

Common Approach to Budget Support (CABS) in Malawi

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Commissioned by The CABS group (currently DFID, European Commission, Norway, African Development Bank) has been providing budget support to the Government of Malawi (GoM)

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The report is presented in a series, compiled by Norad to disseminate and share analyses of development cooperation. The views and interpretations are those of the authors and do not necessarily represent those of the Norwegian Agency for Development Cooperation.

Norad
Norwegian Agency for Development Cooperation

P.O. Box 8034 Dep, NO- 0030 OSLO
Ruseløkkveien 26, Oslo, Norway
Phone: +47 22 24 20 30 Fax: +47 22 24 20 31

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Common Approach to Budget Support (CABS)

March 2007 CABS REVIEW

AIDE MEMOIRE

Lilongwe, May 30th 2007

Key findings

In 2006 progress against the Performance Assessment Framework (PAF) was broadly satisfactory. CABS members expect to disburse approximately MK 16 billion as budget support to Malawi in FY 2007/08.

Sound overall economic management continues to strengthen macroeconomic stability. Along with the anticipated bumper harvest, this augurs well for growth and economic prospects in 2007.

There has been significant progress in some areas of Public Financial Management such as the PFEM plan, staffing of the National Audit Office, tabling of the 2003/04 audit report in Parliament and the scrutiny of the 2002/03 audit by Parliament. Some progress has been made in strengthening governance particularly in the areas of anti-corruption and procurement.

The approval of the Malawi Growth and Development Strategy (MGDS) is welcome. Most social sector targets were met, indicating some progress in service delivery.

CABS has particular concerns in the following areas:

- Local elections are an important signal of GoM's commitment to good political governance. The uncertainty surrounding the local elections and the decentralization process also affects financial management and the legitimacy of district authorities.
- The fiscal impact of over-expenditure in 2006/07 has been contained with the help of increased revenue and debt relief. It is important that GoM properly manages public and political expectations of increased resources.
- It is important that the 2007/08 budget:
 - Reflects findings of the Public Expenditure Review.
 - Honours GoM's commitment under the Health SWAp MoU, in addition to the outstanding K800m shortfall in the Health 2006/07 budget.
- Final accounts for 2005/06 are not yet available. Despite the good progress with IFMIS there have been no improvements in the quality and timeliness of annual accounts.
- No accounts for expenditures undertaken by the current GoM have been audited to date. In the light of Parliament's rejection of the nominee for Auditor General, it will be necessary to find a solution to this stalemate.

Introduction

1. The CABS group (currently DFID, European Commission, Norway, African Development Bank) has been providing budget support to the Government of Malawi (GoM) since 1999. CABS conducts biannual reviews of GoM economic, financial and governance management in order both to account for how CABS members' funds have been used and to inform future disbursement decisions.
2. The CABS group conducted its latest Review between 19th and 21st of February 2007 (governance) and between 6th and 9th March 2007 (economic, financial, social sectors). The Review team comprised: Mr Pons, Mr Banda, Mr Mwabutwa (European Commission - Secretariat of the CABS); Mr Whitworth, Mr Forster (DFID Malawi); Mr Pettersen, Ms Tralim, Ms Seip (Norwegian Embassy); Ms Mbowe and Mr Clark (AfDB). Ms Barton and Dr Kemp represented DFID Malawi in some sessions. In addition, the following participated as Observers: Mr Baunsgaard and Mr Jeremiah-Sato (IMF); Ms Henseler, Mr Imminck, Mr Graf von Schwerin (Germany); Mr Ross Worthington and Mr Nthara (WB); Mrs English, Mr Bobe and Mr Tabrizi (UNDP).
3. The preparatory work and the Review involved meetings and discussions with the following partners: Ministry of Finance (Debt & Aid Management, Budget and Economic Affairs Divisions, Accountant General, Internal Audit Unit), Ministry of Economic Planning & Development, Ministry of Education, Ministry of Health, Ministry of Labour, Ministry of Justice, Ministry of Home Affairs, Ministry of Local Government, Judiciary, Malawi Prisons, Malawi Police, Department of Human Resource Management & Development, National AIDS Commission, National Audit Office, Public Accounts and Legal Affairs Committees of Parliament, Anti Corruption Bureau, Office of the Director of Public Procurement, MEJN, NASFAM, SOCAM¹.

Joint Framework and Performance Assessment Framework

4. This was the third Review to take place since the CABS group and GoM agreed in September 2005 on a Joint Framework for budget support cooperation (JF) designed to formalise their relationship. The JF is an agreement on common procedures with regard to budget support cooperation in Malawi. The partners also agreed upon a revised Performance Assessment Framework (PAF) in August 2006, which is a set of indicators for measuring progress. Currently the PAF consists of 28 indicators.
5. According to the JF, the main focus for the first review every year is poverty reduction strategy implementation, macroeconomic issues, the audit report for the previous fiscal year and, if necessary, revision of the PAF. A preliminary assessment of the fiscal performance during the current fiscal year is also made.

¹ MEJN: Malawi Economic Justice Network, NASFAM: National Smallholder Farmers Association of Malawi, SOCAM: Society of Accountants in Malawi.

6. The JF specifies that GoM should submit written input to CABS no later than two weeks before the start of the review. CABS welcomes the progress in submission of documentation prior to the Review (for example, a draft progress report on each of the PAF indicators, documentation on fiscal performance during the first half of the current fiscal year). However, national appropriation accounts for FY2005/06 were not available in time for the Review, preventing a thorough assessment of a number of key indicators.
7. The Aide Memoire follows the PAF structure with chapters on Public Finance Management (Indicators 1 to 11), Social Sectors (Indicators 12 to 19) and Governance (Indicators 20 to 28).

Chapter 1 : Public Finance Management

Achievements against PAF indicators.

