might be expected, there are potential teething problems with this approach in terms of local capacity. It is hoped that devolving powers and responsibilities to the district level will increase local accountability and thus improve service delivery. At present, there is no evidence to assess this claim; however, it is worth noting a potential contradiction in the short term between supporting decentralisation and improving PFM and service delivery. This is for the following reasons: first, capacity constraints may be greater locally than centrally; second, there is the problem of elite local capture; and third, there is the danger of overloading the limited capacity for change management.

C4. Quality of Partnership

Ownership and Conditionality

C4.1 Given the relationship, history and relative strengths of the donors and the Government of Malawi, it seems reasonable to assert that there have been relatively low levels of ownership in the PGBS process. The conditionalities that have been in place are indicative of donor concerns rather than of a Malawi-driven programme. In discussions with senior government officials, the Malawian side was fairly explicit about the lack of ownership and the nature of the dialogue process. There are some signs of stronger commitment by the government since 2004, most notably in the increased role of parliament in scrutinising the budget.

C4.2 Conditionality in the GBS developed over time from an emphasis on fiscal and economic concerns to a stronger link with outcomes and with the PRS (PGBS). Until recently, different donors had different conditionality and different strategies for applying that conditionality. Efforts to develop a Performance Assessment Framework (PAF) have combined indicators into a single document, but have not harmonised the application of these indicators as a basis for donor decision making (the different donors put different emphasis on respective indicators), or the ways in which they relate to disbursement. The number of indicators used has been high. One comment made was that GBS donors had not learned from the experience of the IMF that conditionality needs to be limited to a small number of strategically important process-related conditions.

Transaction Costs

C4.3 The argument that PGBS reduces transaction costs as compared to a project approach was mentioned by respondents quite often. It is important to consider such costs throughout the policy cycle. Thus, PGBS may have relatively high start-up transaction costs but low transaction costs during the implementation phase. In the Malawi case, it is easier to identify the high start-up costs, while the potential savings in the implementation phase have not as yet been fully realised. It is a paradox that transaction costs are most probably higher in weak systems, which would benefit most from budget support compared to other aid instruments, while it could be argued that it is these weak systems that are often the least appropriate for managing budget support. This tension is very clearly illustrated by the Malawi case.

PGBS and Other Aid Modalities

C4.4 In Malawi GBS (defined as non-earmarked funds for the state budget) was a major aid instrument, accounting for approximately 40% of total ODA in 1994. then gradually reduced, becoming a relatively small share of total ODA coinciding with the years of the CABS group working arrangement (PGBS). Throughout, PGBS (as for GBS more generally) has been just one aid instrument among many other aid modalities.

C4.5 Potentially the systemic changes that PGBS could support will have beneficial effects on the value of other aid modalities. For example, the improved resource allocation systems posited in the causality map would allow project and sector support to work more effectively. However, in Malawi, the limited direct impact of PGBS has meant that the indirect effect on other aid modalities has also been muted.

C4.6 One issue noted by some GOM officials was a concern that the nature of the PGBS partnership might impact adversely on the flow of other aid. They were particularly concerned

that a suspension of PGBS might lead to a suspension of other aid. There is no suggestion that this sort of “contagion effect” actually happened during the period of the study. However, the concern was expressed more in respect of sector budget support than in terms of project aid. As yet this remains a theoretical issue rather than an actual problem.

C4.7 One notable feature of aid in Malawi is the relatively limited number of sector budget support arrangements, especially in support of the sector development programme designed through a SWAp process. This raises the question whether the relative failure of PGBS during the study period is causally connected with the lack of prior or concurrent sector support. Malawi does not provide evidence that there is a “natural” path from project aid to GBS via sector budget support. However, some of the reasons given by donors for the lack of sector budget support are also indicative of underlying problems with PGBS. The main reason cited by donor staff in the country for not pursuing more sector budget support was limited capacity in sector ministries and the fact that PFM-related requirements for sector budget support are the same as for GBS. Progress during 2005 with a SWAp in healthcare reflected the perception of relatively better capacity in that ministry. However, if capacity is limited in sector ministries that will also impact on the success of PGBS in so far as that too requires effective capacity beyond the Ministry of Finance and other core agencies. In particular, the lack of good sector policies developed with help from a SWAp may well reduce the effectiveness of GBS.

C4.8 There are signs in Malawi of a potential conflict between PGBS and NGOs. Project aid in Malawi had often successfully built upon partnerships with international and local NGOs. Those involved saw an expansion of PGBS as threatening these partnerships, as funds under government control would no longer flow through an NGO route. This implicitly saw PGBS as a reallocation of existing funds rather than as additional funds. Again, solid evidence of this is not available but it remains a significant potential issue.

C5. Political Governance and Corruption

Democratic Accountability

C5.1 The impression gained from the respondents in 2005 was that Malawi has an active parliament and parliamentary committees, which are now beginning to fulfil their function of holding the government to account. At one level, the rationale for such actions is public propriety. However, personality and patronage politics should also be taken into account. In this context it is pertinent to note that the concern on the Malawian side is with the use of public funds and/or donor funds, and that no distinction is made between different aid flows according to different aid disbursement mechanisms.

C5.2 Historically, over-optimism concerning progress on issues of political governance and the nature of patronage politics combined with the fluidity of Malawian politics, has been a major problem for aid management. This may have been more serious for PGBS aid than for project support because of PGBS' direct reliance on partner governance competence. Since the suspension, some work has been commissioned by CABS donors to explore the political economy of governance in Malawi and to examine the "drivers of change" in respect of governance reform. This is a welcome development.

C5.3 As noted in C1 above, donor concerns with democracy and human rights have helped shape thinking over suspension and resumption of PGBS flows. While donor staff generally pointed to the breach of IMF PRGF conditions as the reason for PGBS suspension, some observers in Malawi argued that, in some way, governance factors were the "real" reason for suspension. An exact explanation cannot be discerned so long afterwards.

C5.4 All of the bilateral donors and the EC were clearly concerned with governance issues and the fact that there are not significant differences observable between them. However, the success of PGBS is very dependent on political governance issues, and this may have raised the stakes for the CABS group donors. It is also possible that the nature of the PGBS partnership made them more sensitive to home-country concerns over governance issues.

Corruption

C5.5 Corruption in Malawi – as in many countries in sub-Saharan Africa – is perceived as a major problem. In the 2004 Transparency International Corruption Perceptions Index (CPI), the Malawi score is 2.8 and is ranked 93rd out of 145. Comparing this in the region, Mozambique scores 2.8 and a rank of 94, Tanzania 2.8 with a rank of 99, Zambia 2.6 with a rank 105 and Uganda 2.6 rank 103. There is some indication that Malawi's score has been worsening since 2000, when it had a CPI score of 4.1 which gave it a rank of 45th out of 90 countries.

C5.6 Corruption is clearly linked to the patrimonial nature of Malawian politics, in particular to the "big man syndrome", with scant regard for the distinction between the public and the private sectors. It is argued that there is a difference between the Muluzi and Bingu regimes. In the latter, patronage is seen as *following* policy whereas in the former, patronage actually *drives* policy. This is consistent with the former regime's lack of discipline related to management of public funds, including non-earmarked donor resources (budget support) for the state budget.

C5.7 Malawi established an Anti-Corruption Bureau (ACB) in 1995, but it was not fully operational until 1998. It has three tasks: public education, prevention and enforcement. It has

recently been empowered by the Corrupt Practice Act and has a new relationship with the Department of Public Prosecutions (DPP). If the ACB seeks to initiate a prosecution, then the DPP must either make a public statement of why it is not allowing one or, if it fails to make a decision in 30 days, the ACB can go ahead and prosecute.

C5.8 The ACB, since the new regime came to power in 2004, has been seen as pursuing its objectives with political backing. This has involved prosecution of some high profile ministers from the past regime and one from the current regime. This is in contrast to the absence of such actions by the previous regime. While such developments have been applauded by the donor community, there has not been enough of a track record to see whether these developments represent a genuine anti-corruption approach or whether this new approach is simply one of paying off political scores. The ACB has been consistently supported by all the CABS donors (DFID, Norway, Sweden and the EC). This is not surprising and is consistent with the importance of financial probity to PGBS donors.

C5.9 There remains a problem of petty corruption, for example, in law enforcement and service delivery (such as the misappropriation of drugs). As noted in chapter B7, PGBS in Malawi has not yet had time to make an impact on service delivery and therefore this form of petty corruption has not been significantly addressed by PGBS.

PART D: SYNTHESIS – OVERALL CONCLUSIONS AND RECOMMENDATIONS

D1. Overall Assessment of PGBS in Malawi

Introduction

D1.1 This part of the report has three sections.

- D1 provides an overall assessment of the impact of PGBS in Malawi with recommendations for Malawi where appropriate. It concludes with a representation of the causality map for Malawi.
- D2 considers future prospects for GBS in Malawi.
- D3 provides a concise summary of all the findings, conclusions and recommendations in a matrix.

D1.2 Annex 5 provides a visual representation of the causality map as it applies to Malawi and summarises the team's findings on the existence of the various links postulated in the enhanced evaluation framework.

Design of PGBS in Malawi responded to the local context but was inevitably risky.

D1.3 From the mid-1990s, PGBS in Malawi followed a history of non-earmarked budget support for the state budget from a number of donors. The donors who ventured into the joint working arrangement of CABS (labelled PGBS in the context of this evaluation) in the early 2000s were all experienced and cognisant of the local situation in Malawi. The design of PGBS was thus fairly well adjusted to the evolving, financial and economic, social, political and institutional context.

D1.4 The initial "design" of PGBS with focus in MPRS could be questioned based on the history related to actual implementation of policies and weak fiscal discipline by the Government of Malawi. The history raises the question whether PGBS was appropriate for Malawi. The answer to this issue depends upon how risks were assessed preceding PGBS and how they were dealt with. The underlying analysis recognised risks mainly in terms of the financial, political and economic circumstances and their likely developments. Efforts to mitigate the risks, however, were focused primarily on fiscal management rather than on political risks. In the risk analysis, the political risks in terms of commitment and policy priorities were relatively understated, while positive signs of progress were often overstated. Since the 2004 election, the design has been adjusted to respond to the evolving context.

Was it the right decision to go ahead with PGBS in Malawi?

D1.5 A key question is whether the eventual poor fiscal performance should (or could) have been anticipated. It may be claimed that, given Malawi's poor history of fiscal management, one could have expected that it would not be able to meet PGBS conditions. On the other hand, it would have been difficult to foresee the significant further deterioration in fiscal discipline that occurred.

D1.6 Although the original CABS rationale did not emphasise PGBS funds acting as an incentive to leverage commitment, subsequently some donor officials were surprised that senior

politicians did act so as to risk receipt of what were significant funds. One commentator has noted:

They [the donors] saw fit to go ahead with budget support despite their knowledge of the weaknesses of the system – this involved a more or less conscious decision to engage in wishful thinking. Perhaps the lesson to be learnt ... is the dilemma facing donors where the poverty of populations demands donor support, but the dysfunction of governments makes it unlikely that even minimal management conditions will be met ... Aid officials are rarely politically naive, but may lack instruments to confront this dilemma. (Brian Van Arkadie, Personal Communication)

D1.7 There are three possible interpretations of the subsequent problems with PGBS in Malawi.

- First, that Malawi failed to meet some absolute minimum entry standard on PFM or other capacity.
- Second, that the appropriate decision-making process was one of weighing up the risks and benefits. In such a scenario, some failures are inevitable but do not necessarily reflect poor decision making.
- Third, the problems in Malawi were not due to inappropriate entry conditions but to the subsequent support given.

D1.8 These three interpretations are, of course, not mutually exclusive. There are indications that the risks were understated and hence an appropriate minimum threshold was not met. Perhaps more could have been done to help build capacity, although throughout the period 1994–2004 a number of donor efforts had been made in this regard with limited success. Ultimately, whether the appropriate decision-making process should have a minimum threshold cannot be determined from a single case.

D1.9 The findings of the Malawi case study do suggest that political governance is a key entry condition for PGBS. Analysis of the appropriateness of PGBS must include political analysis as a basis for design of PGBS – in addition to fiscal management reviews and assessment of PFM capacity. The intentions of the government with respect to sound financial management and poverty reduction need to be established rather than assumed.

D1.10 The second issue is to reinforce the general observation that conditionality is neither a substitute for, nor does it promote, ownership. This has clearly been the case with the approach in Malawi – where PGBS was supposed to promote reform in PFM and other governance systems. The assumed incentives associated with PGBS were not effective in Malawi. PGBS may have created expectations of sustained non-earmarked donor inflows but, when suspended due to non-compliance with conditionalities, the suspension was not followed by sustained measures by the government to control expenditure. On the contrary, expenditure continued to exceed budget ceilings by far, despite the shortfall in PGBS receipts. The result was an accumulation of increased domestic debt, increasing debt service costs and adverse effects on private investment and on prospects for growth.

D1.11 The dialogue should be supported not only by fiscal reviews and assessments of performance measured by quantitative and qualitative targets, but also analysis of two of the key entry conditions: political governance and commitment. Providing general budget support to a country which has a long history of weakness in managing even its own domestic resources is unlikely to lead to improved public sector performance. It will require analysis of the political system and processes combined with dialogue with the political leadership, civil society and the executive and administrative levels to design appropriate conditions and procedures for support.

D1.12 Embarking on a PGBS process with multiple process, output and outcome targets in support of ambitious poverty reduction policies is unlikely to achieve intended results when political governance, ownership and limited capacity are the binding constraints to policy implementation.

D1.13 *Recommendation: The assessment of whether to go ahead with PGBS should be taken, based on an assessment of political governance and commitment in addition to reviews of fiscal performance and PFM capacity.*

PGBS provided a vehicle for improved donor harmonisation.

D1.14 Donor harmonisation has improved moderately in Malawi but remains at an early stage. The CABS group has provided a general focal point for a more unified policy dialogue with the Government of Malawi. PGBS has played a partial role in this but other factors, including a general movement towards harmonisation within the donor community – both locally and internationally – and an increasing emphasis on PRS processes have made significant contributions. Harmonisation has not extended to aid management systems where individual donors continue to operate their own systems.

D1.15 *Recommendation: Continued efforts are required to make PGBS a vehicle for improving harmonisation amongst a wider group of donors.*

Progress on alignment was weaker.

D1.16 Alignment with government policy has shown some limited improvement due to the emphasis on the PRS. However, it should be noted that alignment to a broad PRS is not a particularly challenging task and represents only a first step in the alignment process. There are also problems with aligning weak and undeveloped policies and systems. To some extent, donors have used conditionality as a substitute for weak policy development by the partner government.

D1.17 In general, alignment with government systems has been minimal, except to the extent that GBS automatically requires reliance on government financial management systems. In particular, international partners do not rely on Malawi government systems for aid coordination. The lack of donor alignment reflects limited government capacity, especially in policy formulation.

D1.18 *Recommendation: More effort by donors and the Government of Malawi needs to be put into capacity development of government systems to enable real leadership on aid coordination. More efforts are needed in developing policy formulation and implementation.*

Suspension of PGBS caused severe short-term macroeconomic problems.

D1.19 In the case of Malawi, the start and subsequent suspension of PGBS in general had a perverse effect on macroeconomic performance in terms of macro stability, budget deficit and the cost of budget finance. The immediate cause of the suspension was a breach of conditionality associated with poor fiscal discipline. Suspension was not immediately followed by reductions in government spending, and the consequent deficit was financed largely through domestic borrowing leading to high interest rates and high debt service cost.

D1.20 One lesson from Malawi appears to be, however, that the short-term damage done by suspension is very significant and that henceforth suspension should take place in a manner that allows for aggregate fiscal discipline to be maintained except in very exceptional circumstances. Thus, partial suspension is more advisable than full suspension and donors can commit to short-term disbursements without the threat of complete withdrawal. The utility of these different approaches can only be judged in implementation. This is an important area for future evaluation to draw on the lessons of experience.

D1.21 *Recommendation: Donors, in designing PGBS conditionalities and sanctions, need to consider carefully the impact of suspension of PGBS on macroeconomic stabilisation, and to the extent possible, make a gradual reduction in the medium term rather than completely withdraw in the short term.*

Application of PGBS conditionality in a difficult context led to increased unpredictability of aid.

D1.22 Predictability has been weakened by the interaction of donor conditionality and Malawi government behaviour. Given the latter, suspension was inevitable in the long term, and in a sense therefore predictable. The precise timing of this suspension could not have been predicted by the government, given a past history of understandable donor discretion in the application of conditionality. This was then followed by uncertainty over when and if PGBS would restart. This uncertainty created problems for effective budget-making and for budgetary control.

D1.23 This issue is also linked to the issue of fully harmonising conditions for release and the complexity of conditionalities and targets for the PGBS. In the case of Malawi, the formal conditions for PGBS – as stated in respective bilateral agreements – differed among the PGBS donors (e.g. the case of one donor not formally having PRGF as a condition). The multiple indicators used to assess performance – ranging from input through process to output and outcome targets, covering a wide range of issues with different emphasis by different donors – may create uncertainty over what the main conditions initially are.

D1.24 *Recommendation: The impact on predictability in the short term can be mitigated by disbursement arrangements which provide for suspension only in the medium term. Conditions should be fully harmonised with full transparency on conditions for release. Performance targets and conditionalities should be limited to a number of key issues with simple, achievable and verifiable indicators as basis for assessing performance, especially in countries like Malawi which has significant constraints in PFM and public sector management in general.*

Government of Malawi systems remained weak and impact was limited by lack of political will and by suspension.

D1.25 PGBS has not brought about a significant change in Malawi's relatively weak planning and budgeting systems – in terms of ownership, accountability, durability and capacity development. Furthermore, suspension has meant that an improvement in systems brought about by an increase in discretionary funds has not taken place. Some modest improvements in this area are due mainly to political changes following the 2004 election, although the approach of the post-2004 government may have been affected by the incentive effects created by potential future PGBS, and the earlier technical assistance which did facilitate the subsequent improvement.

D1.26 PGBS has not contributed to improving public policy processes and policies. It has not influenced the overall reform process in terms of ownership, participation and learning. Similarly, there has been little influence on policy content in terms of the balance between the public and private sector and the relationship between individual sector policies and public expenditure plans. Overall, there was a rather weak policy dialogue with little ownership and appreciation of the conditions of the PGBS by the Government of Malawi.

D1.27 Post-2004, there has been an increased focus on supporting political processes. This may improve ownership and participation, but it is too early to determine the outcome.

D1.28 *Recommendation: Political governance and commitment are key issues to address, along with reliable PFM systems and capacity for effectiveness of PGBS.*

Impacts of PGBS on service delivery and poverty reduction in Malawi are not visible.

D1.29 Given the problems with PGBS in Malawi, no contribution was found to be improving government performance in public service delivery. The overall level of service delivery was low in terms of pro-poor delivery, efficiency and effectiveness, capacity and responsiveness.

