

INTRODUCTION

MALAWI IS A SMALL, LANDLOCKED COUNTRY, whose population relies on subsistence farming to meet its basic needs. Compared to other low-income countries, its population has grown quite rapidly since 2000, reaching 13 million in 2006. Despite growth rates over 7% in 2004 and 2006, the gross national income (GNI) remains just USD 720 (in purchasing parity terms, 2006). More than one-fifth (20%) of Malawians subsist on less than the dollar-per-day international poverty line (2004/5 survey). Malawi is not on track to meet any of the Millennium Development Goals (MDGs), though the United Nations (UN) estimates that – with appropriate reforms – four of those goals are still within reach.

DIMENSIONS	2007	CHALLENGES	PRIORITY ACTIONS
Ownership	Low-moderate	Better alignment of the budget process with national priorities	Development of sector strategies deriving from MDGs and linked to the budget process; timely completion of NDP Review
Alignment	Low-moderate	Relative weakness of country systems; donor reluctance to increase use of country systems	Government leadership of national capacity development; donor alignment with this initiative Continued implementation of PFEM Action Plan; corresponding increased use of systems by donors
Harmonisation	Moderate	Continuing donor use of non programme-based approaches Government facilitation of harmonisation	Actions taken by government and donors to finalise programme-based approaches under discussion Government establish mechanisms to co-ordinate activities; donors work within these to reduce total number of missions
Managing for results	Low-moderate	Capacity to implement NDP review	Establish mechanisms to ensure follow-up of NDP review
Mutual accountability	Moderate	Mutual accountability mechanisms are in first phase of implementation	Finalise baseline study and develop joint action plan for NDP review follow-up

OVERVIEW

Box 31.1:

Challenges and priority actions

Malawi received USD 669 million in official development assistance (ODA) in 2006, constituting nearly one-third of its GNI. This level of aid dependence makes it vitally important to identify concrete actions to improve aid effectiveness. The 2008 Survey provides a comprehensive picture of the aid environment in Malawi. The 15 respondents delivered 91% of Malawi's ODA in 2006; its four largest donors include the United Kingdom, the European Commission, the Global Fund and the World Bank. ■

OWNERSHIP

OWNERSHIP IS CRITICAL TO ACHIEVING DEVELOPMENT RESULTS and is central to the Paris Declaration on Aid Effectiveness. Aid is most effective when it supports a country-owned approach to development; aid is less effective when countries feel that aid policies and approaches are driven by donors that provide assistance. In the context of the Paris Declaration, ownership specifically concerns a country's ability to carry out two, inter-linked activities: exercise effective leadership over its development policies and strategies; and co-ordinate the efforts of various development actors working in the country

Ownership has many dimensions. Indicator 1 – assessed as part of the World Bank's review on *Results-Based National Development Strategies: Assessments and Challenges Ahead* – provides an entry point to the issue. The World Bank assesses the operational value of a country's development strategy and policy against three criteria, all of which are essential features of any serious effort to harness domestic and external resources for development purposes: the existence of an authoritative, country-wide development policy which clearly identifies priorities and is well costed.

The World Bank rates the operational value of a country's development strategy against a five-point scale running from A (highest score) to E (lowest score). The Paris Declaration 2010 target is to raise, to at least 75%, the proportion of partner countries having operational development strategies - *i.e.* meriting a rating of A or B.

For the 2006 Baseline Survey Malawi received a rating of C, along with 62% of participating International Development Association (IDA) countries, indicating that it had taken steps to establish an operational development strategy but that more substantive action was needed.

Malawi again received a C rating for the 2008 Survey. The Malawi Growth and Development Strategy (MGDS) (2006-11), a second-generation poverty reduction strategy, provides a unified medium-term framework for progress towards the long-term vision of achieving poverty reduction through economic growth set out in Vision 2020. Detailed activities are identified within each of five pillars, which are also grouped according to six priority themes. Malawi has a sector-wide approach (SWAp) for health that is aligned to the MGDS; others are being developed in education, water and sanitation, and transport. In addition, a programme-based approach (PBA) is being developed for aspects of the agriculture sector. Linkages between district development planning and the MGDS remain weak due to inadequate sub-national capacity and the stalled decentralisation process.