Indicator	Achievements against 2006 targets
1 Macro	The target was achieved. <i>PRGF is on track as of 3^d Review on 14/03/2007.</i>
2 Budget Comprehensiveness	The target was achieved. <i>All donors who provided data within deadline were recorded in budget documents.</i>
3 Budget Outturn	The target was achieved. <i>Variance in expenditure composition exceeded overall deviation in primary expenditure by 2% - within the 10% limit.</i>
4 PPE Outturn	The target was achieved. <i>Variance in actual PPE expenditure exceeded overall deviation by 0.5% - within the 5% limit.</i>
5 Health Outturn	The target was not achieved <i>Actual ORT expenditure was 35.7% above budget while overall deviation was minus 16.4%.</i>
6 Education Outturn	The target was not achieved. <i>Actual ORT expenditure was 33.2% above budget while overall deviation was minus 16.4%.</i>
7 Payroll	The target was achieved. <i>The reconciliation of the payroll with the backlog of personnel data by December 2006 was completed.</i>
8 Internal Audit	The target was achieved. <i>According to GoM internal audit units are functioning in all ministries and reports are issued regularly to the line ministries, the Ministry of Finance and the NAO.</i>
9 Public Accounts	The target was not achieved. <i>Final accounts for FY 2005/06 have not been submitted within 6 months.</i>
10 External Audit	The target was partly achieved. <i>For FY 2004/05 NAO will be able to audit more than 50 % of expenditure of ministries and departments. However, the audit report for 2004/05 was not submitted to Parliament by December 2006.</i>
11 External Scrutiny	The target was achieved. <i>Scrutiny of the audit report for FY 2002/03 is completed.</i>

Macroeconomic Performance and Prospects

8. The Third Review of the PRGF covering the period to end June 2006 was approved by the IMF Board on 14 March 2007 [Indicator 1]. Malawi met all end-June quantitative targets except for government domestic borrowing, for which a waiver was granted. This target was not met because of unanticipated spending on food security operations following the 2005 drought.
9. The substantial improvement in macro-economic management since 2004 has been sustained. Continued fiscal discipline has meant reduced public sector borrowing. Good agricultural production in 2005/06 led to a significant decline in inflation and subsequently a decline in interest rates. Real GDP growth increased

- from 2.1% in 2005 to 8.5% in 2006. This was mainly a reflection of the agriculture sector's recovery from the 2005 drought, buoyed by the fertilizer subsidy scheme. Revising the National Accounts is almost complete; new figures are expected to be used to prepare the next budget.
10. Annual average inflation declined from 15.5% in 2005 to 13.9% in 2006. While this is largely due to reduced maize prices following a bumper harvest, it is encouraging that non-food inflation has also been declining. Year-on-year inflation in January 2007 was 9.6%, the first time single digit inflation has been achieved in three years.
 11. Following the decline in inflation, Bank Rate was reduced from 25% to 20% in November 2006. The commercial banks followed suit and reduced their lending rates. Treasury Bill rates have also been declining. The average yield for the 91 day Treasury Bill declined from around 24% in January to 15.1% in December 2006. This is attributable to three main factors: (1) the reduction in Bank Rate from 25% to 20%; (2) the decline in government domestic borrowing and (3) the reduction in the Liquidity Reserve Ratio (LRR) from 27.5% to 20% in February 2006. It was further noticed that the LRR was reduced to 15.5% in February 2007.
 12. There has been little improvement in the foreign reserve situation since the March 2006 review. Import cover increased from 1.3 months in March 2006 to 1.6 months in December 2006, mainly due to donor inflows and HIPC debt relief. However, the situation deteriorated subsequently with gross official reserves back to 1.3 months at end February. The start of the tobacco marketing season should mark the usual improvement. The Reserve Bank continued to implement a flexible exchange rate system. There was a noticeable depreciation of the Kwacha during the first half of 2006 which helped remove the backlog of unpaid invoices. The Kwacha stabilised during the second half of 2006 with no indications of the exchange rate being artificially managed.
 13. The domestic debt to GDP ratio dropped from 24.8% in June 2004 to 19.9% in June 2006. Reduced government borrowing combined with lower interest rates has reduced crowding out of private sector borrowing.
 14. Economic prospects for 2007 are promising. The first round of crop estimates indicates total maize output in 2006/07 will be 3.1 million tonnes, one million tonnes above national consumption needs. Crop estimates for cassava and other products like rice and pulses are also encouraging. The IMF estimates real GDP growth of 5.7% and a further reduction of inflation to 8.4% in 2007. This may be further improved if prospects for another bumper harvest are confirmed in the coming months. This will hopefully facilitate a further reduction in interest rates.

Budget preparation and outturn

15. Substantial progress was made during 2006 in developing and populating an aid database and reflecting donor disbursement estimates in budget documentation.

Estimates were provided by all the targeted donors, apart from the Global Fund. Projects administered by Government were fully incorporated in the budget, while those administered by donors or NGOs were captured in a separate Summary of Extra-Budgetary Support to Malawi [Indicator 2].

16. CABS congratulates Government on this achievement. It is important to include outstanding donors for the 2007/08 Budget and accurately reflect donor disbursement projections. The division of disbursement estimates between two separate documents makes it difficult to appreciate the totality of resources going to a sector². It is important that this is addressed in the most appropriate manner.
17. Assessment of indicators 3 to 6 has been problematic. Actual expenditure figures were only provided in early May and contained errors. Revised data received on 10 May appears to show that the variance in the composition of overall expenditure [Indicator 3] and in Pro Poor Expenditure [Indicator 4] was well within the limits and that both indicators were comfortably achieved. With both Health [Indicator 5] and Education [Indicator 6] ORT, actual expenditure exceeded budgeted expenditure by over 30%, while primary expenditure as a whole was 16.4% below budget. Neither target was achieved, therefore. While CABS welcomes additional recurrent expenditure in Health and Education, it is important that this is properly budgeted for.