D1.30 Similarly no relationship was found between PGBS and poverty reduction. Furthermore, given the data limitations, it is not possible to determine trends in either income or non-income dimensions.

D1.31 *Recommendation: Monitoring of PGBS linked to outcome of PRSP requires a baseline and effective monitoring system prior to, or in early stages of, the PGBS arrangement if performance-based monitoring with output and outcome targets are to be applied meaningfully.*

Donors and the GOM have learned from the experience.

D1.32 There is a moderate degree of learning by the Government of Malawi and its international partners, which has resulted in an adjustment of the PGBS approach in the light of experience. However, this learning has occurred as a separate rather than a shared process. The adjustment has been concerned with inputs, conditionalities and dialogue rather than implementation and impact levels. Feedback to stakeholders such as parliamentarians and civil society beyond the government has been limited.

D1.33 *Recommendation: Donors and government need to strengthen their processes of mutual learning and strengthen feedback to all stakeholders, including parliament and civil society.*

Political governance may have been positively influenced by incentives created through PGBS.

D1.34 Direct evidence of impacts on political governance is absent. However, there are some signs that PGBS created an environment and incentives for the post-2004 government to improve fiscal discipline in return for a resumption of stable GBS flows. Some of the possible interpretations are discussed in Box 9.1.

D1.35 *Recommendation: Where donors begin PGBS in difficult policy contexts (like Malawi) they should commit to the medium to long term.*

D2. PGBS in Malawi – Future Prospects

Recent Developments

D2.1 From the election of the new administration in 2004 through to 2005, some promising signs have emerged for aid management in Malawi. The restoration of basic fiscal control has resulted in the IMF re-starting their programme and some CABS donors releasing PGBS funds. The position of the CABS group at the heart of the policy dialogue on public sector reform has been strengthened, with a number of other donors seeking to move from observer status to full membership. However, against this, Malawi once again suffered from droughts leading to serious food shortages in 2005. There have been previous false dawns in governance reforms. Thus the prospects for achievement of the desired long-term outcomes from PGBS in Malawi remain in the balance.

“New PGBS”

D2.2 Following the elections in 2004, a number of PGBS donors re-started GBS flows in advance of a resumption of IMF financial support. However the objectives of this have evolved from what went before. This is perhaps evidenced most clearly in the DFID project memorandum arguing for resumption. Drafted in December 2004, the memorandum assesses fiduciary risk as remaining high, despite promising signs and continued donor support to reforms. Nevertheless GBS is proposed on the basis that

The case for poverty reduction budget support for Malawi rests on the benefits that would flow from an extended period of macroeconomic stability. The primary impact would be the stimulus to investment and growth that has been deterred by high interest rates and erratic policy implementation, with beneficial effects on income poverty (DFID 2004).

D2.3 In discussion, DFID country staff emphasised this macroeconomic objective and saw poverty reduction as a secondary objective. One interpretation of this is that prospects of improving poverty through GBS in the medium term are limited but that, in the absence of GBS, a macroeconomic crisis may well significantly worsen poverty. The analysis suggests that:

Domestic interest accounted for 28.4% of total Government expenditure (excluding foreign financed development expenditure) in 2003/04. When account is taken of other non-discretionary expenditure including foreign interest (4.6%), wages and pensions (23.4%) and Pro-Poor Expenditure (8.5%, excluding wages), the Finance Ministry retains some control over less than a quarter of total expenditure. High real interest rates mean that, as Government acknowledges, *‘the vast majority of Malawian businesses are not able to access finance for investment’*. Government over-expenditure has contributed to inflationary pressure and the depletion of foreign exchange reserves. Macroeconomic stability is very fragile, therefore (ibid.).

D2.4 Thus GBS is seen initially as a way of avoiding economic crisis and restoring credibility in the budget:

The case for PRBS²⁰ in Malawi is about creating the macroeconomic platform for poverty reduction policies. In particular, it is necessary to establish the credibility of the budget process, to restore macroeconomic stability and to reduce the proportion of expenditure wasted on domestic debt service. These changes will produce direct development benefits. However, we [DFID] do not see budget support as the principal instrument for transferring resources for poverty reduction. For that to work, it would be necessary to strengthen institutions more generally, including the MPRS process (ibid.).

²⁰ i.e. Poverty Reduction Budget Support, a DFID term roughly equivalent to PGBS as used in this study.

D2.5 More standard PGBS causal links from the flow of funds to institutional effects are seen as being dependent on broader reform initiatives. Significantly, the memorandum recommends “proceeding with PRBS now before waiting for further evidence of a good track record”. Thus GBS support during 2004/05 and 2005/06 is proposed. The memorandum anticipates:

that there will be a strong case for continued PRBS beyond 2005/06. However, it is not proposed to commit further PRBS at this stage because: (a) the track record of improved economic management is too short; (b) the Government has yet to develop a credible Medium Term Expenditure Framework; and (c) we [DFID] need to discuss with the Government its medium term development and poverty reduction priorities over the course of the next year (ibid.).

D2.6 Thus, in some ways, the “new” PGBS represents budget support aimed at macroeconomic stabilisation, with initial emphasis on links to institutional change and poverty reduction.

D2.7 Although this “new” approach is still in its early stages, it may represent an appropriate strategy for high-risk countries where the appropriateness of the previous PGBS, linked to ambitious poverty reduction efforts and institutional reforms, is questionable. An advantage of this approach is that it allows flexibility – international partners can continue with this modest form of GBS, gradually expanding to more complex and ambitious PGBS operations only when and if basic macroeconomic and fiscal management conditions – and especially risks – improve. It avoids the danger that outside observers (including perhaps donor HQs) label GBS as failing when it is actually contributing positively to a long-term gradual improvement with modest objectives in the short-to-medium term.

D2.8 The above is based on one of the main observations from the history of PGBS in Malawi: that it linked PGBS to the implementation of an ambitious and complex PRSP process before basic macro and fiscal management conditions were fulfilled. The “new” PGBS in this sense is a return to the GBS operations in the mid-1990s, when macroeconomic stabilisation featured high on the agenda with the gradual introduction of policy adjustment and institutional reforms.

Making a PAF work in Malawi

D2.9 Donors began to develop a joint performance assessment framework (PAF) with the Government of Malawi through 2004–2005. The PAF brings together indicators used by donors, rather than agreeing on a single set of indicators or agreeing to use them in a uniform way. Real harmonisation over indicators requires donors to be willing to concede the omission of indicators that they might individually prefer, in order to achieve a manageable uniform set. But this may in turn require greater flexibility from donor HQs in favour of autonomy for their local offices.

D2.10 The indicators used represent a range of input, process, output and outcome measures. Our judgement is that the use of outcomes measures in this way, especially given Malawi’s weak management systems, may be over ambitious. There should be universal agreement on the importance of using a full range of indicators to monitor all stages in the results-chain. There is a more specific issue as to whether it is wise to link disbursements directly to outcome indicators. By outcome measures we refer to indicators reflecting the results of government action in terms of policy objectives. Examples in the draft PAF from 2005 include prevalence of under-five child malnutrition and HIV prevalence among adults in the 15–49 age group. This can be distinguished from output indicators such as deliveries attended by skilled health staff or primary school net enrolment.

D2.11 The EC has promoted the use of outcome indicators, although only in respect of a small portion of their GBS funds.²¹ They argue that, for example:

i) *outcomes are what matter* – they focus on what matters to beneficiaries and target groups and avoid payments of aid for what can easily become symbolic acts – passing legislation or completing a study; (ii) *outcomes are strongly influenced by government and can change quickly in response to government action*. (For example, enrolment rates or vaccination rates); (iii) *protect political space of beneficiary countries*. Using results-based (or outcome indicators) instead of policy conditions protects the policy space of the government to make what it considers are the right policy decisions to meet a particular objective; (iv) *potential to increase predictability* – by avoiding “stop-go” payments linked to meeting, say, IMF conditions; (v) *stimulate demand for high quality data* – helps identify potential weaknesses in national statistical systems and the importance of taking corrective action; (vi) *encourage “evidence-based” policy making* – the focus on results when providing budget support is expected to encourage donors and beneficiary countries to analyse carefully the consequences of any given policy on the outcomes; (vii) *promote domestic accountability*, by drawing attention to the results that are expected from the use of public money.

D2.12 It is important to note, however, that these arguments relate to a broader definition of “outcome indicators” than we use when, for example, referring to vaccinations which we would interpret either as an input or an output indicator. (Vaccinations are an example of where there is an especially close relationship between delivering the input and achieving the output.)

D2.13 Evidence on the actual use of outcome indicators (in our specific sense of the term) is limited in Malawi. The PAF had not come into use during 2005, while earlier conditionality was based mainly on IMF PRGF conditionality. plus a range of mostly process conditions.

D2.14 The team has concerns, however, based on consideration of the specific indicators proposed in the PAF, on analysis of the data management capacity of the Government of Malawi, on the possible adverse incentive effects of the indicators, and on the comments of government staff.

D2.15 A number of government staff expressed some concern over the use of both output and outcome indicators, mainly on the basis that performance on these depended on factors beyond their control. The use of AIDS incidence produces the paradoxical effect that exogenous increases in HIV/AIDS may result in reduced funding for the government.

D2.16 Use of outcome indicators for disbursement can divert government attention away from the process and resource allocation changes that are under their control. It may introduce perverse incentives (for example, to manipulate statistics on outcomes) and it may reward or sanction performance changes that are merely movements within the margin of error of reported statistics – for example the AIDS indicator requires reductions of 0.2 per annum in the incidence of AIDS.

D2.17 There should be predictability over whether funds will be paid, although the timing will still depend on the Government of Malawi’s speed of reform. The use of discretion by the donor in cases of non-performance may re-introduce an element of non-predictability. The DFID/Norway approach allows for discretion in considering the government’s progress, taking

²¹ See the EC document *EC Budget Support: An Innovative Approach to Conditionality* (European Commission 2005) for explanation of the EC approach.

into account local contextual matters. However, this discretion creates inevitable unpredictability for the government in that it must second-guess how donors will respond.

D2.18 In summary, whilst outcome indicators are certainly relevant to monitoring GBS, and have some attractions as disbursement triggers, the practical problems of using them in a situation where basic management capacity is not well-established suggest that the emphasis should be on the use of process indicators which can be linked to activities promoting improvements in public sector management. In fact, the greater part of the proposed PAF indicators are process indicators of this type.

D2.19 Recommendation: Donors should use process indicators as triggers for disbursement rather than outcome indicators.

Widening CABS

D2.20 Many of the potential gains from PGBS may require a significant switch of funding from projects into PGBS to gain a “critical mass” and make PGBS serve as a stronger incentive. Widening of the CABS group would allow flow-of-funds effects to be considered alongside policy dialogue and conditionality in a holistic way. However, it could be expected that, as the size of the group increases, the costs of effective coordination may rise. Nevertheless, the overall transaction costs of managing funds under PGBS could be expected to remain low.

D2.21 During 2005, there was active consideration by some important donors, including the World Bank and Germany, about moving from observer status to full membership of CABS.

“Contagion Effects” and the GBS “Seal of Approval”

D2.22 GBS politicises donor involvement in a country in new ways. Committing to GBS signals donor agreement with overall policies and governance arrangements in a country, while suspension of GBS signals overall concerns. The partner government (or some individuals within it) may have difficulty in distinguishing donor signals with respect to different aid modalities. Thus there is a perceived danger from partners that PGBS judgements will affect other sectors. Some Malawi government staff explicitly expressed their concern that this “contagion effect” might threaten major non-PGBS initiatives such as the health SWAp. In practice, the opposite logic might apply – suspension of a PGBS might actually secure funding of non-PGBS flows, or there might even be a tendency by donor staff to defend PGBS because of fear of a contagion effect.

D2.23 Furthermore, it is worth noting that a similar process affects the reaction of public opinion to aid disbursement in the donor country. GBS is seen as giving a general “seal of approval” to recipient country behaviour. This exposes the aid flows to more political uncertainty than a simple project approach, which does not carry the sense of giving a generalised approval to governmental behaviour and action.

D2.24 The result is a risk of making the entire aid process more volatile. This makes managing expectations and communications in both donor and partner countries especially difficult.

D2.25 Recommendation: Donors need to clarify the relationship between conditionalities of PGBS and their commitments to other aid programmes.

Sector/Aid Modalities

D2.26 The limited application of sector support in the form of sector budget support instruments to sector programmes developed through SWAp process in Malawi raises the question as to whether an alternative evolution with more emphasis on sector-support would be more effective. The evidence for this is limited in Malawi. It is, however, instructive that one reason given for the lack of sector approaches by donors is the limited capacity in most sector ministries. This tends to suggest that general budget support will also have limited effectiveness since, among other factors, contribution to service delivery requires effective sector institutions, especially in priority sectors under a PRSP framework. This would require more emphasis on sector support and aid instruments like technical assistance and sector-based support (SBS), targeting capacity building and service delivery in key sectors, and resources on the donor side as well as the Government of Malawi.

D3. Summary of Conclusions and Recommendations

D3.1 The main recommendations from the study are summarised below and are grouped according to theme.

Main Recommendations

Political Governance and PGBS Design

- R1 The assessment of whether to go ahead with PGBS should be based on an assessment of political governance and an additional commitment to reviews of fiscal performance and public finance management capacity.
- R2 Political governance and commitment are key issues to address, along with reliable public finance management systems and capacity for effectiveness of PGBS.
- R3 More effort by donors and the Malawi government needs to be put into capacity development of GOM systems, to enable real leadership on aid coordination.
- R4 More effort is needed by donors and GOM in developing policy formulation and implementation.

Harmonisation

- R5 Continued effort is required to make PGBS a vehicle for improving harmonisation for a wider group of donors.

Use of Conditionality

- R6 When designing PGBS conditionalities and sanctions, donors need to consider carefully the impact of suspension of PGBS on macroeconomic stabilisation, and to the extent possible, make a gradual reduction in the medium term rather than completely withdraw in the short term.

Predictability and Donor Commitment

- R7 The impact on predictability in the short term can be mitigated by disbursement arrangements which provide for suspension only in the medium term. Conditions should be fully harmonised, with full transparency on conditions for release.
- R8 Where donors undertake PGBS in difficult policy contexts (like Malawi), they should commit medium to long term.
- R9 Donors need to make clearer the relationship between conditionalities on PGBS and their commitment to other aid programmes.

Monitoring and Use of Indicators

- R10 Monitoring of PGBS, linked to outcome of PRSF, requires a baseline and effective monitoring system prior to, or in early stages of, the PGBS arrangement if performance-based monitoring with output and outcome targets is to be applied meaningfully.
- R11 Donors should use process rather than outcome indicators as triggers for disbursement.

Feedback

- R12 Donors and government need to strengthen their processes of mutual learning.
- R13 Donors and government should strengthen feedback to all stakeholders including parliament and civil society.

D3.2 Finally, the matrix at Table D3.1 provides a summary of the evaluation's main findings, conclusions and recommendations. It demonstrates, in particular, how the recommendations derive from the evidence presented and the conclusions reached during the evaluation of PGBS in Malawi. The final column indicates who should implement each recommendation (e.g. government/international partners) and over what time scale (I = immediate; ST = short term, say six months to one year; MT = medium term, over one year).

Table D3.1: Summary Table of Findings, Conclusions and Recommendations

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>EQ1 Relevance of PGBS</p> <ul style="list-style-type: none"> ◆ The design of PGBS was moderately well adjusted to the evolving, financial and economic, social, political and institutional context. ◆ Whilst the overall design was moderately good the subsequent history raises the question of whether PGBS was appropriate for Malawi. The answer to this issue depends upon how risks were assessed. ◆ The analysis recognised the risks in the financial, political and economic circumstances. ◆ In the risk analysis the political risks were relatively understated while the positive signs of reform were often overstated. ◆ Efforts to mitigate the risks were primarily focused on the economic/financial rather than the political risk. ◆ Since 2004 the design has been adjusted to respond to the evolving context. ◆ Overall there was a rather thin policy dialogue with little ownership and appreciation of the conditions of the PGBS by GOM. 	<ul style="list-style-type: none"> ◆ Decisions to proceed with PGBS are influenced by donor incentives and a desire to do something in a difficult context (¶B1.12). ◆ One possible conclusion from the Malawi case is that the establishment of a minimum threshold of PFM capacity might have improved donor decision making on whether to proceed with PGBS. Alternatively it might be argued that any weakness in PFM could be dealt with by capacity building and that a decision to proceed with PGBS should be based on the balance of risks and benefits. The Malawi evidence alone is not sufficient to resolve this dilemma and/or issue (¶B1.12–¶B1.26). ◆ The processes of conditionality alone can not substitute for ownership and policy reform (¶B1.27–¶B1.29). 	<ul style="list-style-type: none"> ◆ The assessment of whether to go ahead with PGBS should be taken not only with fiscal reviews and assessments but also an assessment of political governance and commitment (¶D1.11). 	<ul style="list-style-type: none"> ◆ Donors (MT–LT)

Chapter D3: Summary of Conclusions and Recommendations

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>EQ2 Harmonisation and Alignment</p> <ul style="list-style-type: none"> ◆ Harmonisation and alignment have moderately improved in Malawi. PGBS has played a partial role in this but other factors including a general movement towards harmonisation and an increasing emphasis on PRS processes have all played a large part too. Harmonisation has not extended to aid management systems where individual donors continue to operate own systems. ◆ Donors are beginning to use a form of PAF but thus far at an early stage of development and brings together indicators used by donors rather than agreeing on single set or agreeing to use them in a uniform way. ◆ Different donors use different types of indicators and use them in different ways. Some donors used a range of indicators to come to decisions about overall progress of PGBS. Whilst other donors in part used process of specific indicators as disbursement triggers. ◆ Effect on harmonisation has been stronger than on alignment with important concerns over ownership. Harmonisation effects have been strongest within the CABS group. ◆ Alignment with government policy has shown some limited improvement due to the emphasis on the PRS but alignment with government systems has been minimal except to extent GBS automatically requires reliance on government accounting and other financial systems. In particular IPs do not rely on GOM systems for aid coordination. 	<ul style="list-style-type: none"> ◆ PGBS reinforces or supports other causal factors promoting harmonisation and alignment (¶B2.8, ¶B2.17). ◆ The use of a PAF for harmonisation requires some “give and take” between donors to agree a single approach (¶D2.10). ◆ In weak management systems targets that are process indicators linked to improvements in public management work better than output and outcome indicators when used as disbursement triggers (¶D2.10-¶D2.13). ◆ Policy dialogue within PGBS serves as an effective mechanism for harmonising and aligning policy (¶B2.8, ¶B2.17). ◆ Donors will use their own systems for aid coordination where capacity is lacking (¶B2.10-¶B2.11). ◆ Donors will emphasise their own policies where domestic political will is lacking and policy is weak (¶B2.9). 	<ul style="list-style-type: none"> ◆ Consider widening CABS group to broaden impact of PGBS on harmonisation. (Although coordination problems would increase.) (¶D2.20) ◆ Continue to see PGBS as a vehicle for improving harmonisation in Malawi (¶D1.14-¶D1.15). ◆ Donors should use process indicators as triggers for disbursement rather than outcome indicators (¶D2.19). ◆ More effort needs to be put into capacity development of GOM systems to enable real leadership on aid coordination (¶D1.18). ◆ More effort needs to be put into developing policy capacity (¶D1.18). 	<ul style="list-style-type: none"> ◆ Donors (ST-MT) ◆ Donors (I) ◆ Donors (MT) ◆ Donors (MT) ◆ Donors (MT)

General Budget Support in Malawi

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>EQ3 Public Expenditures</p> <ul style="list-style-type: none"> ◆ PPEs have been protected to some degree and PGBS was an element in supporting this process but other aid efforts were more significant (HIPC). Predictability has been weakened by the interaction of donor conditionality and GOM behaviour. ◆ Suspension of PGBS and continued project funding have limited the potential impact of PGBS on GOM discretionary funds. ◆ Transaction cost in the MOF increased but this was not accompanied by any visible reduction in transaction costs elsewhere in the GOM. 	<ul style="list-style-type: none"> ◆ Enforcing conditions by suspending PGBS necessarily seriously limits the financial benefits of the aid modality in terms of predictability, discretionary spending and transaction costs (¶B3.8–¶B3.31). ◆ The adverse impact on predictability is especially great in the short term where the government has limited scope to adjust (¶B3.17–¶B3.20). ◆ Reduction in overall TCs for GOM require a significant shift of resources out of project funding and into PGBS/Sector support (¶B3.23). 	<ul style="list-style-type: none"> ◆ The impact on predictability in the short term can be mitigated by disbursement arrangements which provide for suspension only in the medium term (¶D1.24). 	<ul style="list-style-type: none"> ◆ Donors (ST–MT)
<p>EQ4 Planning and Budgeting Systems</p> <ul style="list-style-type: none"> ◆ PGBS has not brought about a significant change in Malawi's relatively weak planning and budgeting systems in terms of ownership, accountability, durability and capacity development. Some modest improvements in this sector is mainly due to recent political changes although the approach of the post 2004 government may have been affected by the incentive effects created by future PGBS and the earlier technical assistance did facilitate the subsequent improvement. 	<ul style="list-style-type: none"> ◆ Modest amounts of PGBS without other inputs are insufficient to change the underlying weaknesses in the sector (¶B4.16, ¶B4.20, ¶B4.24, ¶B4.29, ¶B4.30, ¶B4.35). 		