INDICATOR 1

Do countries have operational development strategies?

The MGDS has an embedded results framework showing linkages between ministries responsible for delivering outcomes and that identifies priority actions tied to medium-term targets. MGDS activities have been costed and prioritised; their implementation is expected to contribute to the achievement of outcome and impact indicators to facilitate progress monitoring. A further round of prioritisation based on estimated revenue is now needed.

The MGDS is expected to be the basis for sector budgeting in the 2008/9 national budget, which has been recorded to enable all activities to be identified by MGDS theme and sub-theme. In addition, all activities included in sector budgets should be selected from the Public Sector Investment Program, which scrutinises all investment activities to ensure MGDS compliance. Further action is needed to achieve better alignment of MGDS priorities and budget allocations at the sector level, including the development of a comprehensive classification system and ensuring that sector strategies cover the same activities and timeframes as the MGDS. The government also needs to strengthen its ability to monitor progress against the MGDS and feed this data back into the budget process. The MGDS annual review, the first of which was completed in early 2008, provides a mechanism for this. However, delays and uneven quality across sectors will limit its use in preparation of the 2008/09 budget.

Malawi has taken several measures to co-ordinate aid activities and align these with the MGDS. A Development Assistance Strategy (DAS) (2006-11) and accompanying action plan were developed in consultation with development partners and civil society organisations and published in 2007. A Public Debt and Aid Policy has been drafted and a development calendar is awaiting approval. Government leadership and aid co-ordination will be further strengthened if the government becomes more active in the various committees and groups involving both donors and the government, including the High Level Forum on Aid Effectiveness (which last met in late 2006).

Malawi received a C rating its operational development strategy in both the 2006 Baseline Survey and the 2008 Survey. A concerted effort by government and donors will now be needed for Malawi to meet the 2010 target of having an operational development strategy in place to merit a B rating. The MGDS and DAS provide a sound foundation for achieving this target. However, balanced implementation requires government leadership to ensure that domestic resources are allocated to priority areas and external resources directed to the remaining funding gaps. There are two priorities. First, fully articulated sector strategies and programmes of work deriving from the MGDS should be established: this is a pre-condition for the MGDS to be implemented through the budget in a rationally prioritised manner. Second, the 2008 MGDS annual review must be completed in timely fashion to enable it to inform the 2009/10 budget process. Insufficient human and institutional resources will continue to hamper progress in this area. ■

ALIGNMENT

FOR AID TO BE EFFECTIVE, it must be aligned with national development strategies and plans. The Paris Declaration envisions donors basing their support fully on the development strategies, institutions and procedures of partner countries. Indicators 2 through 8 examine a number of dimensions to assess the degree of alignment attained.

Indicators 2 through 8 of the Paris Declaration suggest that, in most dimensions of alignment, progress since the 2006 Baseline Survey is insufficient to place Malawi on track for reaching most of its 2010 targets. Steps have been taken to strengthen country systems. However, these remain relatively weak, and the donor group as a whole is not increasing use of such systems. Further progress in the alignment and predictability of aid is dependent on donors providing timely information and on the government ensuring that this is used to inform the budget. Importantly, the country survey also notes that effective alignment with national priorities requires donor preparedness and flexibility to invest in those sectors in which there is a resource gap – rather than only in those sectors in which donors have a particular (corporate) commitment. Less aid is now untied than in 2007. There appears to be good progress in providing co-ordinated support for capacity development and in reducing the number of PIUs, but care needs to be taken in interpreting these trends.

BUILDING RELIABLE COUNTRY SYSTEMS

Indicator 2 covers two aspects of country systems: public financial management (PFM) and procurement. In each case, the focus is on the degree to which these systems adhere to broadly accepted good practices – or to which there is in place a reform programme to promote improved practices. If countries have reliable systems, donors will be encouraged to use such systems for the delivery and management of aid. This helps to align aid more closely with national development strategies and enhances aid effectiveness.