Budget Mid-Year Review

18. The Mid-Year Review of the 2006/07 Budget is a useful, informative document and a significant improvement from previous years. The most significant budgetary development is the K2.2 billion overrun on the fertiliser subsidy predicted in the Review. By exercising the option to sell back the surplus stock of fertilizer, the budget overrun appears to have been contained to about MKw 100 million. The initial explanation provided to Parliament implied that responsibility lies largely with the private sector. However, the manner in which coupons were distributed was largely responsible for the initial overrun. CABS and the Government are satisfied with the implementation of the fertilizer subsidy scheme - which has contributed to increased agricultural production - and recognise the useful role played by the private sector. The fertilizer subsidy is the largest single item of expenditure after the wage bill and interest. It is critical for overall good fiscal performance that the Government, together with donors, improves its planning and budgeting for the programme.
19. CABS observes that Development Expenditure Part II to end December 2006 was K6.1 billion compared to the mid-year target of K4.3 billion and an approved annual estimate of K7.1 billion. An overrun of K1.7 billion (0.5% of GDP) is projected for the full fiscal year. In recent years Part II has been regularly under-spent. Part of the overrun is due to revision of cash-flows for existing projects to

² It is relatively easy to distinguish between the two categories of donor funding (administered by government / by donors) on the same page, eg by using separate columns or use of bold print.

- match the pace of implementation and part due to projects not included in the originally approved budget.
20. The previous CABS Aide Memoire noted that GoM announcements on Completion Point had led to over-optimistic public expectations of additional GoM resources. Experience from other HIPC countries suggests that complex issues like HIPC need to be carefully explained to the public in order to limit additional spending pressures. The explanatory booklet on HIPC being prepared by the Finance Ministry is a welcome initiative.
 21. The previous Review emphasised the importance of properly operating and maintaining existing assets through adequate recurrent expenditure before building new assets. Adequate recurrent expenditure is important for improving public service delivery in Malawi.
 22. Where new projects are undertaken it is crucial that they are subjected to sound technical and economic appraisal *before* investment decisions are made. The larger the project, the more rigorous the appraisal needs to be. This will require strengthening technical capacity in central government and reforms to the planning and budgeting systems. CABS welcomes the review of the budget system currently being undertaken by the IMF.
 23. The September 2006 CABS Review expressed concern that GoM had not honoured its funding commitment under the Health SWAp MOU in the 2006/07 Budget. CABS notes that an additional K500 million out of the K1,300 million shortfall for 2006/07 has been proposed in the Mid-Year Review. CABS welcomes the assurance by the Minister of Finance that the outstanding K800 million will be included in the 2007/08 Budget in addition to the full 2007/08 commitment.
 24. Previous CABS reviews have observed that GoM travel expenditure is high by comparison with neighbouring countries. In the previous Review it was reported that the 2006/07 budget for internal travel was K4.9 billion, a significant increase from 2005/06. However, the approved internal travel budget was actually K6.4 billion. CABS is concerned at the substantial further increase in the travel budget, while noting that actual expenditure to 31 December 2006 was K2.0 billion.

Public Finance Management

25. Following the finalisation of the PFEM Action Plan in November 2006, GoM is establishing a coordination mechanism. A coordinator has been appointed and terms of reference for the steering committee developed. This should help monitoring the Plan, enhance regular reporting on progress and facilitate the prioritization of the actions.
26. CABS looks forward to the finalisation of the Public Expenditure Review in the coming weeks. It is expected that the recommendations will feed into the preparation of the 2007/08 budget.

27. Government has yet to finalise the Development Assistance Strategy. A strategy has been drafted and initial consultations were conducted with principal secretaries and development partners.
28. CABS welcomes the government initiative to develop a public debt management policy and implementation strategy.
29. CABS notes that bank reconciliation is still not automated. The Reserve Bank of Malawi has not developed the production of automated bank statements for government to reconcile the accounts daily.

Payroll

30. The reconciliation of the payroll with the backlog of personnel data by December 2006 was completed [Indicator 7]. All government employees, including a majority of pensioners, have been paid through the Human Resource Management Information System (HRMIS) since December 2006. This is encouraging progress given that the system was only introduced in September 2006.
31. HRMIS system development and customization has already taken place and more than 400 people have been trained. However, while HRMIS and IFMIS are both reported to be functional, the interface between the two systems is not yet operational.
32. GoM plans to undertake a payroll audit before June 2007. This should help minimise payroll leakage and improve control of the wage bill. In addition, GoM plans to undertake an independent review of the HRMIS system to assess capacity and robustness of payroll management.

Internal Audit

33. According to GoM, internal audit units are functioning in all ministries and reports are issued regularly to the line ministries, the Ministry of Finance and the National Audit Office (NAO) [Indicator 8]. However, progress is still needed in systematic reporting to line ministries and NAO in particular.
34. A number of achievements in the internal audit function were reported. The vacancy rate has been reduced, the quality of internal auditors is improving and the internal audit manual has been completed. In addition, a risk based audit approach is being introduced and a consultancy is underway to develop a risk management framework for selected ministries.
35. Ministries have been advised to establish Audit Committees to assist in following up audit reports and implement audit recommendations. However, while six committees have been established, only two are currently functioning. A proposal to revise the legal framework for internal audit is still awaiting advice from the Ministry of Justice. Assistance from the Ministry of Finance has been requested to

move the process forward. Other reported challenges include the retention of qualified staff and lengthy recruitment process.