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>EQ5 Policies and Policy Processes</p> <ul style="list-style-type: none"> ◆ PGBS has not contributed to improving public policy processes and policies. It has not influenced the overall reform process in terms of ownership, participation and learning. Similarly there has been little influence on policy content in terms of the balance between the public and private sector and the relationship between individual sector policies and public expenditure plans. ◆ Post-2004 there has been an increased focus on supporting political processes and this may improve ownership and participation but it is too early to determine the outcome. 	<ul style="list-style-type: none"> ◆ Neither disbursement nor suspension of PGBS have served as incentives for changes in terms of policy reform and content (¶B5.11, ¶B5.19). 		
<p>EQ6 Macroeconomic Performance</p> <ul style="list-style-type: none"> ◆ In the case of Malawi the start and subsequent suspension of PGBS has in general had a perverse effect on macroeconomic performance in terms of fiscal discipline, macro stability, budget deficit and the cost of budget finance. The immediate cause of the suspension was a breach of conditionality associated with poor fiscal discipline. PGBS has not crowded out the domestic revenue effort, which is good by regional standards. 	<ul style="list-style-type: none"> ◆ Offering and suspending PGBS as was done in Malawi can cause severe macroeconomic problems (¶B6.15, ¶B6.19). 	<ul style="list-style-type: none"> ◆ In designing PGBS donors need to consider the impact on the macroeconomy of a suspension of PGBS (¶D1.21). 	<ul style="list-style-type: none"> ◆ Donors (ST–MT)
<p>EQ7 Delivery of Public Services</p> <ul style="list-style-type: none"> ◆ Given the problems with PGBS in Malawi no contribution was found to improving government performance in public service delivery. The overall level of service delivery was low in terms of poor delivery, efficiency and effectiveness, capacity and responsiveness. 	<ul style="list-style-type: none"> ◆ It is not possible to test this relationship because the prior effects have not happened (¶B7.9, ¶B7.11). 		

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>EQ8 Poverty Reduction</p> <ul style="list-style-type: none"> ◆ As above no relationship was found – or should be expected yet- between PGBS and Poverty reduction. Furthermore – given the data limitations – it is not possible to determine trends in either income or non-income dimensions. 	<ul style="list-style-type: none"> ◆ It is not possible to test this relationship because the prior effects have not happened (¶B8.8–¶B8.10). 	<ul style="list-style-type: none"> ◆ Monitoring of PGBS linked to outcome of PRSP requires a baseline and effective monitoring system prior to, or in early stages of, the PGBS arrangement if performance-based monitoring with output and outcome targets are to be applied meaningfully (¶D1.31). 	<ul style="list-style-type: none"> ◆ GOM and Donors (MT)
<p>EQ9 Sustainability</p> <ul style="list-style-type: none"> ◆ There is a moderate degree of learning by GOM and IPs which has adjusted the PGBS approach in the light of experience. However this learning process is mainly independent rather than shared. The adjustment has been concerned with inputs, conditionalities and dialogue rather than implementation and impact levels. Feedback to stakeholders beyond the GOM has been limited. Donors left PGBS “on the table” even after suspension. 	<ul style="list-style-type: none"> ◆ The limited learning and adjustment does illustrate the importance of feedback mechanisms (¶B9.10). ◆ A consistent application of donor conditionality <i>may</i> create an environment which supports commitment to change in the medium to long term (¶B9.9, Box B9.1). 	<ul style="list-style-type: none"> ◆ Donors and GOM need to strengthen their processes of <i>mutual</i> learning (¶D1.33). ◆ Strengthen feedback to all stakeholders including Parliament and Civil Societies (¶D1.33). ◆ Where donors begin PGBS in difficult policy contexts (like Malawi) they should commit to the medium to long term (¶D1.35). 	<ul style="list-style-type: none"> ◆ Donors and GOM (MT) ◆ GOM (MT) ◆ Donors (MT–LT)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>C1 – Policy CCIs</p> <ul style="list-style-type: none"> Overall there was little relationship between the cross-cutting issues and PGBS. However, both gender, in terms of education and health indicators, and HIV/AIDS were considered explicitly as indicators in the PAF framework. Human rights and democracy are implicitly included in donor-government relationships and influenced some donors' decisions over suspension in the 2001–04 period. Environmental issues – despite their importance – were not included. The WB has included the process of decentralisation as one of its preconditions. 	<ul style="list-style-type: none"> The link between PGBS and these policy-related CCIs has been weak. This has been especially true where disbursement has been interrupted (Chapter C1). 		
<p>C2 – Public and Private Sector Issues</p> <ul style="list-style-type: none"> The main issue in relation to the private sector is that the focus on the public sector is causing a relative neglect of the private sector in donor strategies. This is however a general rather donor problem rather than a PGBS specific problem. 	<ul style="list-style-type: none"> There is a risk that the attention PGBS requires from donor staff and partner government distracts them from focussing on private sector policy issues (¶C2.2). 		
<p>C3 – Government Capacity and Capacity Building</p> <ul style="list-style-type: none"> Government capacity is limited and remains a major constraint. PGBS has been associated with capacity building and targeted TA but non PGBS donors have continued to provide similar inputs. 			

General Budget Support in Malawi

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>C4 – Quality of Partnership</p> <ul style="list-style-type: none"> ◆ Ownership has been poor and, as with other aid to Malawi, donors have sought to use conditionality as a substitute for ownership but with little success. ◆ On interplay between aid modalities see comments in B1 above on sectoral support. ◆ Concern was expressed by some GOM staff that there might be a “contagion effect” from PGBS to other aid i.e. suspension of PGBS might lead to problems with other aid e.g. the health SWAP. ◆ On transaction costs see B3 above 	<ul style="list-style-type: none"> ◆ Partner countries may find it difficult to distinguish between donor policies on different aid modalities (¶C4.6). 	<ul style="list-style-type: none"> ◆ Donors need to make clearer the relationships between conditionalities on PGBS and their commitment to other aid programmes (¶D2.25). 	<ul style="list-style-type: none"> ◆ Donors (ST to MT)
<p>C5: Political Governance and Corruption</p> <ul style="list-style-type: none"> ◆ Direct evidence of impacts on political governance is absent. However there are some signs that PGBS created an environment and incentives for the post-2004 government to improve fiscal discipline in return for a resumption of stable GBS flows. ◆ PGBS has not had any discernible influence on corruption. The CABS donors have consistently supported the ACB, which under the new regime (post 2004) has shown itself to be proactive and seems to be receiving high-level support. 	<ul style="list-style-type: none"> ◆ PGBS focuses attention of donors on need to support anti-corruption (¶C5.8). 		

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JOINT EVALUATION OF GENERAL BUDGET SUPPORT 1994–2004
Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, Vietnam

Malawi Country Report Annexes

April 2006

Joint Evaluation of General Budget Support MALAWI COUNTRY REPORT ANNEXES

Contents

ANNEX 1: APPROACH AND METHODS	115
Annex 1A: Summary of the Evaluation Methodology	115
Annex 1B: Note on Approach and Methods adopted in Malawi	115
Annex 1C: People Met	115
ANNEX 2: COUNTRY BACKGROUND	115
ANNEX 3: AID TO MALAWI	115
Annex 3A: Standard Summary of PGBS Flows	115
Annex 3B: Inventory – GBS and Related Programmes	115
ANNEX 4: PUBLIC FINANCE MANAGEMENT IN MALAWI	115
Introduction	115
Sources	115
Overview of PFM in Malawi	115
Current Status	115
Trends	115
ANNEX 5: SUMMARY OF CAUSALITY FINDINGS	115
Malawi Ex Post Causality Map	115
ANNEX 6: THE HEALTH AND EDUCATION SECTORS IN MALAWI	115
Background to the Health Sector	115
Background to the Education sector	115
Health Sector inputs	115
Distribution of Health Expenditure	115
Education Sector inputs	115
Health Sector Outputs	115
Education Sector Outputs	115
Figures	
Figure 1A.1: The Enhanced Evaluation Framework (schematic view)	115
Figure 1A.2: Causality Map for the Enhanced Evaluation Framework	115
Figure 5.1: Key to the Causality Map	115
Figure 5.2: Malawi Ex Post Causality Map	115
Boxes	
Box 1A.1: General Definition of Budget Support and GBS	115
Box 1A.2: The DAC Evaluation Criteria	115
Box 1A.3: Enhanced Evaluation Framework – Logical Sequence of Effects	115
Box 1A.4: Key Evaluation Questions	115
Tables	
Table 2.1: Malawi Key Data	115
Table 2.2: Macroeconomic Indicators: Expenditure at Current Market Prices 1994–2004	115
Table 2.3: Macroeconomic Indicators: as a Percentage Share of GDP 1994–2004	115
Table 2.4: Gross Domestic Product by Sector of Origin 1994–2004	115
Table 2.5: Savings and Investment 1994–2004	115

Table 4.1: PEFA PFM Performance Measurement Indicators for Malawi	115
Table 5.1: Causality Map – Summary of Causality Findings in Malawi	115
Table 6.1: Trends in MOH Health Expenditures	115
Table 6.2: MOH Recurrent Expenditure by Level of Care	115
Table 6.3: Total Government Recurrent Education Expenditure 1999/00–2003/04	115

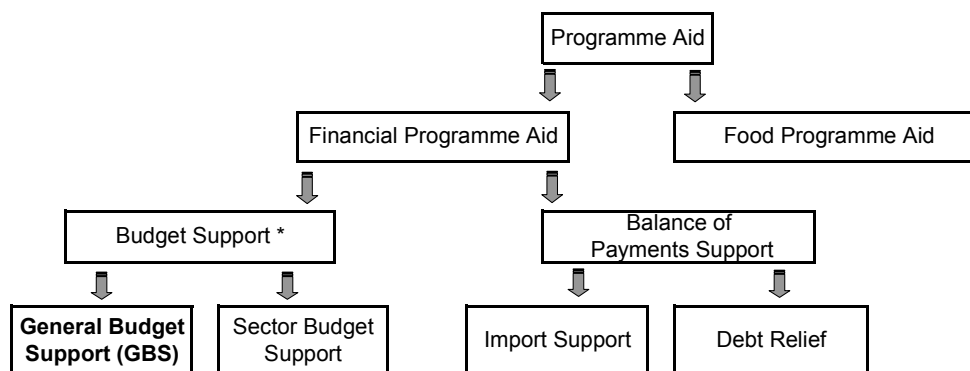
ANNEX 1: APPROACH AND METHODS

Annex 1A: Summary of the Evaluation Methodology

1. This Annex provides a short summary of the evaluation methodology. For full details please refer to the Inception Report (see also the Note on Approach and Methods which accompanies the Synthesis Report). Box 1A.1 shows how General Budget Support (GBS) relates to other forms of programme aid, while Box 1A.2 defines the DAC (Development Assistance Committee) evaluation criteria. Figure 1A.1 provides an overview of the Enhanced Evaluation Framework (EEF).

Box 1A.1: General Definition of Budget Support and GBS

As defined for the purpose of this evaluation, **programme aid** can be divided into food aid and financial programme aid. Financial programme aid includes both budget support and balance of payments support (such as debt relief and import support). Budget support in turn can be divided into sector budget support (SBS) and General Budget Support (GBS).



* Referred to as direct budget support in the *Evaluation Framework*

The general characteristics of **budget support** are that it is channelled directly to partner governments using their own allocation, procurement and accounting systems, and that it is not linked to specific project activities. All types of budget support include a lump sum transfer of foreign exchange; differences then arise on the extent of earmarking and on the levels and focus of the policy dialogue and conditionality.

Sector Budget Support is distinguished from **GBS** by being earmarked to a discrete sector or sectors, with any conditionality relating to these sectors. Additional sector reporting may augment normal government accounting, although the means of disbursement is also based upon government procedures.

Source: IDD & Associates 2005: Box 2.1.

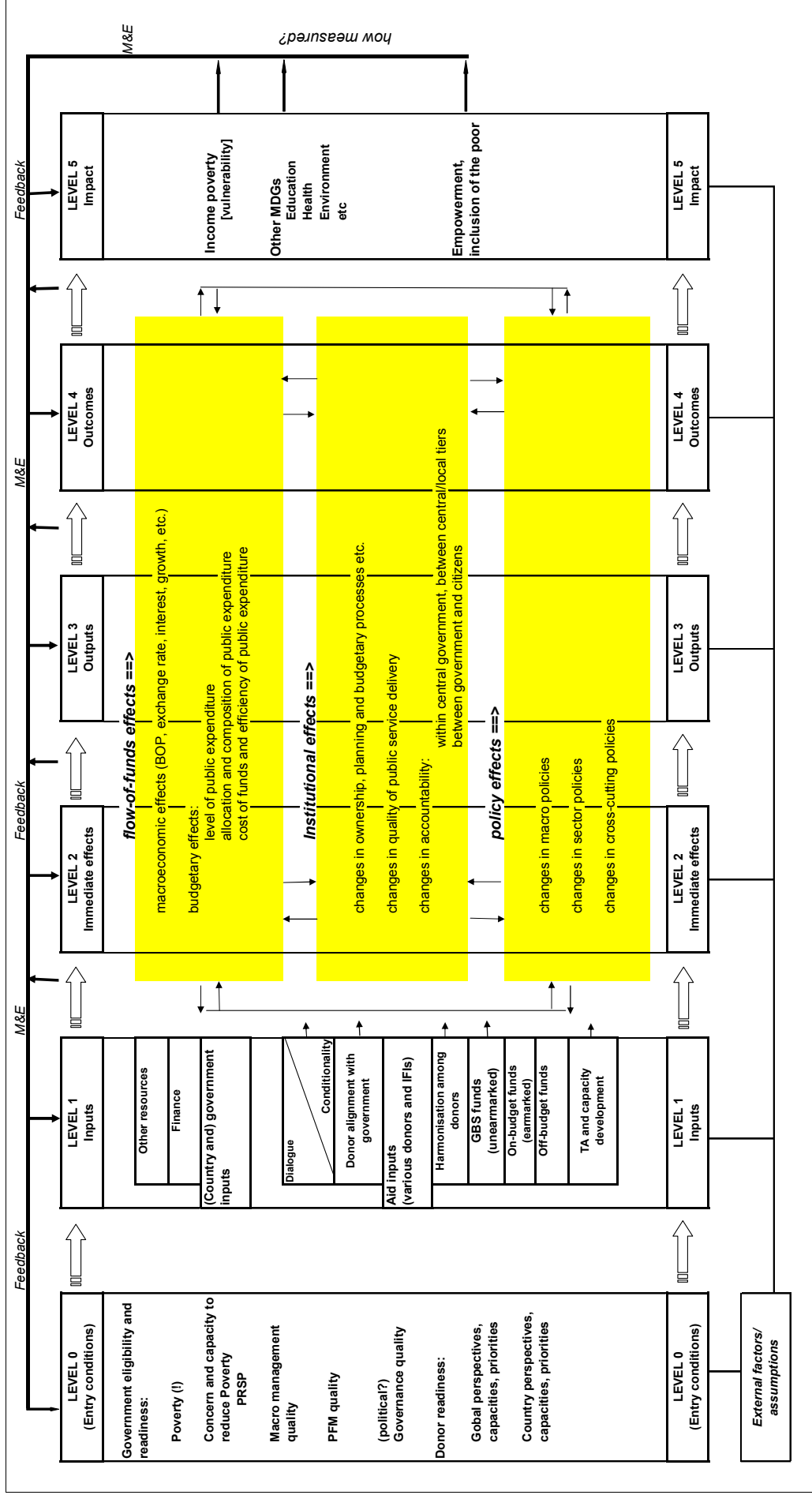
Box 1A.2: The DAC Evaluation Criteria

The five DAC evaluation criteria are:

- **Effectiveness:** The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance.
- **Efficiency:** A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted to results.
- **Relevance:** The extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, global priorities and partners' and donors' policies.
- **Impact:** Positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended.
- **Sustainability:** The continuation of benefits from a development intervention after major development assistance has been completed. The probability of continued long-term benefits. The resilience to risk of the net benefit flows over time.

Source: IDD & Associates 2005: Box 3.1.