Indicator 2a of the Paris Declaration assesses the degree to which partner countries either have public financial management (PFM) systems that are in line with broadly accepted good practices or have credible reform programmes in place to establish reliable PFM systems. The assessment is based on the World Bank's Country Policy and Institutional Analysis (CPIA) score for the quality of PFM systems, which uses a scale running from 1 (very weak) to 6 (very strong) with half-point increments. To score highly, a country needs to meet all three of the following criteria: a comprehensive and credible budget linked to policy priorities; effective financial management systems to ensure that the budget is implemented as intended in a controlled and predictable way; and, timely and accurate accounting and fiscal reporting, including timely and audited public accounts. The 2010 target is that each country will move up at least one measure (*i.e.* 0.5 points) on the CPIA scale for measuring the quality of PFM systems.

INDICATOR 2a

How reliable are country public financial management systems?

Along with 10% of countries participating in the 2006 Baseline Survey, Malawi received a rating of 3.0 – ‘moderately weak’ – for its PFM systems, marginally below the average of 3.2 for other IDA countries. The 2006 Baseline Survey notes that Malawi’s capacity for financial management was ‘a major challenge’ but that reforms were underway.

Paramount to Malawi’s recent reform efforts has been the adoption of a Public Financial and Economic Management Action Plan (2006) and its implementation under the leadership of the Secretary to the Treasury. A basket fund to support this is under discussion. Malawi has also put in place an integrated financial management information system (IFMIS) and plans to roll this out to local government. Despite these measures, Malawi’s CPIA score remained 3.0 in the 2008 Survey. The global 2010 Paris Declaration target is for half of partner countries to register a half-point increase on the CPIA scale. A score of 3.5 is still possible for Malawi if reform efforts are sustained, and the improvement in Malawi’s 2008 public expenditure and financial accountability (PEFA) performance assessment provides some cause for optimism. Priority areas for continued improvement include the timeliness and follow-up of audits (which should be possible now that an auditor general is in place), and improving the quality and submission of financial reporting.

At the time of the 2006 Baseline Survey, no mechanism was in place to systematically assess and quantify the quality of procurement systems in partner countries. Thus, it was impossible to set country-level targets on progress towards Indicator 2b.

In the context of the 2008 Survey, the quality of a country’s procurement system is assessed through the Methodology for the Assessment of National Procurement Systems, which was developed by the Joint Venture on Procurement. The methodology includes two components: the baseline indicators compare the country’s systems to internationally-accepted good practice; and a new set of indicators assess overall performance of the system and compliance with national legislation and standards. The results of the procurement system self-assessment are expressed as grades on a four-point scale running from A (the highest) to D (the lowest).

Malawi has taken steps to strengthen its public procurement system. A Public Procurement Act (PPA) was adopted in 2003 and an Office of the Director of Public Procurement (ODPP) created in 2004. The PPA is generally recognised to be in line with international standards, though it does not adequately address some issues, such as decentralised procurement arrangements and asset management and disposal. Slow implementation of the PPA and weak rule enforcement mean that misprocurements remain common and donors continue to have concerns about using the government procurement system. Implementation of the PPA is severely hampered by insufficient human and technical capacity, particularly within the ODPP and at district level. According to country inputs, this situation is exacerbated by donors training civil servants to use donor procurement systems, thereby fostering “parallel” capacity. These issues will need to be addressed for Malawi to achieve a B rating by 2010.

INDICATOR 2b

How reliable are country procurement systems?

ALIGNING AID FLOWS ON NATIONAL PRIORITIES

INDICATOR 3

Comprehensive and transparent reporting on aid, and how it is used, is an important means of ensuring that donors align aid flows with national development priorities. The degree to which development assistance to the government sector is fully and accurately reflected in the budget provides a useful indication of the degree to which serious effort is made to connect aid programmes with country policies and processes. It also allows partner country authorities to present accurate and comprehensive budget reports to their parliaments and citizens.

Indicator 3 is a proxy for alignment. It measures the percentage of aid disbursed by donors to the government sector that is included in the annual budgets for the same fiscal year. The indicator is a joint measure of two components: the degree to which donors report aid flows comprehensively to partner countries; and the degree to which partner countries accurately record aid.