Public Accounting

36. Despite indications from the September 2006 CABS review, final accounts for FY 2005/06 have not been submitted in accordance with the PFM Act [Indicator 9]. The main reason is reportedly the delay in merging automatic and manual accounts due to the introduction of the Integrated Financial Management Information System (IFMIS) in the middle of the financial year.
37. National Audit Office (NAO) has returned accounts for FY 2004/05 to the Accountant General's Department (AGD) on occasions for further revision. For FY 2006/07, AGD expects final accounts to be submitted to NAO by 31st October 2007. Moreover, MoF advised that quarterly expenditure reports would be made available on the internet.
38. An assessment of IFMIS was conducted in October 2006 by the IMF. The report concludes that the implementation of the Epicor system has been impressive. The report points out a number of challenges ahead. Follow up of the proposed action plan will be important. CABS observes that the roll out to 4 pilot district assemblies has suffered delays.

External audit

39. The Public Accounts Committee continues to make progress. Scrutiny of the audit report for FY 2002/03 is complete [Indicator 11]. The audit report for FY 2003/04 was recently tabled in Parliament. As expected, major issues of concern were inadequate expenditure control and weaknesses in the internal control systems.
40. For FY 2004/05 NAO was able to audit ministries and departments representing more than 50 % of expenditure. However, the audit report for 2004/05 was not submitted to Parliament by December 2006 [Indicator 10]. Since the accounts for 2004/05 are not finalised, it is now envisaged that the audit report will be ready by August 2007.
41. There have been several other improvements in external auditing. About 60 new assistant auditors and 20 interns have been recruited. Additional recruitment is expected. Follow-up of audit recommendations seems to have been taken more seriously by the executive. However, the post of Auditor General has now been vacant for 15 months. In contrast with neighbouring countries, no progress has been made toward full independence of the National Audit Office.
42. In this context, it is noted that no accounts for expenditures undertaken by the current GoM have been audited to date. Therefore, in line with the Joint Framework, CABS donors may at some stage request Government to arrange for an audit of selected components or samples from the accounts, carried out by or in liaison with the NAO.

Chapter 2 : Social Sectors

Achievements against PAF indicators.

Indicator	Achievements against 2006 targets
12 Pupil per teacher in rural area	The target was not achieved. <i>2006 ratio was 90:1 against a target of 75:1</i>
13 Female Literacy rate	The target was achieved. <i>The indicator is at 56% against a target of 55%.</i>
14 Survival rate	The target was achieved. <i>The survival rate for 2006 is at 53.3% for boys and 52.9% for girls against targets of 52% for boys and 48% for girls.</i>
15 Immunization	The target was not achieved. <i>The indicator was reported at 82% in 2006 against a target of 85%.</i>
16 Birth attended by skilled staff	The target was achieved. <i>Indicator reported at 40% in line with PAF target at 40%.</i>
17 Nurses per population ratio	The target was achieved. <i>The ratio for 2006 is at 1:3,653, exceeding the target of 1:3,900</i>
18 People alive on ART	The target was achieved. <i>The indicator as of end of 2006 is above target of 60,000.</i>
19 Women in decision making positions	The target was achieved. <i>2006 figure was 18.4% against a target of 16%</i>

Education & Literacy

43. The pupil per qualified teacher ratio in primary schools in rural areas [Indicator 12] for the period was 90:1, much worse than the target of 75:1. There were two main reasons. Firstly, no new teachers graduated from teacher training colleges in 2006 due to changes in the training system. Secondly, the longstanding ineffectiveness of the teacher deployment policy means there are more teachers in urban than in rural areas. The teacher deployment policy is a sensitive issue, particularly with the poor working environment in rural areas and the current lack of incentives needed to retain teachers in rural schools. Addressing this issue will therefore require strong political commitment. The Ministry of Education is reviewing the current system in order to identify and introduce the necessary measures to attract teachers to rural areas.
44. According to the NSO, female literacy rate [Indicator 13] was at 56% slightly better than the target of 55%. Statistics on this indicator are generated from preliminary 2006 Multiple Indicator Cluster Survey (MICS) conducted by NSO in

collaboration with UNICEF. The Ministry of Education, Ministry of Labour, Ministry of Women & Child Welfare share the mandate to improve female literacy rate. In this respect however it is noteworthy that Government has established the Directorate of Social Development within the Ministry of Labour to improve coordination at National level.

45. For Survival rate in standard 5 [Indicator 14] the 2006 target was achieved. The 2006 rate is estimated at 53.3% for boys and 52.9% for girls, above the PAF targets of 52% and 48% respectively. This achievement, particularly important for the girls' indicator, is attributable to a number of factors: the school feeding programme initiated in 1998 with 24 schools has been expanded to 259 schools; mobilization campaigns and accelerated girls education programme and increased efforts on the part of the Ministry to implement the minimum age policy. The interventions being implemented by the Ministry of Education are helping to reduce the internal inefficiency of the education system and the severe wastage of resources it leaves in its aftermath.

Health

46. The target for the proportion of one-year old children immunized against measles [Indicator 15] of 85% was not met according to the agreed HMIS data source. The GoM report against PAF indicates a rate of 82%. While there is some uncertainty about the figure, CABS acknowledges that good progress has been made on immunization in recent years. In September 2005, Ministry of Health conducted a nationwide measles vaccination campaign. Campaign data is not yet captured in the routine HMIS system. The Ministry of Health in collaboration with WHO and UNICEF has adopted a new strategy called Reaching Every District aimed at scaling up immunization in those districts that are below the 80% coverage level. This has started in 8 districts and when completed by end 2007 it is expected that it will assist in boosting the routine immunization coverage. CABS commends the Ministry for its efforts which have resulted in measles immunization levels well above most developing countries.
47. The 40% target for the proportion of births attended by skilled health personnel [Indicator 16] was achieved. This assessment is based on data from Government and CHAM hospitals. However, this estimate excludes data from private hospitals. This implies that there were probably more births attended by skilled personnel during this period because a number of births take place in private hospitals. CABS acknowledges that this assessment has its limitations since the data used correspond to "institutional deliveries", but recognises the indicator is probably underestimated, confirming that the target has been met. Given the persistent high maternal mortality in Malawi, CABS is encouraged by progress in this sensitive area, including Service Level Agreements between GoM and some CHAM facilities to make deliveries free.
48. The target of 1:3,900 for the Nurse Population Ratio [Indicator 17] was met comfortably with the ratio for 2006 estimated at 1:3,653. This improvement is attributed to the Emergency Human Resources Programme (EHRP) which