Figure 1A.1: The Enhanced Evaluation Framework (schematic view)



2. Box 1A.3 shows, for each level of the logical framework, the main effects that are hypothesised to result from GBS. These hypothesised effects form the first column (the "logical sequence") of the detailed evaluation questions which are annexed to the Inception Report.¹

Box 1A.3: Enhanced Evaluation Framework – Logical Sequence of Effects

Level 1 (the design)
<p>1 Adequate quantity and quality of inputs are provided by new GBS:</p> <p>1.1 Funds</p> <p>1.2 Policy dialogue</p> <p>1.3 Conditionality</p> <p>1.4 TA/capacity building linked to</p> <ul style="list-style-type: none"> ◆ Public finance management (PFM) ◆ Pro-poor sectoral policies and good governance <p>1.5 Alignment and harmonisation</p> <ul style="list-style-type: none"> ◆ IPs' alignment to government goals and system ◆ IPs' harmonisation
Level 2 (the immediate effects/activities)
<p>2.1 More external resources for the government budget (additionality)</p> <p>2.2 Proportion of external funds subject to national budget process increased (increased fundability)</p> <p>2.3 Increase in predictability of external funding of national budget</p> <p>2.4 Policy dialogue and conditionalities focused on pro-poor policy framework and improved PFM</p> <p>2.5 TA/capacity building established to:</p> <ul style="list-style-type: none"> ◆ Improve PFM processes including budgeting, accounting, financial control, audit ◆ Improve the linkage between PFM and pro-poor sectoral policies and good governance <p>2.6 Actions to ensure IPs' alignment are in place</p> <p>Actions and agreements to improve IPs' harmonisation are in place</p>
Level 3 (the outputs)
<p>3.1 Increased resources for service delivery:</p> <ul style="list-style-type: none"> ◆ External resources are treated as additional ◆ Cost of funding budget deficit reduced <p>3.2 Partner government is encouraged and empowered to strengthen PFM and government systems:</p> <ul style="list-style-type: none"> ◆ To use the budget to bring public sector programmes into line with government goals, systems and cycles (Poverty Reduction Strategy Paper/Medium Term Expenditure Framework) ◆ To set up performance monitoring systems to measure the effectiveness of public expenditure at the level of the final beneficiaries ◆ To promote alignment and harmonisation by international partners. <p>3.3 Partner government is encouraged and empowered to strengthen pro-poor policies:</p> <ul style="list-style-type: none"> ◆ To establish and execute an adequate sequence of reforms to ensure macroeconomic stability and private sector development ◆ To establish and execute pro-poor policies and targeting in health, education, agricultural and rural development ◆ To enhance social inclusion policies, through decentralisation and participation of the civil society, reform of the administration of justice and respect for human rights <p>3.4 Improved aggregate fiscal discipline:</p> <ul style="list-style-type: none"> ◆ More predictable funding flows ◆ Incidence of liquidity shortfalls reduced, hence less use of central bank overdrafts and less accumulation of arrears <p>3.5 Operational efficiency of public expenditure is enhanced:</p> <ul style="list-style-type: none"> ◆ By reductions in certain types of transaction costs to partner government (e.g., non-standard procurement systems, brain-drain effects of parallel project management structures) ◆ Better planning, execution and oversight reduces wasteful spending, controls corruption better, spreads positive lessons across the public sector

¹ See IDD & Associates 2005 Annex G for the full set of detailed evaluation questions.

3.6 Allocative efficiency of public expenditure is enhanced:

- ◆ By a more effective budget process: multi-year, results oriented, transparent, participatory; with effective execution and audit; with an adequate tracking system
- ◆ By increased capture of project funds in budget
- ◆ By stakeholders taking the domestic budget more seriously (because that's where the money is)

3.7 Intra-government incentives and capacities are strengthened:

- ◆ Official reporting lines are more respected (vertical through government to cabinet, not horizontal to IPs).
- ◆ Public-service performance incentives are strengthened, so that policies are made and implemented, audit and procurement systems work, and corruption is reduced

3.8 Democratic accountability is enhanced:

- ◆ Greater role of parliament in monitoring budget results
- ◆ Accountability through domestic institutions for IP-financed spending is enhanced
- ◆ Conditions for all-round democratisation are thereby improved, including the trust of people in their government and hence their level of expectations

Level 4 (the outcomes)

4.1 Macroeconomic environment is favourable to private investment and growth:

- ◆ Inflation controlled
- ◆ Realistic exchange rate attained
- ◆ Fiscal deficit and level of domestic borrowing sustainable and not crowding out private investment

4.2 Regulation of private initiative works to ensure business confidence, equity, efficiency and sustainability:

- ◆ Policies on corruption, property rights resolutely pursued
- ◆ Market-friendly institutions developed

4.3 More resources flowing to service delivery agencies

4.4 Appropriate sector policies include public actions to address major market failures, including those arising from gender inequalities

4.5 More effective and accountable government improves administration of justice and respect for human rights, as well as general confidence of people in government

4.6 More conducive growth-enhancing environment

4.7 Public services effectively delivered and pro-poor:

- ◆ Service delivery targets met for key pro-poor services
- ◆ Evidence of increased use of services by poor (including poor women)

Level 5 (the impact)

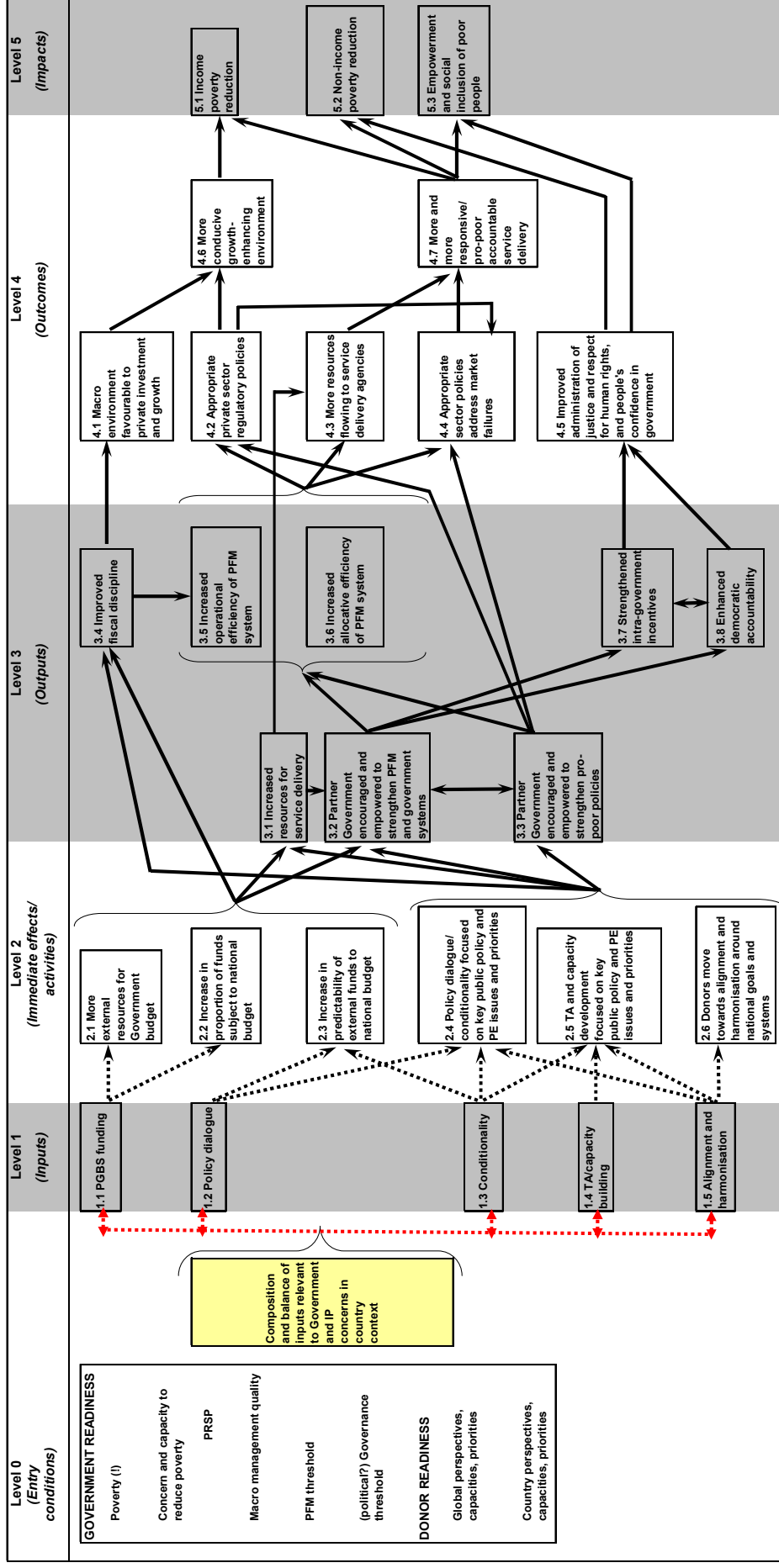
5.1 Income poverty reduction

5.2 Non-income poverty reduction

5.3 Empowerment and social inclusion of poor people

3. The main hypothesised links between inputs and subsequent effects at different levels are depicted on the causality map (Figure 1A.2). Note that these are not the only possible links; the evaluation teams also considered whether other links appeared important in particular countries.

Figure 1A.2: Causality Map for the Enhanced Evaluation Framework



4. A set of over-arching key evaluation questions (Box 1A.4) provides an organising framework for the country evaluation and a structure for the country reports.²

Box 1A.4: Key Evaluation Questions

1. How does the evolving Partnership GBS (PGBS) design respond to the specific conditions, strengths and weaknesses of the country, to government priorities and to the priorities and principles of the international partners?
2. Has PGBS contributed to greater harmonisation and alignment of the aid process?
3. How efficient, effective and sustainable has been the contribution of PGBS to the performance of the public expenditure process?
4. How efficient, effective and sustainable has been the contribution of PGBS to improving government ownership, planning and management capacity, and accountability of the budgetary process?
5. How efficient, effective and sustainable has been the contribution of PGBS to improving public policy processes and policies?
6. How efficient, effective and sustainable has been the contribution of PGBS to macroeconomic performance?
7. How efficient, effective and sustainable has been the contribution of PGBS to improving government performance in public service delivery?
8. How far has PGBS strengthened government impact on poverty?
9. Is the PGBS process itself sustainable?

5. Under each main evaluation question, a series of sub-questions (evaluation criteria) are posed (the shaded boxes within each of the chapters in Part B of the main report). To facilitate comparisons and consistency across the countries studied, symbols are used to give approximate ratings for the general situation and for the influence PGBS is judged to have had. The key to the ratings and symbols is as follows:

(a) Where the logic of the (implicit) question requires it – i.e. in Chapters B2–B8³ – the ratings distinguish between the general situation to which the question refers and the influence of PGBS upon it. For the general situation, the rating is expressed as a *level* and a *trend*.

(b) PGBS influence is expressed in two ratings:

- For *effect*. This assesses the difference that PGBS makes to the general situation.
- For *efficiency*: It is perfectly possible that PGBS will be found to have a weak or null effect – not because PGBS is inherently ineffective, but because it is relatively small ("a drop in a bucket") vis-à-vis the general situation. "Efficiency" therefore assesses whether PGBS has a significant effect relative to the resources deployed via PGBS. (Roughly, has PGBS been a "value for money" way of pursuing this effect?)

(c) For both the general situation and the PGBS influence, a separate *confidence* rating is given.

(d) The same symbols are used against "level", "effect", "efficiency" and "confidence" ratings:

***	<i>strong/high</i>
**	<i>medium/moderate</i>
*	<i>low/weak</i>
Null	<i>the level/effect is either zero or negligible</i>
nf [not found]	<i>we found no evidence either way</i>
Na	<i>rating is Not Applicable to this question</i>

² See Inception Report Annex K for the full matrix of key Evaluation Questions, including judgement criteria, evidence, data sources, counterfactuals. The final *Note on Approach and Methods* will note minor amendments and assess the experience of using the Enhanced Evaluation Framework.

³ The Evaluation Criteria in Chapters B1 and B9 refer directly to PGBS itself, so there is no separate "general effect" to consider.

- (e) The "trend" is the trend at the end of the evaluation period, and the options are:
- + *increasing/improving*
 - = *stable (or no discernible trend)*
 - *declining/worsening*
 - na **not applicable** if the accompanying level is rated null / not found / not applicable
- (f) In the few cases where perverse effects are identified (a negative effect when the question implies a positive one is expected), this is shown as "perverse" (and will always be highlighted in the text explanation).
- (g) As a rough guide to confidence ratings:
- *** strong/high confidence:
We're sure what evidence is needed to answer this question, and the evidence we have appears robust and conclusive (so we would be surprised if more evidence changed the rating).
 - ** medium/moderate confidence
There is some uncertainty whether the evidence we have is both robust and sufficient; more evidence might lead to a somewhat different rating.
 - * low/weak confidence:
There is uncertainty about what evidence is relevant to the question, and/or the evidence we have is limited or unreliable.
- (h) The ratings for "general situation" and "PGBS influence" may be based on different (though overlapping) sets of evidence; it is perfectly possible that confidence levels will differ, so they are rated separately.
- (i) As a rough guide to ratings for effect
- *** strong effect:
PGBS has made a definite and very significant difference to the general situation; it is not necessarily the only factor which has made such a difference, but it is an important one.
 - ** moderate effect:
PGBS has made a definite and moderately significant difference to the general situation; but it may be a subsidiary factor, or one amongst a considerable number of significant factors.
 - * low/weak effect:
PGBS has made only a small difference to the general situation.
 - null *PGBS is assessed to have made no difference, or only a negligible difference, to the general situation..*
 - nf [not found] *We did not find evidence either way of a PGBS effect.*
 - na *The implied question is Not Applicable in this case.*
- (j) As a rough guide to ratings for efficiency:
- *** highly efficient
PGBS exerts a strong influence towards the effect in question, in proportion to the resources embodied in PGBS.
 - ** moderately efficient
PGBS exerts a moderate influence towards the effect in question, in proportion to the resources embodied in PGBS.

*	low efficiency <i>PGBS exerts only a weak influence towards the effect in question, in proportion to the resources embodied in PGBS.</i>
null	<i>PGBS is assessed to have exerted no influence, or only a negligible influence, towards the effect in question.</i>
not found	<i>We did not find evidence either way of a PGBS influence.</i>
na	<i>The implied question is Not Applicable in this case.</i>

6. The evidence used to assess ratings is explained in the text, and it follows general guidelines in Annexes G and K of the Inception Report (IDD & Associates 2005). The ratings have been checked for broad consistency across the country studies. At the same time, the study team recognises their limitations. It is neither possible nor desirable to reduce qualitative issues entirely to quantitative judgements. The ratings are only an adjunct to the text.

Annex 1B: Note on Approach and Methods adopted in Malawi

1. This brief note is to describe the approach and methods adopted by the Malawi country team and to make some general reflections on the method. The note is intended to complement A1, which outlines the conceptual framework for the evaluation as a whole.
2. The study was based on two field trips (two inception visits – in November 2004 and in June 2005). Both visits involved a study team of four people, and with Kimberly Smiddy providing additional support to the second visit. The initial trip was to provide basic information and was focused around five sub-sets of the analysis. The second trip involved the use of the detailed EEF with very specific questions for the team to answer.
3. In terms of process, the first trip involved both an original briefing and a debriefing (with the key representatives of the Common Approach to Budget Support (CABS) group and the Malawian key counterpart); attendance was somewhat patchy. This was combined with a substantial number of interviews with key individuals from Government of Malawi (GOM), the donor community and civil society. The second trip included detailed feed back to the same group on the findings of the first study and also a one-day workshop on preliminary findings and as a reality check to a wider group of donors, the Government of Malawi representatives and civil society stakeholders. Again it also involved a substantial number of interviews with key individuals from the government, the donor community and civil society. A one-day field trip to Masungu district was carried out with a study focus on the delivery of education and health sectors.
4. The team would like to thank all who came to these events and for the support they received. The final workshop was very useful in clarifying areas of disagreement and/or discussion of where further information was needed. Apart from these meetings, a substantial amount of time was spent by the team on collectively discussing and agreeing on the interpretations provided in the study. With very few exceptions, it was possible to achieve a very high level of agreement and consensus. Given the diversity and experience of the team, we feel this provides strength to the findings of this evaluation study.
5. In terms of method, the Malawi study presented particular problems. First, for a substantial amount of time, PGBS funds were not flowing. The EEF was designed and the overall evaluation method was fundamentally based on logic of what would happen when PGBS was operating. The first point to note was that PGBS is a combination of funds, policy dialogue and technical assistance; thus, despite the suspension of funds, the other elements of PGBS were still operating. This required considerable care in the analysis. These difficulties became more apparent the further down the causality chain. Thus it was possible to discuss changes up to Level 3, but from there on it was only really possible to discuss plausible links. In this analysis, we have made considerable efforts to make the analysis concrete and not just a hypothetical analysis.
6. Despite this, we feel that Malawi does justify its inclusion in the overall evaluation as it a) throws light on what the issues are when the funding of PGBS stops and b) more importantly, what the role of PGBS is in weak financial and economic environments. The latter is clearly a very relevant question for contemporary thinking about the use of aid in sub-Saharan Africa.