The final figure highlights any discrepancy between the government's budget estimates and actual disbursements by donors. The discrepancy (or gap) can be in either direction: budget estimates can be higher or lower than disbursements by donors. In order to have a single measure of discrepancy under 100%, the ratio is inverted when budget estimates are higher than donor disbursements. The 2010 target is to halve the proportion of aid flows to the government sector that is not currently reported on government budget(s), ultimately arriving at a point where at least 85% of aid is reported on the budget.

TABLE 31.1:

Are government budget estimates comprehensive and realistic?

	Government budget estimates of aid flows for 2007 (USD m)	Aid disbursed by donors for government sector in 2007 (USD m)	2005 (for reference)	2007*
	a	b		c = a / b c = b / a
African Dev. Bank	29	25	59%	87%
BADEA	11	5	0%	44%
Canada	4	13	--	31%
European Commission	54	61	85%	88%
Germany	7	15	16%	48%
Global Fund	3	55	--	6%
Iceland	0	--	--	--
IFAD	7	2	0%	23%
IMF	0	0	--	--
Japan	8	17	4%	47%
Kuwait	0	--	--	--
Norway	30	30	69%	100%
OPEC Fund	0	--	0%	--
Sweden	13	13	--	99%
United Kingdom	76	116	74%	65%
United Nations	5	23	33%	21%
United States	0	38	15%	0%
World Bank	45	45	47%	100%
Average donor ratio	--	--	34%	54%
Total	292	458	54%	64%

* Ratio is c=a/b except where government budget estimates are greater than disbursements (c=b/a).

In the 2006 Baseline Survey, 54% of aid disbursed to the government sector was reported in Malawi's national budget. The 2008 Survey indicates that Malawi's budget is becoming more realistic: 64% of aid disbursed in 2007 was reported as being on budget, using figures derived from both the budget and the government's Annual Debt and Aid Report.

Another indication of progress in this area is that, for the past two years, the government has met the indicator on capturing aid on budget within the Common Approach to Budget Support Performance (CABS) Assessment Framework. These improvements are underpinned by combined donor and government action to improve the flow and capture of information. The government has put in place a budget calendar with clear guidelines for submission of data, developed a donor aid template (used since 2006/07) to incorporate external financing into the budget and provided clearer criteria for the type of funding that should be reported on budget. It appears that the majority of donors improved their reporting of scheduled aid in 2007; for two donors, all aid to the government sector was recorded on budget.

Malawi's 2010 target is for 85% of all aid to the government sector to be reported on budget. Achieving this target will require continued combined effort, particularly as the average donor ratio remains below 50% and the majority (58%) of aid to Malawi is in the form of non-PBAs (non-PBAs are more difficult to capture, especially when technical capacity is lacking). Smaller and non-resident donors must improve their data provision; the government needs to take further measures to reduce inaccuracies in data reporting. Further improvements by individual donors can also make a significant difference to Malawi's overall score. A smaller proportion of aid from Malawi's largest donor was reported on budget in 2007.

There is also a complicating factor. Government policy states that aid directly administered by donors (*i.e.* that does not pass through government systems) cannot be captured in the national budget. Instead, this type of assistance is reported in a separate summary of extra-budgetary support to Malawi and passed to parliament for consideration during budget discussions. Unless all aid to the government sector passes through Malawi's government systems, it is not possible for 100% of aid to be reported on budget. Variations in the discrepancy (in total and for individual donors) can arise from changes in the way aid is delivered, as well as from changes in the provision and capture of data.

CO-ORDINATING SUPPORT TO STRENGTHEN CAPACITY

Capacity constraints significantly undermine the ability of partner countries to capture, co-ordinate and utilise aid flows more effectively. Under the Paris Declaration, donors committed to providing technical co-operation in a manner that is co-ordinated with partner country strategies and programmes. This approach aims to strengthen capacities while also responding to the needs of partner countries. Likewise, there is greater recognition that successful capacity building is endogenous – *i.e.* is led by the partner country. To this end, the partner country defines clear objectives to ensure that existing capacities are used effectively and that external support is harmonised within this framework.

Indicator 4 focuses on the extent to which donor technical co-operation – an important input into capacity development – is moving towards this country-led model. It measures the degree of alignment between donor technical co-operation and the partner country's capacity development needs and strategies. The Paris Declaration 2010 target is that 50% of technical co-operation flows are implemented through co-ordinated programmes that are consistent with national development strategies.