increases the output from training schools, engages volunteer nurse tutors, recruits all graduate nurses into the public sector and also recruits retired health personnel including nurses. According to the Nurses Council of Malawi, the country has 3,477 registered nurses and midwives in both public and private health institutions against the population of 12.7 million. While CABS agrees that the nurses and midwives national register can be used for calculation, it is important to take into account registered nurses who do not practice. Since the target is comfortably met, this does not change the overall positive development. CABS considers this indicator very relevant, given EHRP's role in addressing the 'brain drain'. The Ministry of Health should strengthen its routine monitoring systems for human resources, and ensure that the findings of the forthcoming census of health workers are captured in the data and updated regularly.

49. CABS is concerned about the impact on the health budget of delayed disbursements from the Global Fund on HIV/AIDS, TB and Malaria, particularly for the EHRP.

HIV/AIDS

50. The target of 60,000 for the number of people who were alive and on ART at the end of the year [indicator 18] was achieved. By December 2006, the total number of people alive and on ART was reported at 59,980, falling short of the target by only 20 persons. However, the figures reported for a number of GoM public institutions seem to be underestimated. An operational audit was conducted but the figures are not yet available. This is expected to largely make up for the shortfall. It is also reported that a total of 46,351 new patients started on ART in 2006 representing 54% of the total number of patients on ART. CABS observes that significant progress is being made in the delivery of ART. However, considering the ever increasing trend in new HIV/AIDS infections and the growing cost related to delivery of ART, focus on prevention should be a priority.

Gender

51. According to figures from the Ministry for Women & Child Welfare, the 2006 target for women in decision making positions [Indicator 19] was met. The percentage of women in decision making positions rose to 18.4% at the end of 2006, exceeding the target of 16%. CABS did not identify any progress in policy implementation and observes that most of the figures in 2006 are comparable with 2005, suggesting limited improvement. CABS encourages GoM to be more proactive in promoting gender equality, with greater leadership on gender equality across ministries rather than implementing projects within the Ministry for Women & Child Welfare. Adoption and implementation of a realistic and prioritised Strategic Plan would be a positive development.

Chapter 3: Governance

Achievements against PAF indicators

Indicator	Achievement against 2006 PAF
20 MGDS	The target was partly achieved. <i>MGDS approved in Nov 2006. M&E Road Map not aligned with MGDS yet.</i>
21 Constitution and the Rule of Law	a) The target was not achieved. <i>Position on Local Government Elections was not regularized by February 2007.</i> b) The target was not achieved <i>Legislation not presented to Parliament.</i>
22 Elections	a) The target was partly achieved <i>MEC strategic plan revised and partly implemented. Commissioners are not appointed.</i> b) The target can not be assessed. <i>No elections were held in 2006.</i>
23 Corruption	The target was achieved. <i>The 15 cases completed during the designated period were concluded in an average of 8.3 months.</i>
24 Corruption	The target was achieved. <i>73% of completed cases were concluded within 12 months.</i>
25 Corruption	The target was achieved. <i>DPP did not refuse any ACB requests to prosecute and DPP consents were given within a reasonable time.</i>
26 Procurement	The target was achieved. <i>All ministries, departments and agencies included in the target complied with the reporting requirement.</i>
27 GoM Funding	The target was partly achieved. <i>Actual recurrent expenditure for governance institutions in 05/06 was increased in real term from 04/05 but for the Malawi Electoral Commission and Legal Aid Department.</i>
28 Prisons	a) The target was partly achieved. <i>There was a 28% decline in the number of pre-trial detainees exceeding the maximum permitted remand period in 2006. Good progress was made.</i> b) The target was not achieved. <i>The number of deaths in prison due to poor nutrition, HIV/AIDS etc. was at 19/10,000 in 2006 according to prisons figures.</i>

Malawi Growth and Development Strategy

52. CABS congratulates GoM on the finalisation of the Malawi Growth and Development Strategy (MGDS) in November 2006 [Indicator 20]. Efforts are now being made by MoF and MEPD to match budget resources with MGDS priorities. Nonetheless, the concern remains that the prioritisation for the coming budget year has not yet gone far enough, which is likely to cause problems for the effective implementation of the strategy.

53. The ongoing coding exercise to facilitate linking the MGDS to the annual budget is welcome. Recommendations from the IMF mission on the budget process will be timely to assist the process.
54. It is expected that the new Public Sector Investment Programme (PSIP) will be characterised by much stronger links to the MGDS and the budget than previously. It is important that year one of the PSIP and the development budget are identical. Coordination between MEPD and MoF, despite recent improvement, remains to be strengthened.
55. With regard to Monitoring and Evaluation (M&E) of the MGDS, significant progress in the implementation of the Joint M&E Programme was noted, including the recruitment and equipment of District M&E Officers, the development of M&E Action Plans in all assemblies and regional training. However, the M&E plan is not yet aligned to MGDS [Indicator 20] and the absence of indicators monitorable on an annual basis will affect the quality of future annual reviews.