Annex 1C: People Met

Name	Position	Organisation
Rexford Kampanje	Accountant General	Accountant General Department
Hubert Chalunda	Senior Investigation Officer	Anti-Corruption Bureau (ACB)
V Banda	Deputy Director	ACB
Andrew Trench	Principal Economist	Capacity Building Development project – Ministry of Economic Planning and Development (MEPD)
Dr Perks Ligoya	Managing Consultant	Casper Consulting
Jan du Wald	Project Director	Canadian International Development Agency (CIDA)
Kimberly Smiddy	Poverty Aid Consultant	CIDA
Nick Hall	Principal Economist	Development Management Association
Jackie Pearce	Governance Advisor	DFID
Joe Reid	GBS Management Group Member	DFID
Lindsay Mangham	Economist	DFID
Rob Rudy	Private Sector Advisor	DFID
Roger Wilson	Head of DFID	DFID
Alan Whitworth	Economic Advisor	DFID
Jerome Pons	Head of Economics & Public Affairs	European Community (EC) Delegation
Dr Perks Ligoya	Executive Director	Economics Association of Malawi (ECAMA)
Liselotte Isaksson	Director General	European Commission
Klaus Kafetane	Director General	German Embassy
Aues Scek	Economic Advisor	German Technical Cooperation (GTZ)
Thomas Baunsgaard	Resident Representative	International Monetary Fund (IMF)
Tom Mtenje		Japan International Cooperation Agency (JICA)
Chancellor L Kaferapanjira	Chief Executive	Malawi Confederation of Chambers of Commerce and Industry (MCCCI)
Collins Magalsi	Economist	Malawi Economic Justice Network (MEJN)
Dalitso Kubalasa	Programme Manager	MEJN
Ben Botolo	Monitoring & Evaluation (M&E)	MEPD
Brain Mtonya	Director	MEPD
Dr Kutembe-Mwale	Director of Planning	Ministry of Education (MOE)
Z D Chikhosi	PS	MOE
Chance Mwabutwa	Principal Economist	Ministry of Finance (MOF)
Chipo Msowoya	Economist of Macroeconomic Affairs	MOF
Dr Milton Kutengule	Secretary to the Treasury	MOF
Frances Zhuwao	Principal Economist	MOF
Friday Jumbe	Previous Minister of Finance (2003/2004)	MOF
Z.T. Soko	Director of Debt & Aid Management	MOF
George Kamba	Assistant Chief Economist	MOF
Heatherwick Njati	Principal Budget Officer	MOF
McCallum Simbande	Acting Director for Debt & Aid Management	MOF
Moses Chirwa	Principal Debt & Aid Management Officer	MOF
Patrick Chilambe	Former Secretary to the Treasury	MOF
Patrick Kabambe	Director of Administration	MOF
Patrick Zimpita	Head of Tax Policy Unit	MOF
Revie Manda	Debt Economist	MOF
Richard Pelekamoyo	Principal Budget Officer	MOF

General Budget Support in Malawi

Name	Position	Organisation
Stan Nkhata	Assistant Director Debt & Aid Management	MOF
Steven Banda	Deputy Chief Economist	MOF
Dr Wesley Sangala	PS	Ministry of Health (MOH)
Nelson Kalanje	Director of Planning	MOH
Jason Agar	Private Sector Advisor	National Action Group
	Auditor General	National Audit Office
Dr Michael Tawanda	Health Economist	Norad
Berit Otnes	Economist	National Statistical Office (NSO)
Nils Amdal	Economist	NSO
Nellie Nyang'wa	Country Director	OXFAM
Paul Gundumulani	Finance Manager	Packaging Industries
Simon Itayi	Managing Director	Packaging Industries
Sudhir Chitale		Poverty Reduction & Economic Management
Mathews Chikaunda	Former Minister of Finance 2000–2002; Governor Reserve Bank Malawi 1997–2001; Current CEO of Press Corporation	Press Corporation
Hon. Aleke Banda; MP	Vice Chairman	Public Accounts Committee
Hon. Respicious Dzanjalimodzi MP	Chairman	Public Accounts Committee
Grant Kabango	Director Research & Statistics	Reserve Bank of Malawi (RBM)
Jos Milner	Manager Money Markets	RBM
Mary Mpanje	Principal Economist	Reserve Bank of Malawi
Rodrick Wiyo	Manager Money Markets	Reserve Bank of Malawi
Wilson Banda	General Manager	Reserve Bank of Malawi
Tori Hoven	1st Secretary/Country Economist	Royal Norwegian Embassy
Hennox Mazenera	Executive Director	Society of Accountants in Malawi (SOCAM)
Daphne Casey	Economist	United Nations Development Programme (UNDP)
Michel Keeling	Resident Representative	UNDP
Paula Pennanen-Rebeiro	Assistant to United Nations Resident Coordinator	UNDP
Piston Msiska	Economic & Commercial Specialist	United States Embassy
Roger Yochelson	Director	USAID
Siras Chinangwa	Economist	USAID
Antonio Nucifora	Economist	World Bank (WB)
Kwima Nthara	Country Economist	WB
Victoria Keelan	Managing Director	Yara Fertiliser company

ANNEX 2: COUNTRY BACKGROUND

Table 2.1: Malawi Key Data

Population,	2002	2003
Population, total	10.7 million	11.0 million
Population growth (annual %)	2	2
Life expectancy (years)	37.5	37.5
Fertility rate (births per woman)	6.1	6
Infant mortality rate (per 1,000 live births)	..	112
Under 5 mortality rate (per 1,000 children)	..	178
Births attended by skilled health staff (% of total)	61	..
Child malnutrition, weight for age (% of under 5)
Child immunisation, measles (% of under 12 mths)	69	77
Prevalence of HIV, total (% of population aged 15-49)	..	14.2
Literacy rate, adult male (% of males ages 15 and above)	75.5	..
Literacy rate, adult female (% of females ages 15 and above)	48.7	..
Primary completion rate, total (% age group)	69	71
Primary completion rate, female (% age group)	68	69
Net primary enrolment (% relevant age group)
Net secondary enrolment (% relevant age group)	28.5	..
Environment		
Surface area (sq. km)	118 500	118 500
Internal freshwater resources per capita (cubic meters)	..	1,459.6
Access to improved water source (% of total pop.)	67	..
Access to improved sanitation (% of urban pop.)	66	..
Economy		
GNI, Atlas method (current US\$)	1.7 billion	1.8 billion
GNI per capita, Atlas method (current US\$)	160	160
GDP (current USD)	1.9 billion	1.7 billion
GDP growth (annual %)	1.8	4.4
GDP implicit price deflator (annual % growth)	15.1	11.2
Value added in agriculture (% of GDP)	36.7	38.4
Value added in industry (% of GDP)	14.9	14.9
Value added in services (% of GDP)	48.4	46.7
Exports of goods and services (% of GDP)	25.4	27.5
Imports of goods and services (% of GDP)	43.7	40.6
Gross capital formation (% of GDP)	12.5	8.1
Trade and finance		
Trade in goods as a share of GDP (%)	57.2	68
Trade in goods as a share of goods GDP (%)	102.7	118.7
High-technology exports (% of manufactured exports)	0.2	1.2
Net barter terms of trade (1995=100)	99	..
Foreign direct investment, net inflows in reporting country (current USD)	5.9 million	23.0 million
Present value of debt (current USD)	875.7 million	1.9 billion
Total debt service (% of exports of goods and services)	6.3	7.7
Short-term debt outstanding (current USD)	129.7 million	71.8 million
Aid per capita (current USD)	35.1	45.4

Source : World Development Indicators database, April 2005. (World Bank 2005b.)

Table 2.2: Macroeconomic Indicators: Expenditure at Current Market Prices 1994–2004

MWK million	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Gross Domestic Product (GDP) at Factor Cost	9,381.6	19,175.0	32,739.2	39,454.2	50,038.0	73,052.0	93,836.9	112,395.4	140,430.7	167,920.3	199,480.2
Net Indirect Taxes	1,126.2	2,576.7	3,344.7	3,807.0	4,750.6	6,765.8	9,588.3	10,684.6	13,576.8	16,090.6	16,090.6
GDP at Market Prices	10,507.8	21,751.7	36,083.9	43,261.2	54,788.6	79,817.8	103,425.1	123,080.0	154,007.5	184,011.0	215,570.8
Smallholder Production	2,108.2	5,291.1	9,350.0	9,845.6	15,568.1	23,093.5	29,412.9	34,574.1	39,706.6	51,168.7	61,966.1
Smallholder Consumption (Domestic)	1,944.2	5,001.3	8,747.7	9,396.9	15,025.2	22,345.4	28,669.2	33,834.9	38,971.8	50,438.3	61,240.1
Total Smallholder Consumption	2,069.5	5,585.4	8,868.5	9,396.9	15,025.2	22,345.4	28,669.2	33,834.9	38,971.8	50,438.3	61,240.1
Monetary GDP	8,563.6	16,750.4	27,336.2	33,864.2	39,763.5	57,472.4	74,755.9	89,245.1	115,035.7	133,572.7	154,330.7
Government Consumption	4,073.1	4,474.6	4,882.0	7,673.0	7,987.2	10,527.8	15,134.0	19,591.3	45,110.3	52,527.3	55,560.7
Compensation of Employees	1,321.9	2,264.9	2,423.2	4,501.9	4,491.9	5,351.8	7,782.3	9,632.1	9,565.8	12,260.3	13,209.1
Consumption of Goods and Services	2,751.2	2,209.7	2,458.8	3,171.0	3,495.3	5,176.0	7,351.7	9,959.2	35,544.5	40,267.0	42,351.6
Fixed Capital Formation	2,764.3	3,164.7	3,404.5	4,079.7	6,035.8	9,870.5	12,792.2	15,740.8	14,110.2	14,674.7	15,701.9
Exports of Goods and Services	3,050.1	7,177.7	8,362.7	9,522.1	17,744.9	21,941.6	26,045.6	34,044.9	35,596.6	44,859.1	53,757.2
Domestic Exports & Re-exports	2,812.6	6,797.0	7,791.8	8,868.4	16,734.8	19,712.5	23,925.1	30,798.0	31,713.1	40,041.0	48,420.2
Exports of Non-Factor Services	237.5	380.7	570.9	653.7	1,010.1	2,229.1	2,120.5	3,246.9	3,883.6	4,818.1	5,337.0
Imports of Goods and Services	5,514.3	10,164.3	11,879.0	14,900.7	20,728.6	33,898.3	36,647.9	45,291.2	62,103.3	72,835.7	80,679.5
Imports, fob	4,214.4	7,763.3	8,980.5	11,456.0	15,442.5	25,240.8	27,414.2	34,023.5	45,608.4	52,781.5	58,465.7
Compensation of Employees	1,299.9	2,401.0	2,898.5	3,444.8	5,286.2	8,657.6	9,233.7	11,267.7	16,494.9	20,054.1	22,213.8
Residual Expenditure	4,190.4	12,670.8	22,871.9	27,490.2	28,724.2	49,030.8	57,432.0	65,705.0	82,321.8	94,347.3	94,347.3

Source: National Statistical Office

Note: Figures for 2004 are forecasts

Table 2.3: Macroeconomic Indicators: as a Percentage Share of GDP 1994–2004

%	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
GDP at Market Prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Smallholder Production	20.1	24.3	25.9	22.8	28.4	28.9	28.4	28.1	25.8	27.8	28.7
Smallholder Consumption (Domestic)	18.5	23.0	24.2	21.7	27.4	28.0	27.7	27.5	25.3	27.4	28.4
Total Smallholder Consumption	19.7	25.7	24.6	21.7	27.4	28.0	27.7	27.5	25.3	27.4	28.4
Monetary GDP	81.5	77.0	75.8	78.3	72.6	72.0	72.3	72.5	74.7	72.6	71.6
Government Consumption	38.8	20.6	13.5	17.7	14.6	13.2	14.6	15.9	29.3	28.5	25.8
Compensation of Employees	12.6	10.4	6.7	10.4	8.2	6.7	7.5	7.8	6.2	6.7	6.1
Consumption of Goods and Services	26.2	10.2	6.8	7.3	6.4	6.5	7.1	8.1	23.1	21.9	19.6
Fixed Capital Formation	26.3	14.5	9.4	9.4	11.0	12.4	12.4	12.8	9.2	8.0	7.3
Exports of Goods and Services	29.0	33.0	23.2	22.0	32.4	27.5	25.2	27.7	23.1	24.4	24.9
Domestic Exports & Re-exports	26.8	31.2	21.6	20.5	30.5	24.7	23.1	25.0	20.6	21.8	22.5
Exports of Non-Factor Services	2.3	1.8	1.6	1.5	1.8	2.8	2.1	2.6	2.5	2.6	2.5
Imports of Goods and Services	52.5	46.7	32.9	34.4	37.8	42.5	35.4	36.8	40.3	39.6	37.4
Imports, fob	40.1	35.7	24.9	26.5	28.2	31.6	26.5	27.6	29.6	28.7	27.1
Imports of Non-Factor Services	12.4	11.0	8.0	8.0	9.6	10.8	8.9	9.2	10.7	10.9	10.3
Residual Expenditure	39.9	58.3	63.4	63.5	52.4	61.4	55.5	53.4	53.5	51.3	43.8

Source: National Statistical Office

Note: Figures for 2004 are forecasts

Table 2.4: Gross Domestic Product by Sector of Origin 1994–12004

MWK million	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Agriculture	2,319	3,238	4,063	4,069	4,490	4,944	5,130	4,810	4,926	5,261	5,627
Small scale	1,624	2,332	3,070	2,964	3,520	3,992	4,055	3,862	3,846	4,359	4,605
Large scale	695	906	993	1,105	969	951	1,075	949	1,080	902	1,022
Mining and Quarrying	43	47	206	157	164	170	188	202	124	153	168
Manufacturing	1,597	1,685	1,675	1,691	1,717	1,749	1,696	1,456	1,454	1,471	1,507
Electricity and Water	149	152	152	161	172	171	189	176	186	195	208
Construction	202	208	233	248	253	292	286	273	311	341	367
Distribution	2,537	2,593	2,577	3,009	2,811	2,760	2,752	2,782	2,826	2,892	2,989
Transport and Communication	465	546	506	548	546	573	549	546	625	639	659
Financial and Professional Services	627	691	834	1,128	1,034	1,031	1,052	1,018	1,082	1,147	1,203
Ownership of Dwellings	162	165	169	172	176	180	185	190	195	200	206
Private Social and Community Services	211	215	236	260	262	264	271	279	287	295	304
Producers of Government Services	1,347	1,440	1,404	1,427	1,359	1,336	1,207	1,216	1,208	1,226	1,255
Unallocable Finance Charges	-278	-305	-317	-360	-342	-378	-387	-365	-420	-446	-468
GDP at Factor Cost	9,382	10,675	11,738	12,510	12,644	13,091	13,117	12,582	12,804	13,373	14,026
<i>Annual percentage growth rates</i>											
Agriculture	39.6	25.5	0.1	10.3	10.1	10.1	3.8	-6.2	2.4	6.8	7.0
Small scale	43.6	31.7	-3.5	18.8	13.4	13.4	1.6	-4.8	-0.4	13.3	5.7
Large scale	30.3	9.6	11.2	-12.3	-1.9	13.0	13.0	-11.8	13.9	-16.5	13.3
Mining and Quarrying	9.2	336.6	-23.5	4.2	3.4	10.8	10.8	7.5	-38.7	23.5	10.0
Manufacturing	5.5	-0.6	1.0	1.5	1.8	1.8	-3.0	-14.2	-0.1	1.2	2.5
Electricity and Water	2.0	-0.2	5.8	7.2	7.2	-0.4	10.2	-7.0	5.8	4.7	7.0
Construction	3.0	11.6	6.8	6.8	1.9	15.5	-2.2	-4.7	14.1	9.7	7.5
Distribution	2.2	-0.6	16.8	-6.6	-1.8	-0.3	1.1	1.1	1.6	2.3	3.4
Transport and Communication	17.4	-7.3	8.3	-0.3	4.8	-4.2	-0.6	-0.6	14.5	2.2	3.3
Financial and Professional Services	10.2	20.8	35.1	-8.3	-0.3	-0.3	2.0	-3.2	6.3	6.0	4.9
Ownership of Dwellings	2.0	2.1	2.1	2.1	2.1	2.1	2.6	2.8	2.8	2.8	2.8
Private Social and Community Services	1.9	9.8	10.0	0.7	0.7	0.7	2.7	2.9	2.9	2.9	2.9
Producers of Government Services	6.9	-2.5	1.7	-4.7	-1.7	-9.7	-9.7	0.8	-0.6	1.4	2.4
Unallocable Finance Charges	9.9	3.7	13.8	-5.1	10.5	2.4	2.4	-5.7	15.1	6.1	5.0
GDP at Factor Cost	13.8	10.0	6.6	1.1	3.5	0.2	0.2	-4.1	1.8	4.4	4.9

Source: National Statistical Office

Note: At 1994 Factor Cost; Figures for 2004 are forecasts

Table 2.5: Savings and Investment 1994–2004

MWK million	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Gross national savings	3,004.3	3,714.7	4,304.5	5,079.7	7,324.4	11,470.5	14,082.2	17,100.8	15,527.3	16,233.5	17,416.6
National Savings	1,346.0	2,329.8	1,768.8	390.7	6,096.9	3,769.9	10,017.6	13,420.7	-3,965.5	-4,588.1	-3,313.1
Domestic savings	540.1	728.1	788.3	-298.9	4,340.6	-486.2	3,479.9	5,854.5	-10,979.4	-11,743.1	-9,505.7
Net factor income	-375.3	-725.1	-596.7	-589.7	-1,230.4	-1,185.5	-1,110.3	-2,302.7	-3,265.8	-4,503.4	-5,678.8
Net private transfers	182.5	-58.5	-212.6	-147.4	-458.4	391.0	467.0	717.9	1,094.3	1,391.3	1,541.2
Net official transfers	998.7	2,385.3	1,789.8	1,426.7	3,445.1	5,050.6	7,181.0	9,150.9	9,185.3	10,267.2	10,330.2
Foreign savings 1/	1,658.3	1,384.9	2,535.7	4,689.0	1,227.4	7,700.6	4,064.6	3,680.1	19,492.9	20,821.5	20,729.7
Gross national investment	3,004.3	3,714.7	4,304.5	5,079.7	7,324.4	11,470.5	14,082.2	17,100.8	15,527.3	16,233.5	17,416.6
Fixed Capital Formation	2,764.3	3,164.7	3,404.5	4,079.7	6,035.8	9,870.5	12,792.2	15,740.8	14,110.2	14,674.7	15,701.9
Public	1,563.6	2,061.7	2,279.6	2,948.5	4,762.6	8,025.7	10,401.2	12,798.7	11,472.9	11,931.9	12,767.1
Private	1,200.7	1,103.0	1,125.0	1,131.2	1,273.2	1,844.9	2,390.9	2,942.1	2,637.3	2,742.8	2,934.8
<i>Percentage share of GDP</i>											
Gross national savings	28.6	17.1	11.9	11.7	13.4	14.4	13.6	13.9	10.1	8.8	8.1
Domestic savings	5.1	3.3	2.2	-0.7	7.9	-0.6	3.4	4.8	-7.1	-6.4	-4.4
Net factor income	-3.6	-3.3	-1.7	-1.4	-2.2	-1.5	-1.1	-1.9	-2.1	-2.4	-2.6
Net private transfers	1.7	-0.3	-0.6	-0.3	-0.8	0.5	0.5	0.6	0.7	0.8	0.7
National Savings	12.8	10.7	4.9	0.9	11.1	4.7	9.7	10.9	-2.6	-2.5	-1.5
Foreign savings 1/	15.8	6.4	7.0	10.8	2.2	9.6	3.9	3.0	12.7	11.3	9.6
Gross national investment	28.6	17.1	11.9	11.7	13.4	14.4	13.6	13.9	10.1	8.8	8.1
Gross Fixed Capital Formation	26.3	14.5	9.4	9.4	11.0	12.4	12.4	12.8	9.2	8.0	7.3
Public	14.9	9.5	6.3	6.8	8.7	10.1	10.1	10.4	7.4	6.5	5.9
Private	11.4	5.1	3.1	2.6	2.3	2.3	2.3	2.4	1.7	1.5	1.4
<i>Memorandum items</i>											
GDP at current market prices	10,507.8	21,751.7	36,083.9	43,261.2	54,788.6	79,817.8	103,425.2	123,080.0	154,007.5	184,011.0	215,570.8

Source: National Statistical Office
Note: Figures for 2004 are forecasts

ANNEX 3: AID TO MALAWI

Annex 3A: Standard Summary of PGBS Flows

(all in USD million)	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Source
(A) Total ODA (actual)	488.42	464.17	530.13	375.44	476.49	488.64	488.79	455.13	423.05	570.72	554.96	OECD DAC
(B) Total ODA excl. emergency & food aid (actual)	474.86	409.24	511.68	365.54	454.50	461.32	466.52	438.86	378.65	506.16	531.60	OECD DAC
(C) Total Partnership GBS disbursements [1]	0	0	0	0	0	0	58.34	47.82	0	14.01	28.23	Reserve Bank of Malawi
Donors providing PGBS							Denmark, Norway, UK	Denmark, EC, UK		Norway, UK	EC, Norway, UK	Reserve Bank of Malawi
(D) [ESAF programmes] followed by PRGF (disbursements) [2]	[8.02]	[11.5]	[22.21]	0	[17.35]	[10.49]	12.27	0	0	9.26	0	OECD DAC (1994-98) loans extended and Reserve Bank of Malawi (2000-04)
(E) Total other unearmarked programme aid disbursements	194.98	106.09	194.51	115.93	130.48	102.09	62.49	59.41	36.18	36.23	7.80	Reserve Bank of Malawi
Donors providing unearmarked programme aid	AfDB, EC, Germany, UK, USA	EC, IDA, Germany, Norway, Switzerland, UK, USA	Denmark, IDA, Germany, Netherlands, UK, USA	AfDB, Denmark, EC, IDA, Germany, Netherlands, Sweden, UK, USA	Denmark, EC, IDA, Norway, Sweden, UK, USA	AfDB, Denmark, EC, IDA, Norway, Sweden, UK, USA	IDA, Netherlands, Norway, USA	IDA, Netherlands	IDA, USA	IDA, USA	IDA	Reserve Bank of Malawi
(F) HIPC funding	0	0	0	0	0	0	0	27.06	28.88	47.56	25.13	Reserve Bank of Malawi
(G) Central Government Expenditure (USD) [3]	545.60	1,375.84	957.84	556.47	696.49	499.72	600.94	973.50	636.93	745.74	762.40	Ministry of Finance/Reserve Bank of Malawi/IMF
(Ga) ODA as % of GNI	41.33%	32.20%	21.92%	13.11%	25.42%	25.75%	26.13%	24.17%	20.72%	31.19%	26.90%	OECD DAC
(H) PGBS as % total ODA (%)	0%	0%	0%	0%	0%	0%	11.94%	10.51%	0%	2.45%	5.09%	
(I) PGBS as % central government expenditure (%)	0%	0%	0%	0%	0%	0%	9.71%	4.91%	0%	1.87%	3.70%	

Notes

[1] PGBS in Malawi is defined as GBS provided by the CABS group of donors (CABS=Common Approach to Budget Support).