Constitution, Elections and Media Freedom

56. No reporting against indicator 22b was possible given the failure to hold Local Government Elections (LGE) in 2006. However, the CABS Group has been able to review specific PAF elements regarding the Malawian Electoral Commission (MEC), Constitutional provisions and media freedom in Malawi.
57. As of February 2007, the GoM position on Local LGE was not regularized [Indicator 21a]. The CABS group was informed that a draft bill to amend section 147(5) of the Constitution has been proposed by the Ministry of LGRD, suggesting LGE for November 2007, or at a date to be determined by the MEC [Indicator 21b]. It is reported that the bill is currently with Cabinet. Until the bill is passed by Parliament, MEC cannot effectively or adequately plan for LGE.
58. As underlined in the September 2006 CABS review holding competently executed Local Elections is an important signal of GOM's commitment to good political governance. CABS continues to believe that the position on LGE should be regularized as a matter of urgency. The issues surrounding the failure to hold LGE raises broader issues relating to decentralisation and accountability to citizens at the local level.
59. The MEC has an approved Strategic Plan. The implementation of the plan has started, but is behind schedule [Indicator 22a]. One of the reasons for the delay in implementing the MEC Strategic Plan is the absence of the required number of Electoral Commissioners – in turn the result of a political impasse delaying the appointment of new Commissioners [Indicator 22a]. The programme of support to the MEC (organisational capacity development; improvement of voters registry etc.) needs to begin as soon as possible, so that MEC improves its capability and regains public credibility. Indicator 27 (see details below), suggests more GoM

support to the MEC is needed to improve its capacity to handle election processes. The CABS group is committed to support the MEC.

60. Regarding freedom of the press [Indicator 22b], the Freedom House rating has remained the same, although on Civil Liberties, the score has improved from 4 to 3 in 2006. Since the last elections, some progress has been made: TVM and MBC have been licensed by MACRA, which also will be responsible for the monitoring of the media during election periods in future. Given the 1999 and 2004 experiences, MEC and MACRA's monitoring and enforcement of the appropriate media legislation will be critical to the fairness and credibility of future election processes in Malawi.

Anti Corruption

61. Corruption remains a serious problem in Malawi. Nonetheless since the last CABS review there have been some advances. The Corruption Baseline Survey and February 2007's national Anti-Corruption Day refocused attention on the damaging impact of corruption and the signing of a declaration by the President and key stakeholders committing themselves to address corruption was a welcome step. The National Anti-Corruption Action Plan, expected to be drafted by the end of 2007, will be an important focus for anti-corruption activities
62. These developments have been complemented by ongoing technical efforts to close off avenues for potential corruption. The progress in Public Finance Management, continued roll-out of IFMIS, and addressing corruption in the procurement of drugs are notable in this respect. CABS welcomes these strategic initiatives and the strong reporting against the corruption-related PAF indicators.
63. Whilst there is no evidence to suggest that the operational independence of the ACB has been systematically undermined, the continuing impasse over the appointment of a substantive Director of the ACB threatens to compromise the public perception of an independent and effective ACB. There is also a perception that high profile cases are not being progressed. CABS is concerned that nothing should be seen to undermine the independence of the ACB. It is therefore vital that the appointment of a substantive Director is addressed as a matter of urgency. Open communication regarding the reasons for delay in progressing high profile cases would also help to counter the perception of an unwillingness to tackle high level corruption.
64. Under indicator 21 it was reported that all MPs have declared their assets. A special Law Commission has been appointed to consider and draft legislation for the declaration of assets and liabilities by public officers. Therefore neither Standing Orders nor legislation addressing the declaration of assets have been drafted [Indicator 21b]. CABS would encourage an even more rigorous and transparent approach to the declaration of assets including introducing sanctions for non-compliance and extending asset declaration to other public officials.

65. The 2007 review targets for corruption indicators were met. The 15 cases completed during the designated period were concluded in an average of 8.3 months (the 2007 target was 16 months) [Indicator 23]. Similarly 73% of completed cases were concluded within 12 months (against a target of 50%) [Indicator 24]. The reasons given for the improvement in prosecution performance were better case preparation by the ACB leading to a reduced number of adjournments and a greater level of co-ordination between the ACB and the Judiciary. CABS also understands that the DPP has not refused any ACB requests to prosecute and that DPP consents have been given within a reasonable time [Indicator 25].³
66. It is noted that the ACB has been proactively engaged in corruption prevention activities. However this aspect of the ACB's work is not well publicized and communication could be further improved. In particular the ACB's submission of its reports to Parliament would improve dialogue. Linkages with other institutions involved in the anti-corruption agenda also need to be strengthened.
67. Overall the ACB continues to strengthen its institutional capacity but its progress reaching optimal in-house legal capacity has been hampered by the failure to retain lawyers due to their high demand and their ability to attract terms and conditions that the ACB is unable to match.

Public Procurement

68. There has been good progress on procurement issues over the last 12 months as demonstrated by the ODPP achievement against PAF. By February 2007, the ministries, departments and agencies (MDAs) complying with quarterly Procurement reporting requirement included all the targeted ministries, plus an additional 40 MDAs [Indicator 26].
69. ODPP has reminded all Procuring Entities that compliance is required and non-compliance will be included in its Annual Report to the National Assembly. CABS believes that non-compliance is mostly an issue of capacity. Most MDAs do not have Internal Procurement Committees (IPCs) and Special Procurement Units (SPUs) and staff are not trained in the new legislation and regulations. However procurement irregularities are difficult to detect and contain given lack of procurement training and knowledge. MDA's procurement systems lack proper records management. Most are still manual systems and the transition to a computer-based system linked to the IFMIS⁴ is being addressed through current donor funded projects in ODPP.

³ In addition, the number of concluded investigation cases rose from 89 in the second quarter to 98 in the third quarter but dropped to 63 in the fourth quarter of 2006. This last quarter drop is mainly attributable to the absence of a Director earlier in the year to authorise new investigations.

⁴ The ODPP computer based system will be linked to asset management modules of the government's financial system. WB, USAID and UNDP are assisting with computerized systems in ODPP which will be rolled-out over approximately the next 3 years.

70. In addressing procurement irregularities noted in compliance reports, ODPP has referred more than 10 cases to ACB for investigation and one prosecution has been completed. MDAs generally do not act on such irregularities and need to do more to monitor, identify and correct them. In response to the lack of action by MDAs on problems raised in procurement reports, ODPP has conducted sensitization, training and regular monitoring of MDAs to increased compliance. However, much more training is required and all MDAs need to establish IPCs and SPUs and staff them with trained staff⁵. Sanctions for non-compliance in the PPA need to be strengthened and implemented by MDAs more rigorously.

Government funding to Governance Institutions

71. GoM commitment to governance can be assessed, at least in part, through its prioritization of funding to governance institutions [Indicator 27]⁶. The PAF foresees that in order to maintain a similar level of activity, governance institutions recurrent expenditure for 2005/06 should be at least equal to 2004/05 expenditure in real terms (i.e. 04/05 total escalated at the inflation rate in 05/06).

72. This was achieved for all institutions but two; the Electoral Commission and Legal Aid Department whose budget decreased in real terms in 2005/06. It is important to consider that total expenditure for all these institutions represents only 2% of the total GoM budget.

Vote	Ministries/Departments	FY 2004/05 Actual	Target for FY 2005/06*	FY 2005/06 Actual	Variance
60	National Audit Office	47,409,432	55,034,449	68,664,257	+25%
80	National Assembly	855,140,919	992,676,083	1,057,085,578	+7%
354	Legal Aid Department	33,698,579	39,118,434	29,499,402	-25%
430	Human Right Commission	62,569,396	72,632,641	81,625,827	+12%
460	Electoral Commission	181,604,489	210,812,544	132,921,855	-37%
510	ACB	141,739,943	164,536,450	171,486,982	+4%
550	Ombudsman	40,180,421	46,642,772	51,073,218	+10%
560	Law Commission	37,614,835	43,664,554	99,231,863	+127% ⁷

* Target for FY 05/06 is equal to Actual 04/05 escalated at the headline inflation rate in 05/06.

Prison conditions

73. Despite failure to meet the agreed PAF targets for the year, the March 2007 CABS Review found some significant improvements in the proportion of remand prisoners versus convicted, however this did not directly demonstrate the number of remandees in prisons exceeding the maximum remand period [Indicator 28a]. A 28% decline was reported in the number of pre-trial detainees

⁵ ODPP is training 745 staff in ODPP and line ministries, from entry level to postgraduate level from January 2007-July 2008.

⁶ Sources: GoM budget document & funding tables for FY 04/05 and FY 05/06 data, NSO for inflation.

⁷ Increase largely due to the implementation of Constitutional Review from early 2006.

exceeding the maximum permitted remand period from 3,580 in 2005 to 2,568 in 2006. The decline was mainly due to faster hearing of cases in courts. It is anticipated that the new Prisons Act will speed up trials for remandees as it will empower the Chief Commissioners of Prisons to take remandees to court. However the Prison Bill has yet to be submitted to Parliament for approval. Better coordination between institutions (Malawi Prisons, Judiciary, and Police) could also bring further positive results. CABS encourages the use of alternative measures to continue reducing the number of remandees in prisons exceeding the maximum remand period.

74. According to Malawi Prisons, the number of deaths per month in prison [Indicator 28b] has increased to 19/10,000 in 2006, above the target level of 8/10,000 and above 2005 level (which was at 14/10,000). Other sources of information indicate that the figure may be underestimated⁸. There is however a clear worsening of the situation over the last year. This is mainly a result of food shortages during the first half of the year, overcrowding in prisons and lack of funds to improve prison sanitary conditions. While HIV/AIDS and Tuberculosis remain a growing problem, it is encouraging to note that prisoners are now accessing ARVs and are screened for TB on arrival. However prisons lack health personnel and GoM needs to address this issue through renewed cooperation between the Ministry of Health and the Malawi Prisons
75. Despite the significant contribution made by positive initiatives such as community service sentencing and the deployment of paralegals, overcrowding is an issue of serious concern considering that the number of prisoners is over double the maximum capacity.

⁸ For the 2007 review 2006 prisons reported 19 per month, other reliable sources indicated 25.

Chapter 4: CABS Members' Disbursement Plans

Based on the Review assessment CABS members have the following plans for budget support to Malawi.

European Commission

76. The European Commission signed budget support programme amounting to €34 million in November 2006. The programme is expected to contribute up to €13 million (MK2.3 billion) in FY 2006/07 and €17 million (MK3.2 billion) in FY 2007/08. The first tranche of €8 million (MK1.4 billion) was disbursed in quarter 2 of 2006/07 and a maximum of €5 million (MK0.9 billion) is expected in quarter 4, based on GoM performance against a number of social indicators from the performance Assessment Framework. Budget support releases in FY 2007/08 are expected to amount to €8 million (MK1.5 billion) in quarter 2 and a maximum of €9 million (MK1.7 billion) in quarter 4, based on GoM performance in Public Finance Management area and social sectors.

DFID

77. DFID Malawi intends to seek approval for budget support of £20 million (mk 5.6 billion) in Malawi's FY 2007/08, of which £15 (Mk 4.2 billion) million will be disbursed in the first quarter and £5 million (Mk 1.4 billion) in the third quarter. DFID budget support is expected in subsequent years to remain at about 30% of DFID's total programme.

Norway

78. Norway intends to disburse NOK 60 million (MK 1.4 billion) as budget support in FY 2007/08. A first tranche of NOK 40 million (MK 0.9 billion) is expected to be disbursed in the first quarter of FY 2007/08, while the second disbursement of NOK 20 million (MK 0.5 billion) is planned in the third quarter of the fiscal year. For FY 2008/09 and 2009/10 Norway's indicative budget support figures for Malawi are NOK 70 million (MK 1.6 billion) and NOK 80 million (MK 1.9 billion) respectively. All disbursement decisions are subject to approval from Norwegian authorities. They will depend on the total future Norwegian allocation to development assistance in Malawi.