The data in the Country report is by Malawi fiscal year while the data in the above table by calendar year converted from Malawi Kwacha to USD using annual average annual exchange rate.

The data by RBM deviate from donors' own disbursement data - this is because some GBS has been used directly for foreign exchange operations without crediting the Treasury revenue account.

[2] PRGF funds are sterilised, i.e. have no budget impact.

[3] By Malawi Fiscal Year July-June.

Memorandum items

(J) Emergency Aid	12.26	2.76	2.30	6.07	2.62	6.07	0.79	1.47	15.79	25.40	6.93	OECD DAC
(K) Development Food Aid	13.96	42.67	15.69	7.60	19.37	21.25	21.48	14.80	28.61	39.16	16.43	OECD DAC
(L) Government Expenditure (MWK million)	2,428	6,123	7,864	8,457	13,844	19,736	27,229	37,850	42,490	61,322	78,598	Ministry of Finance/Reserve Bank of Malawi/IMF
(M) Average Annual Exchange rates - calendar year (MKW per USD)	4.45	4.98	15.18	16.11	28.81	43.76	46.82	43.63	73.58	93.37	106.16	OANDA Corporation
(N) Average Annual Exchange rates - fiscal year (MKW per USD)	4.45	4.45	8.21	15.20	19.88	39.49	45.31	38.88	66.71	81.90	103.09	OANDA Corporation

Annex 3B: Inventory – GBS and Related Programmes

	1994-99	2000 onwards
Type of programme	<p>IMF – Structural Adjustment Facility (SAF) /Enhanced Structural Adjustment Facility (ESAF)</p> <p>IDA – Entrepreneurship Development and Drought Recovery Program (EDDRP) with Swiss and Japan (OECF co-financing)</p> <p>IDA – Fiscal Restructuring and Derogulation Program (FRDP) Norway, Sweden and Denmark – import support</p> <p>Netherlands – debt relief</p> <p>Norway – debt relief</p> <p>EU – Food security BOP</p> <p>USA and ADF – Agricultural Sector Assistance Program (ASAP)</p> <p>USA – Girls' Attainment in Basic Literacy and Education Program (GABLE)</p>	<p>IMF – Poverty Reduction and Growth Facility (PRGF)</p> <p>IDA – Fiscal Restructuring and Derogulation Program (FRDP)</p> <p>CABS "Common Approach to Budget Support" – EU, Norway, Sweden, UK, Denmark (until 2001)</p> <p>Netherlands – debt relief</p> <p>USA and ADF – Agricultural Sector Assistance Program (ASAP)</p> <p>USA – Girls' Attainment in Basic Literacy and Education Program (GABLE)</p>

General Budget Support in Malawi

	<p>1994-99</p> <p>IMF and WB led dialogue with the new elected government from 2004 with emphasis on trade liberalisation and structural reforms, in particular related to privatisation of state enterprises. In addition, the dialogue following Poverty Expenditure Reviews (PERs), centred on allocation of public resources for pro-poor expenditures. (IMF 2002b)</p> <p>EDDRP: The FY92 EDDRP loan and a supplement in FY94 financed imports of maize to alleviate the adverse impact of successive droughts on the macroeconomic position (WB 2003b) FRDP(I): supports government policy reforms in areas of public expenditures, tariff and export policy, civil service reforms, privatisation, and trade liberalisation. (IMF 2001a:60)</p> <p>FRDP II: supports policy reforms to accelerate economic growth by further improving expenditure management, undertaking further reductions in tariffs, and promoting private sector development through regulatory reforms in the telecommunications and power sectors, and privatisation. (IMF 2001b:60)</p>	<p>2000 onwards</p> <p>2000 onwards: a lot of emphasis placed on PEM and restructuring based on PRSP (IMF 2001a). FRDP III: designed to support policy reforms, launched and supported by FRDP I and II since 1995, to improve public sector management, promote private sector growth, and strengthen the social safety net. (MF 2002b:63)</p> <p>Establishing macroeconomic stability; restructuring and prioritising public expenditures and strengthening public sector management; eliminating remaining obstacles to free and competitive market economy and designing and implementing a social safety net (IMF 2001b).</p> <p>Discussions for 2003-04 focused on measures aimed at: (i) signalling a substantial turnaround in the fiscal position and prospects, as well as dealing with the domestic debt problem due to continued weakness in Government budget discipline; (ii) improving the environment for the recovery of the private sector; (iii) strengthening the regulatory framework for the financial sector in order to foster competition and reduce interest rate spreads. (IMF 2003a: 22)</p> <p>Proposed SAC currently under preparation: Currently under preparation (WB Board date envisaged Jan 2004) to focus on 3 areas: (i) agriculture, (ii) parastatal reform and (iii) expenditure management. (IMF 2003a:81)</p>
<p>Alignment with National Strategies</p>	<p>Medium Term Development Strategy introduced by new elected democratic government 1994 – supported by IMF SAF and ESAF and complemented by WB adjustment lending – EDDRP and FRDP I and II.</p> <p>Complementary finance from UK, Norway, Denmark and Sweden with import support (budget support) and debt relief of Netherlands. USA/ADF focusing on agriculture sector recovery.</p>	<p>PRSP main reference for donor funding – in particular IMF PRGF agreement. PRGF which, when put on hold due to continued weak budget discipline, lead other donors to withhold GBS disbursements. PRSP has been reference for CABS donors in dialogue for continued to support and lead to design of a “performance matrix” of key PRSP targets currently discussed among CABS donors as a trigger for GBS releases.</p>

Annex 3B: Inventory – GBS and Related Programmes

	1994-99	2000 onwards
Disbursement Procedures	<p>Funds from above operations have not been earmarked.</p> <p>IMF and IDA tranches has been fixed tranches, bilateral BOP/GBS has been indicative (commitments made but with different sequencing and size of disbursements compared to commitments).</p> <p>No specific arrangement of aligning commitments and disbursements with Malawi fiscal year.</p> <p>All Forex is collected at RBM Forex accounts and immediately credited treasury revenue account.</p>	<p>Funds from above operations have not been earmarked.</p> <p>IMF and IDA tranches has been fixed tranches, bilateral BOP/GBS has been indicative (commitments made but with different sequencing and size of disbursements compared to commitments).</p> <p>No specific arrangement of aligning commitments and disbursements with Malawi fiscal year.</p> <p>All Forex is collected at RBM Forex accounts and immediately credited treasury revenue account.</p>
Framework of Conditionality and Performance Indicators	<p>IMF Policy Framework Paper (PFP) matrix.</p> <p>IDA credit agreements with benchmarks associated with adjustment operations.</p> <p>Bilateral BOP no specific benchmarks.</p>	<p>IMF PRGF matrix.</p> <p>IDA credit agreements with benchmarks associated with adjustment operations.</p> <p>CABS group currently discussing PRSP performance matrix as joint agreed framework for GBS support.</p>
	<p>IMF - Regular PFP Stabilisation and structural adjustment criteria.</p> <p>IDA – IMF criteria and additional criteria on trade liberalisation and divestment of state owned enterprises (SOEs).</p> <p>No specific performance criteria associated to bilateral donors.</p>	<p>IMF - Regular PFP Stabilisation and structural adjustment criteria in addition to public expenditure allocation for pro-poor expenditure.</p> <p>IDA – IMF criteria and additional criteria on trade liberalisation and divestment of state owned enterprises (SOEs).and public expenditure management.</p> <p>CABS group currently discussing PRSP performance matrix as joint agreed framework for GBS support but not yet formally applied.</p>
Links to TA and Capacity Building	<p>Complementary TA has been provided first and foremost in introduction of FMIS and capturing “off budget” aid funded public expenditure. TA for FMIS linked to IDA FRDP. Other TA not linked specifically to GBS operations.</p>	<p>Same as prior to 2000.</p>

General Budget Support in Malawi

		2000 onwards
Procedures for Dialogue	<p>1994-99</p> <p>Annual CG meetings. Annual IMF Article IV consultations. Annual bilateral consultations with donors. No other specific dialogue arrangements.</p>	<p>Annual IMF Article IV consultations. IMF PRGF on hold since 2000 – since June 2004 staff managed programme introduced with frequent reviews. Annual CABS meeting. Annual Joint CABS Donor Reviews. Annual bilateral consultations with donors.</p>
Donor Harmonisation & Alignment	<p>Medium Term Development Strategy – supported by IMF SAF and ESAF and WB adjustment lending – served as references for wider donor community, both indirectly as references for their own BOP/GBS and directly by co-financing these operations.</p>	<p>A key part of IDA'S strategy over FY04-06 will be to accelerate the transition from a project-driven development program in Malawi to a program that receives budget support. Since the May 2000 Consultative Group meeting in Lilongwe, the Government of Malawi and its partners have been committed to developing SWAps in health, education, and more recently HIV/AIDS. (IDA 2003)</p> <p>Norway and Sweden initially provided BOP support in form import support changing the label used to Macro Financial Support when shifting focus to Public Expenditure Management (PEM) and subsequently entered into cooperation with EC and UK (since 2001) under CABS using the new label 'GBS' for their disbursements. Denmark was involved until they phased out their programme with Malawi in 2001. Even before cooperation was formalised into a CABS group some of the same donors conducted joint reviews of PFM as basis for their decision making.</p>

Annex 3B: Inventory – GBS and Related Programmes

<p>Experience in Implementation</p>	<p>1994-99</p>	<p>2000 onwards</p>
<p>ASAP – Agricultural Sector Assistance Program BOP – Balance of Payments support EDDRP – Entrepreneurship Development and Drought Recovery Program EDRP – Emergency Drought Recovery Program ESAF – Enhanced Structural Adjustment Facility FRDP – Fiscal Restructuring and Deregulation Program GABLE – Girls’ Attainment in Basic Literacy and Education Program GIP – General Import Programme NRMESP – Natural Resources Management and Environmental Support Programme SAF – Structural Adjustment Facility SAP – Structural Adjustment Programme</p>	<p>PRGF already off-track at date of signing.</p> <p>Since initial drawing Dec 2000 of SDR 6.44 m several missions, but owing to recurrent policy slippages, conclusion of first review delayed. Early 2003 agreed on a track-record program as condition to complete the review. Program implemented Jan-Jun2003. Subsequent mission Jul–Aug elaborated macroeconomic framework 2003–2004. (9:2) A revised program was formulated in March 2004 based on the approved supplementary budget (which included a revised set of measures), but indications of overspending soon emerged (IMF 2004b:7). The three year arrangement was approved in December 2000 and subsequently extended until December 2004. Unfortunately, only two of eight scheduled disbursements were made because of spending overruns and delays in completing some of the structural objectives. Because the arrangement is set to expire, the authorities requested assistance in establishing a performance track record within a Staff Monitored Programme (SMP). A new PRGF arrangement would take into account:</p> <p>(i) the IMF Executive Board’s views on the Ex Post Assessment (EPA), and (ii) strong performance over two test dates (six months). (IMF 2004b:11)</p> <p>According to Norway – PRSP monitoring system not yet fully in place (Norad donor questionnaire, GBS evaluation).</p> <p>As PRGF already off-track at date of signing, fact that Malawi would not be able to meet conditions for GBS from CABS group could have been foreseen from the outset.</p>	<p>PRGF already off-track at date of signing.</p> <p>Since initial drawing Dec 2000 of SDR 6.44 m several missions, but owing to recurrent policy slippages, conclusion of first review delayed. Early 2003 agreed on a track-record program as condition to complete the review. Program implemented Jan-Jun2003. Subsequent mission Jul–Aug elaborated macroeconomic framework 2003–2004. (9:2) A revised program was formulated in March 2004 based on the approved supplementary budget (which included a revised set of measures), but indications of overspending soon emerged (IMF 2004b:7). The three year arrangement was approved in December 2000 and subsequently extended until December 2004. Unfortunately, only two of eight scheduled disbursements were made because of spending overruns and delays in completing some of the structural objectives. Because the arrangement is set to expire, the authorities requested assistance in establishing a performance track record within a Staff Monitored Programme (SMP). A new PRGF arrangement would take into account:</p> <p>(i) the IMF Executive Board’s views on the Ex Post Assessment (EPA), and (ii) strong performance over two test dates (six months). (IMF 2004b:11)</p> <p>According to Norway – PRSP monitoring system not yet fully in place (Norad donor questionnaire, GBS evaluation).</p> <p>As PRGF already off-track at date of signing, fact that Malawi would not be able to meet conditions for GBS from CABS group could have been foreseen from the outset.</p>

ANNEX 4: PUBLIC FINANCE MANAGEMENT IN MALAWI

Introduction

1. Budget support is always accompanied by a focus on public finance management (PFM). Donors considering disbursing through government systems have a special interest in the government's fiduciary standards. Moreover, one of the principal claims for budget support is that using government PFM systems can make a special contribution towards strengthening them. Hence a growth in the number of PFM diagnostic reports (Public Expenditure Reviews (PERs), Country Financial Accountability Assessments (CFAAs), Country Procurement Assessment Reviews (CPARs) etc), as well as donor-specific fiduciary analyses. In six of the seven GBS study countries, the donor demand for tracking of HIPC relief funding was pivotal, with assessments and action Plans (AAP) as path-breakers; Vietnam, not in the HIPC group, is an exception.

2. The scope for collaboration and harmonisation in PFM analysis and PFM capacity development has been increasingly recognised. The second volume of DAC guidelines on *Harmonising Donor Practices for Effective Aid Delivery* (OECD DAC 2005a) includes a chapter on capacity development for PFM. A PFM performance measurement framework has been developed under the auspices of the multi-agency PEFA (Public Expenditure and Financial Accountability) programme (PEFA 2005).

3. The performance measurement framework identifies the critical dimensions of performance of an open and orderly PFM system as follows:

1. **Credibility of the budget** – The budget is realistic and is implemented as intended.
2. **Comprehensiveness and transparency** – The budget and the fiscal risk oversight are comprehensive, and fiscal and budget information is accessible to the public.
3. **Policy-based budgeting** – The budget is prepared with due regard to government policy.
4. **Predictability and control in budget execution** – The budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds.
5. **Accounting, recording and reporting** – Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes.
6. **External scrutiny and audit** – Arrangements for scrutiny of public finances and follow up by executive are in place.

4. A set of 28 high-level performance indicators has been developed, as a basis for assessing improvements in PFM performance over time. Three further indicators assess aspects of donor performance. PEFA has developed a detailed scoring methodology (fully described in PEFA 2005), in which the assessment for each high-level indicator is based on a number of specified components.

5. It is beyond the scope of this study to undertake a full PEFA-based analysis (in any case the PEFA scoring system was not finalised until 2005). However, in the interests of standardisation and comparability, the PFM analysis of the GBS study has been oriented towards the PEFA indicator framework as far as possible. We have used a standard matrix to consider PFM issues against the principal dimensions defined by PEFA, drawing on the secondary sources available (these are listed at the end of this Annex). This matrix also shows

the HIPC AAP (assessment and action plan) indicators and diagnostic results (although these do not apply in the case of Vietnam). Our main assessment is of the current state of PFM, although we also examine developments during the evaluation period and offer a judgement as to whether systems are improving. The resources available for the evaluation did not allow for collection of data needed for application of the PEFA methodology. Therefore, we do not attempt the rigorous scoring prescribed by PEFA, but express our judgement as *good*, *moderate* or *weak* on the basis of available data. Where insufficient information was available, no such judgement is offered. In the future, rigorous assessment and reporting according to the PEFA guidelines should provide a much more robust and transparent basis for assessing the quality of PFM systems than was available during the evaluation period. It will also allow progress in capacity development to be more systematically monitored.

Sources

6. This annex draws on a range of sources including the two AAP analyses, the Country Financial Accountability Assessment, the Public Expenditure Review, the Report on the Observance of Standards and Codes, as well as meeting with key stakeholders from the government, from donors and beyond.

Overview of PFM in Malawi

Current Status

7. Overall PFM quality remains weak in Malawi, although there are some modest improvements in performance in a number of respects. The weakness exists over a broad scope of PFM activities rather than being restricted to a narrow aspect. Thus budgeting, financial control, cash management, accounting and audit all suffer from significant weaknesses. In terms of the classic division of PFM issues into aggregate fiscal discipline, allocative efficiency and operational efficiency, all are problematic. However the weakness in aggregate fiscal discipline is fundamental, making concerted efforts to improve efficiency difficult.

8. Areas where performance has been better have been in revenue management, where Malawi's performance reflects well against regional comparators, and in the use of pro-poor expenditure indicators.

Trends

9. The trend until 2004 was towards modest improvements in PFM processes. Where these have occurred, however, they have often represented the putting in place of better procedures or legal instruments, but the impact of these changes requires further work for full implementation.