African Development Bank

79. The ADB intends to disburse UA14.9 million, approximately US\$22 million (Mk 3.1 billion), as budget support in FY 2007/08. It will be disbursed in the first quarter of 2007/08. For FY 2008/09, 2009/10 and 2010/11 the ADB's indicative budget support figures for Malawi are UA10 million, approximately US\$15M (Mk 2.1 billion) per fiscal year. In total this will be UA 30 million (US\$45 million or Mk 6.3 billion), approximately 50% of ADF portfolio. All disbursement decisions are subject to approval from the ADB Board. They will depend on the total future

African Development Fund of development assistance to Malawi, which has still to be determined.

World Bank

80. The World Bank will join the CABS Group as core member in 2007. It intends to disburse \$20 million (Mk 2.8 billion) in the first quarter of fiscal year 2007/08. This disbursement will be contingent on approval by the Executive Board of Directors of a proposed Poverty Reduction Strategy Credit (PRSC) which will be the World Bank instrument for providing budget support to Malawi. The PRSC will be fully within the CABS framework and will outline those indicators in the PAF that will be considered by the Bank as a basis for disbursements.

Annex A

Overview of Progress against September 2006 CABS Recommendations

(Symbols: '+' for progress, '=' for no changes, '-' for situation that has deteriorated)

Sept 2006 CABS review	Current status – as at March 2007	Trend
MGDS: CABS recommends the official endorsement of the MGDS document	The document has been approved by Cabinet	+
MGDS: CABS emphasised the requirement for the prioritisation to estimate the resource envelope according to PRGF macroeconomic framework and linked to the budget	Work is still in progress to link the MGDS and the budget	=
MGDS: Updating the MPRS M&E Master Plan to reflect the requirements for monitoring the new MGDS	The M&E Road Map is not aligned with the MGDS	=
Macroeconomics: CABS notes that the exercise to revise GDP figures is still underway.	The exercise is still in progress	=
Governance/ACB: The resignation and appointment of the ACB Director	The ACB Director has not been appointed	-
HIPC Completion Point: CABS concerned that some sections of Malawi society have misunderstood the level of additional resources available to GoM following Completion Point and expected additional expenditures	Government is developing an explanatory booklet on HIPC which will be widely circulated.	=
Public Sector Reform: the adoption of strategic plans in Ministries and the implementation of the performance management system for all civil servants.	The Government has developed the strategic plans but the implementation of performance management for all civil servants has not been done	=
Public Sector Reform and Pay Policy: CABS considers the need to develop a prioritised list of actions in order to take implementation of the pay policy forward.	The exercise is in progress.	=
Public Sector Reform and Travel Policy: The DSA structure is consistent with the new Travel Policy for the Public Service.	No progress on DSA structure and the Travel Policy has not been finalised.	-
Elections: CABS urges the GoM to address the issue of amending the Local Government Act and Constitution before the local elections are held and speedy up the appointment of Commissioners.	Commissioners not yet appointed. Bill prepared but not tabled.	=
Budget: CABS is concerned that the 2005/06 outturn exceeded the approved estimate for travel by 9% and that the 2006/07 estimate maintains this level in real terms and welcomes the development of a new travel policy with monitoring and tracking systems	Travel expenditures is expected to increase further to around MK7.4 billion from MK5.9 billion and the travel policy has not been finalised.	-
Budget: CABS is concerned at GoM's failure to honour its funding commitment under SWAP and noted that the MoF has undertaken to address the funding shortfall with a supplementary budget submission to Parliament.	The Mid-Year Review of 2006/07 Budget has included an additional K500 million. The shortfall K800 million will be included in the 2007/08 Budget.	-
Budget: CABS urges GoM to complete the PERs promptly and apply their findings in future budgets	The report is expected in a few weeks to come and its recommendations expected to feed in the 2007/08 budget preparation.	-
PFM/PFEM Action Plan: CABS urges GoM to involve key stakeholders in the formulation of the PFEM Action Plan to ensure ownership on part of government.	The PFEM Action Plan has been formulated. Prioritisation need to be improved. Government is developing its coordination mechanism.	+
PFM/Budget formulation: CABS interested in the pre-budget consultation that include dialogue on the balance between Recurrent and Development expenditure and indicative sectoral allocations in particular health and education.	Pre budget consultation have included CABS in May 07.	+

PFM: CABS notes that finalised budget documents for FY 2006/07 are not available.	These have been made available.	+
PFM: CABS looks forward to the findings of the IMF mission to review progress on IFMIS	(i) The review of IFMIS was conducted in October 2006 by the IMF and implementation of Epicor system is impressive	+
PFM: CABS welcomes MoF's commitment to finalise the accounts for 2005/06 by end of October 2006 in line with PFMA.	Accounts for 2005/06 have not been finalised	-
PFM: CABS notes the development of the interface between HRMIS and IFMIS	The two systems are reported to be functional but interface between the two is not yet functional	=
Procurement: CABS welcomes ODPP plans to use its web site to increase access to information	The web site is functioning	+
Internal Audit Unit: CABS observes that internal audit committees have been formed but central audit committee is not operation.	Only six committees have been established of which two are functional at present.	=
External Audit: CABS concerned by delay in appointment of the auditor general and lack of progress taken with regard to NAO's financial and organisational independence consistent with SSAI	National Auditor Appointment has not been approved by Parliament. No progress on independence of the NAO.	-
External Audit: CABS concerned about the weaknesses in audit functions.	More than 60 auditors have been recruited.	+
External Audits/Parliament: CABS is concerned with lack of progress in presenting annual audit reports to Parliament and expects that with the roll of IFMIS, financial accounts and subsequent auditing will be timely as from FY 2005/06	Final accounts for FY 2005/06 have not been submitted in accordance with the PM Act.	-
External audits: GoM needs to take firm action to ensure timely response from Controlling Officers to audit findings according to PAA.	There is improvement in responding to audit findings by the Controlling Officers	+