10. Government and donor efforts in a number of demanding fields (such as the introduction of an integrated financial management system (IFMIS) and of a medium term expenditure framework (MTEF) have been much more disappointing and have shown only limited success. This is suggestive of a lack of government commitment to effective PFM. The concern which had always existed around aggregate fiscal discipline clearly re-surfaced during the period and budgetary control, if anything, worsened. Some of this may have been partly caused by external events, including maize shortages. However, most observers see the problem as deriving from local political leadership.

11. Since 2004, there has been an improved domestic focus on fiscal control by the executive, and this has enabled some of the foundations laid in the earlier period to play a more productive role. Additionally, there are signs that the executive is taking its role in PFM more seriously, with improved scrutiny of executive action.

12. The CABS group have been clearly concerned with improving technical assistance and have reinforced efforts by non-PGBS donors in the field. CABS has acted as a focus for donor harmonisation in this respect. However, the donor effort on PFM pre-dated CABS.

Table 4.1: PEFA PFM Performance Measurement Indicators⁴ for Malawi

(note: the assessment below is based on a review of secondary sources, not on a rigorous application of the PEFA diagnostic criteria; scores are indicative, with a moderate level of confidence)

No.	Subject	Score [2001]	Score [2004] (2003)	Trend	Comments and Analysis
A. PFM OUT-TURNS: Credibility of the Budget					
PI-1	Aggregate expenditure out-turn compared to original approved budget	Weak	Weak	No change	Severe problems in maintaining aggregate fiscal discipline compounded in part by uncertainty over GBS receipts. Reported outturns have varied by up to 11% of budget with some further degree of overspending hidden by unrecorded arrears.
PI-2	Composition of expenditure out-turn compared to original approved budget	Weak	Weak	Worsens	Significant variations within total although doubts over reliability of accounting data make for uncertainty. Considerable expenditure on unplanned activities including response to famine and on election-related expenditure.
3	<i>Reliability of budget as guide to outturn (Level and composition of outturn is "quite close" to budget)</i>	C	C	No change	See above.
PI-3	Aggregate revenue out-turn compared to original approved budget	Moderate	Strong	Improves	Performance by reference to shares of GDP is good by regional standards and improving. Some erratic performance against budgeted figures however including over-collection against budget.
PI-4	Stock and monitoring of expenditure payment arrears	Weak	Weak	Improving	<i>Evidence from special 2004 audit suggests that arrears significant and previously hidden. Results of 2005 audit not yet known. Improving relates to monitoring and not underlying stock of arrears.</i>
8	<i>Level of payment arrears (Very few or no arrears accumulated)</i>	A	B	Worsening	See above. Worsening relates to revelation of hidden arrears over time.

⁴ The PEFA indicators (PI-1 to PI-28 and D-1 to D-3) are taken from the June 2005 version of the PEFA PFM Financial Management Framework. The 16 HIPC AAP Indicators (2004 version) are included in Italics.

Annex 4: Public Finance Management in Malawi

No.	Subject	Score [2001]	Score [2004] (2003)	Trend	Comments and Analysis
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency				
PI-5	Classification of the budget	weak	Weak	Stable	Does not have functional classification. Some effort from MTEF process to introduce output-based classifications in parallel to existing but with limited impact.
5	<i>Classification of budget transactions (Functional and/or program information provided)</i>	A	B	<i>Worsening</i>	<i>Worsening relates to re-scoring rather than underlying change.</i>
PI-6	Comprehensiveness of information included in budget documentation	Weak	Weak	Stable	Limited information on prior year actual, implications of major new policies, assets and some departure from GFS standards.
1	<i>Composition of the budget entity (Very close fit to government finance statistics (GFS) definition of general government)</i>	C	C	<i>Stable</i>	<i>Govt reports do not include local government figures or those for autonomous bodies.</i>
PI-7	Extent of unreported government operations	Weak	Weak	Stable	Autonomous agencies excluded. Most grant-financed projects not captured.
2	<i>Limitations to use of off-budget transactions (Extra (or off) budget expenditure is not significant)</i>	A	A	<i>Stable</i>	<i>Ministries required to remit revenues in full but there may be some evasion of this. Some specific agencies permitted to retain receipts. Overall impact probably limited but ministries have used arrears as a financing mechanism.</i>
PI-8	Transparency of inter-governmental fiscal relations	Weak	Weak	?	Limited role for sub-national governments currently with some transition to decentralisation underway but perhaps limiting transparency and reliability in short-term. Local governments' spending not consolidated.
PI-9	Oversight of aggregate fiscal risk from other public sector entities	Weak	Weak	Stable	Significant concerns over risks of public enterprises which are not actively monitored.
PI-10	Public access to key fiscal information	Weak	Weak	Stable	Budget and year-end statements formally available although actual accessibility is practically difficult due to limited printing and poor distribution. Some information including some in-year information on website but not kept up-to-date. External audit reports only made available at instigation of parliament.

General Budget Support in Malawi

No.	Subject	Score [2001]	Score [2004] (2003)	Trend	Comments and Analysis
	C. BUDGET CYCLE				
	C(i) Policy-Based Budgeting				
6	<i>Identification of poverty-reducing expenditure (Identified through use of classification system)</i>	A	A	Stable	<i>AAP regards basic system of identification as good but limitations on use of data because not detailed enough for in-year management and no check on actual use of funds. PPE definition has changed over time making comparison difficult and PPEs defined rather broadly.</i>
PI-11	Orderliness and participation in the annual budget process	Weak	Weak	Improving	Budgets are produced and on-time but guidance to budget units is limited. Participation in process by Parliament has improved recently but broader participation in budget-setting remains weak.
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	Weak	Weak	Stable	MTEF in existence but with weak links to annual budget process. Meaningful costed sector strategies do not exist whilst links between capital and recurrent budgets poor with multi-year project planning only weakly adopted.
7	<i>Quality of multiyear expenditure projections (Projections are integrated into budget formulation)</i>	B	B	Stable	See above.
	C(ii) Predictability and Control in Budget Execution				
PI-13	Transparency of taxpayer obligations and liabilities	Moderate	Moderate	Improving	Malawi Revenue Authority has improved procedures on a number of major taxes with clearer resulting liabilities.
PI-14	Effectiveness of measures for taxpayer registration and tax assessment				Not examined – evidence from actual collection rates suggest quite good but based on small formal sector.
PI-15	Effectiveness in collection of tax payments				See above – collection rates high by regional standards but arrears rates not examined.

Annex 4: Public Finance Management in Malawi

No.	Subject	Score [2001]	Score [2004] (2003)	Trend	Comments and Analysis
PI-16	Predictability in the availability of funds for commitment of expenditures	Weak	Weak	Stable	Historically poor bank reconciliations and numerous ministerial local accounts have rendered cash flow monitoring difficult. Poor fiscal control has meant however that lack of cash has not necessarily limited spending commitments. Since 2004 this has been subject of increased government focus with more active monitoring of cash and some improvement in bank reconciliation.
PI-17	Recording and management of cash balances, debt and guarantees	Weak	Weak	Improving	Significant improvement in reconciliation of bank balances at Reserve Bank. Debts recorded but updating may not have been regular.
PI-18	Effectiveness of payroll controls			Improving	Not checked – some limited evidence of incorrect payments from expenditure tracking pilot. GOM has introduced a smartcard system for some workers to limit risk of ghost-workers and this is being rolled out.
PI-19	Competition, value for money and controls in procurement	Weak	Weak	Improving	New procurement legislation in 2003 provided sounder basis for effective procurement but full implementation still in progress and limited enforcement capacity.
16	<i>Effective procurement (Procurement processes promote competition, transparency and value-for-money)</i>	-	B	(New)	See above.
PI-20	Effectiveness of internal controls for non-salary expenditure	Weak	Weak	Stable	Norms exist to define expenses and some degree of internal control at micro level. But rules may allow expenditure which is poor value for money but considered legitimate.
PI-21	Effectiveness of internal audit	Weak	Weak	Improving	<i>Internal Audit Unit now set up in President's office to coordinate internal audit across government but overall internal audit is limited by poor capacity and weak follow-up to audit findings.</i>
9	<i>Quality of internal audit (Effective internal audit function)</i>	B	B	Improving	See above.

General Budget Support in Malawi

No.	Subject	Score [2001]	Score [2004] (2003)	Trend	Comments and Analysis
	C(iii) Accounting, Recording and Reporting				
PI-22	Timeliness and regularity of accounts reconciliation	Weak	Weak	Improving	Clear improvement in ban reconciliations has reduced backlog of unreconciled accounts. Reconciliation of specific ledger accounts like suspense not individually checked but overall reconciliation of accounts is poor in-year (partly because current ledger does not allow two financial years to be open at once thus delaying current year accounting) although end-year procedures have improved significantly recently.
11	Quality of fiscal/banking data reconciliation (Satisfactory and timely reconciliation of fiscal and monetary data)	B	B	Improving	Improvement relates to bank accounts – see above
PI-23	Availability of information on resources received by service delivery units	Weak	Weak	Improving	Pilot PETS in education conducted although findings have not been widely disseminated. Plans for repetition or extension do not appear to be in place.
10	Use of expenditure tracking surveys (Tracking used on regular basis)	A	B	Improving	AAP 2004 views 2001 rating as incorrect based in inappropriate self-assessment. Actual position is marginally improving – see above.
PI-24	Quality and timeliness of in-year budget reports	Weak	Weak	Improving	Reports produced within two weeks of end month but value limited by questionable accuracy and unhelpful classification. Compliance with requirement for timeliness and completeness has improved recently but questions remain over value.
12	Timeliness of internal budget reports (Monthly expenditure reports provided within four weeks of end of month)	B	B	Improving	See above.
13	Classification used for tracking poverty-reducing expenditures (Good quality, timely functional reporting derived from classification system)	A	B	Improving	(The apparent worsening is because of date errors in the 2001 assessment) Improvement reflects better use of data in-year. Reported data however reflects funding rather than actual expenditure.
PI-25	Quality and timeliness of annual financial statements	Weak	Weak	Improving	Improvements in closure from 6 months to 3 months of year end. Quality problems remain.

Annex 4: Public Finance Management in Malawi

No.	Subject	Score [2001]	Score [2004] (2003)	Trend	Comments and Analysis
14	<i>Timeliness of accounts closure (Accounts closed within two months of year-end)</i>	B	B	Improving	
	C(iv) External Scrutiny and Audit				
PI-26	Scope, nature and follow-up of external audit	Weak	Weak	Improving	Timeliness of submission has improved to be within the 12 months deadline and formal coverage appears satisfactory. Quality of audit remains problematic with continuing reliance on transactions-based auditing rather than systems-based audit. Responses from audited bodies remain weak.
15	<i>Timeliness of final audited accounts (Audited accounts presented to legislature within one year)</i>	C	C	Improving	See above.
PI-27	Legislative scrutiny of the annual budget law	Weak	Weak	Improving	Scrutiny of budget by parliament takes place but is limited in scope although some issues of detail can be discussed.
PI-28	Legislative scrutiny of external audit reports	Weak	Weak	Improving	Large backlog of audit reports hampers scrutiny. Nature of audit reports limits ability to make systemic recommendations. Some signs of concerted effort to address backlog and be more challenging.
	D. DONOR PRACTICES				
D-1	Predictability of Direct Budget Support		Weak		Strictly speaking PEFA indicator measures volatility rather than predictability – suspension of GBS and uncertainty over its re-start have created volatility – whether this was unpredictable is discussed in the main report.
D-2	Financial information provided by donors for budgeting and reporting on project and programme aid				Not checked – only proportion of donor grant-funded projects represented in budgets although loan-financed projects are represented in some form.
4	<i>Data on donor financing (Donor-funded expenditures included in budget or reports)</i>	B	B	Stable	See above.
D-3	Proportion of aid that is managed by use of national procedures				Not calculated.

ANNEX 5: SUMMARY OF CAUSALITY FINDINGS

1. In the Figure “Key to Causality Map” (Figure 5.1), links between elements at the different levels have been “keyed”. The findings related to each link and PGBS effect on this link are recorded in Table 5.1 “Causality Map: Summary of Findings on Causality” in an entry which refers to the “key” of the link on the map. Each entry in the table also indicates the chapters in which related findings are to be found (mainly in the “Principal Causality Chain” section of the Chapters in Part B).
2. A few cross-cutting features affecting potentially all the causality chains have been “keyed” too, namely feedback loop and transaction costs. Corresponding entries in Table 5.1 present an overview of how these features have affected the causality chains and PGBS effects on these on the whole.
3. The main issue to consider when assessing impact of GBS to Malawi reflected in the Causality Map is to be found in level 0, and in particular whether the risks of PGBS were appropriately assessed and whether there were appropriate risk mitigation strategies. Additionally, the time scales over which expected outcomes could be achieved need to be considered.
4. Although there are some positive immediate effects observed (level 2) in the form of harmonisation and alignment as well as complementary capacity-building measures, the policy dialogue and frequent suspensions of PGBS simultaneously with the PRGF programme – due to continued and increased expenditure overruns in non-priority areas – suggest that adverse results of the latter far exceeded the benefits of the former.
5. It created a non-conducive environment for private investment and growth, no increase in pro-poor public spending of significance and less confidence in government real ownership to agreed policy targets (level 4).
6. Thus the likely impact on poverty reduction has been limited if not adverse. However, the timescale implied by the causality map and the limited PGBS flows mean that any effect on poverty should not be expected in Malawi during the time period of this study.
7. With hindsight, the timescale allowed for successful outcomes was unrealistic, and linking PGBS conditionality to the IMF PRGF conditionality made it difficult for PGBS donors to allow a longer time scale. Linked to this, political risks were not well assessed and/or well managed, albeit with a dearth of more-promising alternative strategies.

Figure 5.1: Key to the Causality Map

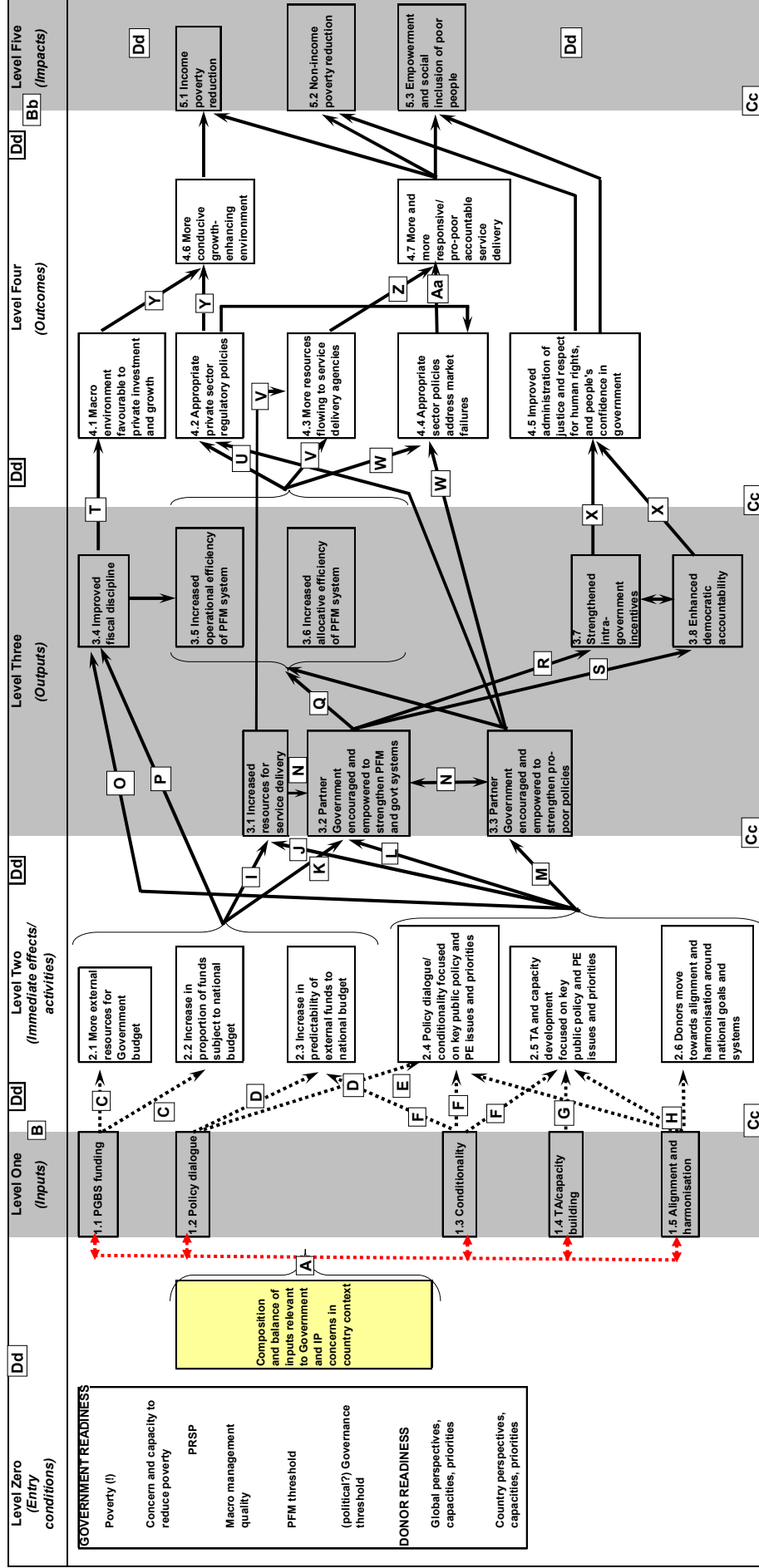


Table 5.1: Causality Map – Summary of Causality Findings in Malawi

A	Level 0 → Level 1 <i>The design and its relevance.</i> Essentially a relevant design and one that improves over the time-period. But key question is whether the potential benefits of PGBS in Malawi warranted the risks given the poor history if earlier GBS operations and the unpromising political context. [B1]
B	Level 1 → Level 2 <i>Overview of inputs to immediate effects</i> Weak to moderate links from Level 1 to Level 2. These links are stronger for the CABS group of donors than for non-PGBS donors. Some of the Level 2 impacts would have happened without PGBS. Strongest effects are on harmonisation though other pressures on harmonisation matter.
C	1.1 → 2.1/2.2 <i>PGBS effect on total external resources and the proportion of funds subject to the national budget.</i> Effect is weak because amount of PGBS funds does not represent additional resources compared with past GBS when other non-earmarked funds were provided. Had PGBS continued as planned without suspension there might have been an additional effect. [B1, B3]
D	1.2/1.3 → 2.3 <i>Effects of dialogue and conditionality on predictability of external funding to the budget.</i> The combination of PGBS conditionality and GOM fiscal indiscipline led to a worsening of predictability, especially in the short term although arguably in the long-term the suspension was inevitable. Post-2004 short-term predictability may improve but this remains to be tested. [B3]
E	1.2 → 2.4 <i>Increased focus of dialogue on key public policy and expenditure issues.</i> Main effect has been through donor harmonisation of policy dialogue although PPEs and PFM issues was key issues of past GBS as well. [B1, B2]
F	1.3 → 2.3/2.4/2.5 <i>Influence of conditionality on predictability of funding, on focus of dialogue, and on TA/CB.</i> Conditionality worsened predictability given GOM performance. Moderate link from conditionality to TA/CB for PFM issues and PPEs. [B3]
G	1.4 → 2.5 <i>PGBS immediate (direct) effect on TA/CB</i> CABS donors continued the long history of GBS donor focus on the need for specific PFM TA/CB but none of the PGBS donors provided the main related TA/CB inputs. [B4]
H	1.5 → 2.4/2.5/2.6 <i>Moves towards harmonisation and alignment with national goals and systems, reflected in dialogue and TA/CB work.</i> Strong harmonisation effects amongst CABS donors relating to relevant dialogue. TA/CB. Moderate link to non CABS donors. Alignment to MPRS strong but MPRS itself has limitations as basis for planning. [B2]
I	2.1/2.2/2.3 → 3.1 <i>Increased resources for service delivery (flow-of-funds effects)</i> No or adverse (compared to past GBS) flow-of funds effects due to suspension. [B3]
J	2.4/2.5/2.6 → 3.1 <i>Increased resources for service delivery (dialogue/TA/H&A effects)</i> No or adverse (compared to past GBS) effects for PPE. Some impact post 2004 on reducing waste in spending to improve services. [B3]
K	2.1/2.2/2.3 → 3.2 <i>Dialogue/TA/ H&A effects on empowerment to strengthen PFM etc</i> No evidence of empowerment (and no actual flow of funds). Improvements in fiscal discipline post 2004 attributable mainly to political change. [B3, B4]

General Budget Support in Malawi

L	2.4/2.5/2.6 → 3.2 <i>Flow-of-funds effects on empowerment to strengthen PFM etc systems</i>
	No evidence of any effect mainly due to suspension. [B3, B4]
M	2.4 → 3.3 <i>Dialogue encourages and empowers strengthening of pro-poor policies</i>
	Weak link through dialogue around PPEs and support for MPRS [B5]
N	3.1 → 3.3 <i>PGBS funding encourages and empowers strengthening of pro-poor policies</i>
	No evidence of link except through PPEs
O	2.4/2.5/2.6 → 3.4 <i>Non-flow-of-funds effects on fiscal discipline</i>
	No evidence of effect pre 2004 with continued fiscal indiscipline. Post-2004 signs that discipline improves. This could be partly attributed to the positive incentives created by effective donor management of conditionality but this argument is not easily testable. [B3, B6, C2]
P	2.1/2.2/2.3 → 3.4 <i>Flow-of-funds effects on fiscal discipline</i>
	Negative effect resulting from inability to react to suspension in short-term. [B6]
Q	3.2 → 3.5/3.6 <i>PFM empowerment of government → improved allocative & operational efficiency</i>
	No evidence of effect. [B3]
R	3.2 → 3.7 <i>Government empowerment to strengthen systems → stronger intra-government incentives</i>
	No evidence pre-2004. Post 2004 some evidence of newly empowered government but no evidence of link to PGBS. [C2]
S	(2.2 →) 3.2 → 3.8 <i>Government empowerment to strengthen systems → enhanced democratic accountability</i>
	Some signs of improved accountability but no evidence of link to PGBS. [B4]
T	3.4 → 4.1 <i>Link from fiscal discipline to growth-enhancing macro-environment.</i>
	Effect on macroeconomic performance perverse due to weak fiscal discipline leading to PGBS suspension further affecting stabilisation [B6].
U	3.3/3.5/3.6 → 4.2 <i>Better PFM system and Government empowered to strengthen policies → Appropriate private sector regulatory policies</i>
	No evidence of link [C2]
V	3.1/3.5/3.6 → 4.3 <i>Increased resources for service delivery and better PFM → More resources flowing to service delivery agencies</i>
	No evidence of link [B7]
W	3.3/3.5/3.6 → 4.4 <i>Better PFM system and Government empowered to strengthen policies → Appropriate sector policies address market failures</i>
	No evidence of link
X	3.7/3.8 → 4.5 <i>Government incentives/democratic accountability → people's confidence in government, administration of justice and human rights</i>
	No evidence of link [B8]
Y	4.1/4.2 → 4.6 <i>Influence of macro-environment and private sector policies on environment for growth</i>
	No evidence of link [C2]

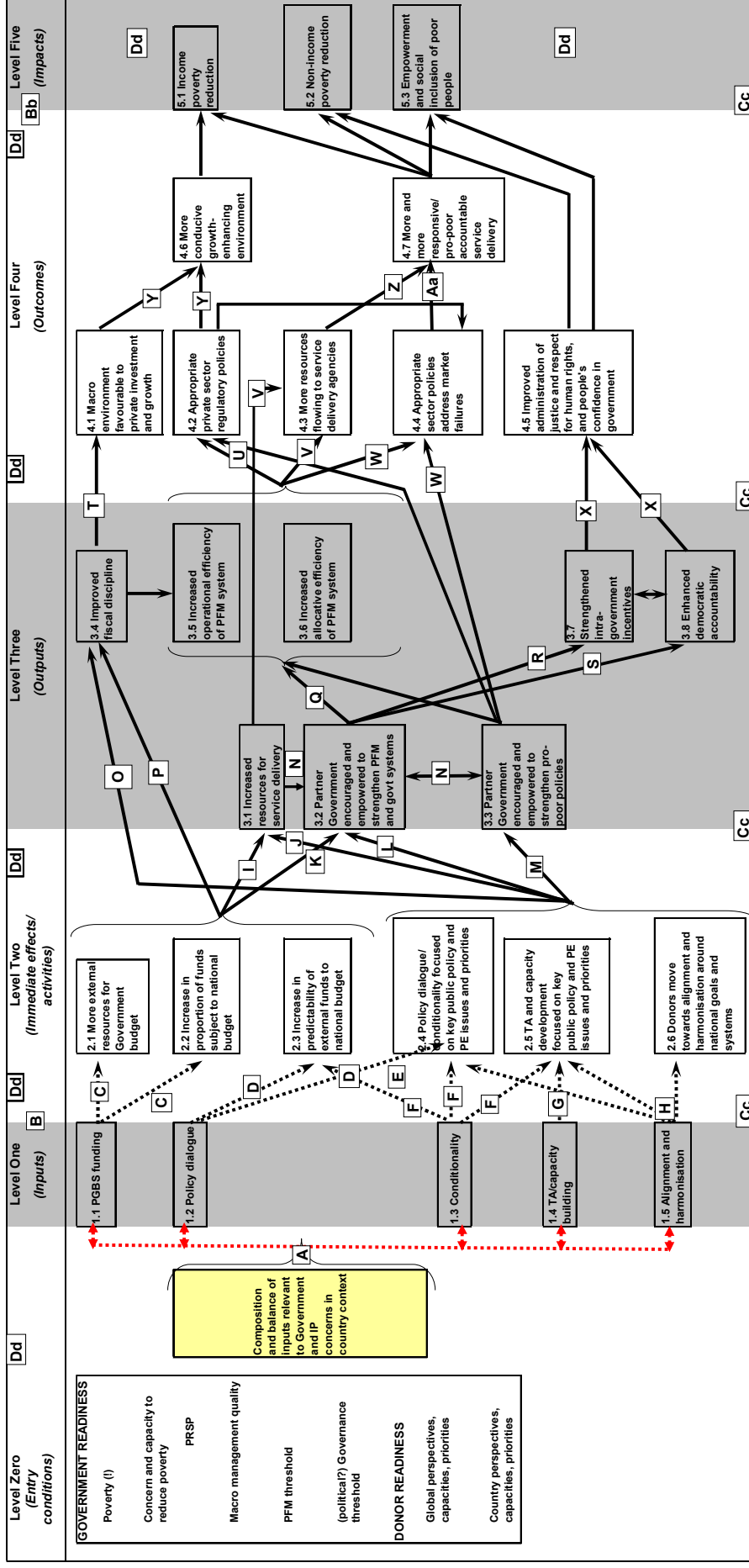
Annex 5: Summary of Causality Findings

Z	4.3 → 4.7 More resources reach service delivery agencies → more & more responsive pro-poor service delivery
	No evidence of link [B7]
Aa	4.4 → 4.7 Influence of sector policies on pro-poor service delivery
	No evidence of link [B7]
Bb	Level 4 → Level 5 PGBS outcomes → poverty impacts
	No evidence of link [B8]
Cc	(all levels) Transaction Costs
	Although additionality is not present because PGBS supplanted earlier non-earmarked funds, transactions costs of PGBS are higher than earlier funds due to a wider and more diversified GBS agenda compared to previous GBS from the same donors.[B3]
Dd	(all levels) Feedback
	Learning process means PGBS design and management evolves over period. Learning is mainly donors reacting to implementation experience. [B9]

Malawi Ex Post Causality Map

8. The causality map below represents a specific Malawi version of the standard causality map of the enhanced evaluation framework. The strength of the links is indicated by the thickness of the arrows in the map. Where no link is found, the arrows are “greyed out”. Perverse links are shown as dotted lines.

Figure 5.2: Malawi Ex Post Causality Map



ANNEX 6: THE HEALTH AND EDUCATION SECTORS IN MALAWI

Background to the Health Sector⁵

1. Health care in Malawi is provided by a plurality of suppliers; the Ministry of Health provides only 64% of the formal health care facilities around the country. These are arranged on a district basis (Malawi has 41 districts or cost centres). The Christian Health Association of Malawi (CHAM) provides 26% of health facilities. In addition, health care is provided by some companies – mainly on estates – and by one private-for-profit hospital in Blantyre. This multiplicity of suppliers is significant, as it is sometimes assumed that the impact of PGBS on improved service delivery will be via the public sector. This is only partly true in the case of Malawi.

2. 'Crisis' is an overused word in development, but it is very difficult to describe Malawi's health sector in any other terms. It is a sector characterised by very poor outcomes (with a few notable exceptions), limited expenditure patterns and very poor service delivery, a major problem of HIV/AIDS amongst both patients and staff, a failure to provide drugs and a dramatic loss of personnel both within Malawi but also internationally.

3. In November 2004, Malawi launched a new multi-donor (including the World Bank, DFID, and Norad) sector wide approach (SWAp) for the health sector; this was the result of a two year process of negotiation between the relevant stakeholders.

Background to the Education sector⁶

4. The Ministry of Education oversees and regulates primary, secondary and tertiary education. Like health, there is also a multiplicity of suppliers with considerable contributions from private and faith-based providers. This is particularly important in the secondary sector, where the private sector accounts for 23% of enrolment. The sector has a very pronounced pyramid, with exceptionally high enrolments at the primary level; limited at the secondary level, and very low at the tertiary level. The respective figures at the bottom and the top are among the highest and lowest in Sub-Saharan Africa respectively.

5. The main issue with primary education in Malawi is quality. In primary education, there is very high pupil-to-qualified teacher ratio (PQTR) (123:1); this clearly reflects both the rapid expansion in the sector since primary education was declared free in 1994, but also the very high number of untrained teachers and the fact that trained teachers tend to move from the primary to the secondary sectors. There are very high repetition and drop-out rates, with very low survival and completion rates.

6. The secondary sector is highly fragmented with a significant difference between community day secondary schools (CDSS) and conventional secondary schools (CSS), with the latter considerably outperforming the former. As in health, there is a significant attrition of staff from HIV/AIDS. Throughout the sector, there are major problems with physical assets – school buildings – which are deteriorating through a lack of maintenance.

⁵ The primary source unless otherwise stated for information on the health sector is DFID's (2005) Malawi Health Sector Review.

⁶ The majority of this section is sourced from a draft chapter of a 2005 World Bank PER.

Health Sector inputs

7. There are substantial problems with an analysis of government expenditure on health. Firstly there are problems in determining actual expenditure, and secondly large items of expenditure are not recorded in the budget. Thus two major items of expenditure, the salaries of CHAM (Christian Health Association of Malawi) and (in 2003/04 only) a large proportion of drug procurement has been financed outside the Minister of Health's budget. These figures must be treated with considerable caution; this is also supported by observations on other aspects of the Ministry of Health's financial system⁷.

Table 6.1: Trends in MOH Health Expenditures

	1999/00	2000/01	2001/02	2002/03	2003/04*
Population ('000)	10,314.0	10,645.8	10,995.5	11,361.7	11,743.4
MOH Expenditure					
Total MOH	1,341.2	1,611.3	1,171.9	2,250.2	1,932.2
MOH Recurrent	1,209.7	1,518.4	1,149.1	2,213.4	1,834.0
MOH Development (Part II)	131.5	92.9	22.8	36.8	98.2
Total MOH expenditure per capita	130 MWK	151 MwK	107 MWK	198 MWK	165 MWK
Total MOH Exp. / Total GOM Exp.	6.9%	7.2%	4.8%	6.7%	5.3%
Total MOH / Total GOM less interest	8.3%	8.9%	5.9%	8.5%	7.9%
Real Growth in MOH Expenditure					
Total MOH		20.1%	-27.3%	92.0%	-14.1%
Total MOH expenditure per capita		16.2%	-29.1%	85.0%	-16.7%

Source: GOM Consolidated Appropriation Accounts, various years; NSO / own calculations constant 2000 prices (DFID 2005 Malawi Health Sector Review.)

Note: * estimates based on MOH returns to MOF.

8. Nevertheless, the Ministry of Health's share of total government expenditure fluctuates and declines from 6.9% in 1999/00 to 5.3% in 2003/4. This is slightly lower than the fairly constant historical figure – noted by the IMF – of health expenditure at around 8% of total expenditure or 2.5% of GDP (IMF 2004: 16). This Ministry of Health share as a proportion of total government spending *without interest payments* in fact remains relatively constant.

9. The decline in 2001/2002 may reflect cuts made by the Ministry of Health as a result of the suspension of the PRGF and budget support in November 2001; however, as noted in chapter 6, total government expenditure in this year did not decline. Meanwhile, the improvement in 2002/2003 is apparently accounted for by Norad's drug "top-up scheme" for ORT (other recurrent transactions – i.e. not salaries/or personal emoluments).

Distribution of Health Expenditure

10. Table 6.2 shows MOH recurrent expenditure by different categories.

⁷ Norad's like-for-like funding of ORTS in the Ministry of Health never seemed to balance. Personal Communication, Norad's health sector advisor.

Table 6.2: MOH Recurrent Expenditure by Level of Care

MWK m	2000/01		2001/02		2002/03		2003/04*	
	National Administration	533.2	35%	185.5	16%	335.2	15%	203.1
Tertiary Care	284.6	19%	254.9	22%	527.6	24%	406.1	16.4%
Secondary Care	326.9	22%	327.9	29%	817.1	37%	1,030.4	41.6%
Primary Care / Prevention	370.0	24%	373.8	33%	478.4	22%	835.3	33.7%
Other Institutions	3.7	0.2%	7.0	0.6%	55.1	2.5%	n.a.	n.a.

Source: Own calculations based on GOM Consolidated Appropriation Accounts, various years

Notes:

Constant 2000 prices

* estimates based on MOH returns to MOF

11. The decline in the expenditure on national administration since 2000/01 reflects the decentralisation of drugs and medical supplies. The increase in recurrent expenditure on primary and secondary care is also significant, although the faster increase in secondary care is worrying. Preventative health care and outpatient treatment are key contributors to health improvements in developing countries; moreover, more expenditure on primary care/prevention is also the best supply side indicator of access and equity.

Education Sector inputs

12. Table 6.3 provides data on education sector expenditure since 1999/2000.

Table 6.3: Total Government Recurrent Education Expenditure 1999/00–2003/04

Year	1999/00	2000/01	2001/02	2002/03	2003/04
USD m	662.1	438.8	373.3	607.0	408.8
As % GDP	3.4	2.9	4.5	4.8	5.3

Source: adapted from World Bank PER draft 2005.

13. From the above, education spending as a percentage of GDP has been somewhat erratic, but has increased from 3.4% in 1999/2000 to 5.3% in 2003/04. As with health, it is very difficult to determine what is happening, as it is estimated that about two thirds of the donor spending is off-budget. The distribution of government expenditure is as follows: primary (51%); secondary (16%) and tertiary (18%) with administration at (9%). The fact that tertiary education receives a higher share of recurrent expenditure with 4,000 students, as against secondary with 245,000 is noteworthy and reflects a very high level of inequality.

14. Furthermore, in primary education is estimated that mean household expenditure is approximately 80% of government per pupil expenditure. These household expenditures are regressive, with the poorest paying a higher proportion of their income than those who are better off.

Health Sector Outputs

15. Malawi's health sector is very biased towards hospital provision; thus, in comparison with international norms, Malawi has almost the right number of hospitals (68 against a standard of 66), but in respect of health centres, it has 416 against a target of 1,118. The recent data on the use of services suggests that between 2002/03 and 2003/04, outpatient attendances have

declined by 13% in health centres, 3% in district hospitals and 19% in central hospitals. While this is only based on a two-year period since the HMIS has been operating, it nevertheless does suggest that service delivery is not improving at all; indeed, the available evidence suggests that it may have declined.

Education Sector Outputs

16. The issue of enrolment rates in primary education in Malawi⁸ is complex. Adjusted gross enrolment rates (GER) figures for primary education are 118% in 2000 and 115% in 2004. This represents an average GER of 162% for standard 1–4 and 64% for standard 5–8; there is no significant change in these figures between 2000 and 2004. These high figures are accounted for by very high repetition rates; the average is 25% while 40% of school children repeat standard one.

17. A monitoring learning achievement study for 11 countries in Africa noted that Malawi had the highest repetition rates for the first four years of primary education. In primary schools, the pupil teacher ratio (PTR) overall has worsened, from a figure of 63 in 2000 to 72 in 2004; while the ratio for qualified teachers PTQR has improved, from 123 in 2000 to 95 in 2004. While this is a small improvement, it is worth noting that these are very poor figures – particularly in comparison with secondary education in Malawi where the PTR is around 45. There are very high differences in the PTR (depending upon the year) from 100 in Standard one to 28 in standard eight on average. There are also significant and increasing differences between urban and rural areas in terms of PTR: thus, in 2000, urban PTR was 46 while the rural PTR figure was 65; by 2004 the respective figures were 44 and 77. The dramatic increase in the rural figure is worth noting.

18. In terms of outputs or learning outcomes, the picture is extremely poor: thus the Southern Africa Consortium for the Measurement of Educational Quality (SACMEQ) noted that less than 1% of children at Standard 6 reach a desirable level in reading (while 20 per cent reach a minimum level). In conclusion, Malawi's education system has a wide coverage at the primary level, but displays very strong inequalities in the system as a whole. There have been no significant changes in the recent past.

⁸ The GER figure of 132% as presented is very problematic and most probably reflects problems of over reporting and problems with population data or both. We have used adjusted figures here.

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