INDICATOR 4

The 2006 Baseline Survey reported that, with 47% of technical assistance provided to in a co-ordinated manner, Malawi was on track to meet the 2010 target of 50%. The more stringent criteria for this Indicator in the 2008 Survey may account for the dramatic fall in the proportion of co-ordinated technical co-operation from Malawi's largest provider, the United Nations. Nonetheless, Malawi has now exceeded the target with 52% of a total USD 94 million technical assistance considered co-ordinated.

TABLE 31.2:
How much technical
co-operation is co-ordinated
with country programmes?

	Co-ordinated technical co-operation (USD m) a	Total technical co-operation (USD m) b	2005 (for reference) c = a / b	2007
African Development Bank	1	3	--	19%
BADEA	0	0	0%	0%
Canada	7	7	--	100%
European Commission	2	3	0%	52%
Germany	9	9	74%	93%
Global Fund	0	0	--	--
Iceland	--	--	0%	--
IFAD	1	1	100%	100%
IMF	0	0	--	0%
Japan	1	7	53%	10%
Kuwait	--	--	--	--
Norway	0	2	25%	0%
OPEC Fund	--	--	--	--
Sweden	0	1	100%	0%
United Kingdom	7	9	21%	78%
United Nations	2	24	80%	10%
United States	13	20	0%	66%
World Bank	7	7	--	100%
Total	49	94	47%	52%

Several donors show a marked improvement in their provision of co-ordinated technical co-operation. In 2007, four donors gave 100% in this way. However, the quantitative data are inconsistent with the AER and country inputs to the 2008 Survey, which note that technical assistance continues to be mostly in the form of isolated interventions. The 2008 Survey also calls for better co-ordinated and greater focus on Malawi's capacity development needs. Examples of good practice include joint capacity support provided to the Director of Public Procurement by UNDP, USAID, the European Commission and the World Bank. A major constraint to the co-ordination of technical assistance is the absence of an operational technical co-operation policy and sector capacity building strategies which provide a framework for donor assistance. Such policy and strategy are currently only in place for the health sector. Capacity constraints have been identified as a significant impediment to progress on other indicators, making country leadership, as well as donor alignment and harmonisation, in this area particularly urgent. The various PBAs now under discussion are cause for optimism; their agreement should facilitate better co-ordination of technical co-operation.

USING COUNTRY SYSTEMS

Donor use of a partner country's established institutions and systems increases aid effectiveness by strengthening the partner's long-term capacity to develop, implement and account for its policies – to both its citizens and its parliament. The Paris Declaration encourages donors to increase their use of country systems that are of sufficient quality, and to work with partner countries to strengthen systems that are currently weak. In this respect, Indicator 5 is directly linked to Indicator 2 on the quality of PFM and procurement systems, and measures the use of both.

Indicator 5a measures the extent to which donors use partner country PFM systems when providing funding to the government sector. It measures the volume of aid that uses partner country PFM systems (budget execution, financial reporting, and auditing) as a percent of total aid disbursed to the government sector. The 2010 target is relative to Indicator 2a on the quality of PFM systems.

INDICATOR 5

TABLE 31.3:
How much aid for the government sector uses country systems?

	Aid disbursed by donors for government sector (USD m) a	Public financial management (PFM)					Procurement		
		Budget execution (USD m) b	Financial reporting (USD m) c	Auditing (USD m) d	2005	2007	Procurement systems (USD m) e	2005	2007
					(for reference)	avg (b,c,d) / a		(for reference)	e / a
African Development Bank	25	0	0	25	0%	33%	0	0%	0%
BADEA	5	0	0	0	0%	0%	0	0%	0%
Canada	13	0	0	0	--	0%	7	--	54%
European Commission	61	16	16	16	48%	26%	16	48%	26%
Germany	15	0	0	0	31%	0%	0	36%	0%
Global Fund	55	55	55	55	67%	100%	40	0%	74%
Iceland	--	--	--	--	0%	--	--	0%	--
IFAD	2	1	1	1	100%	86%	1	100%	86%
IMF	0	0	0	0	--	--	0	--	--
Japan	17	0	0	0	0%	0%	0	0%	0%
Kuwait	--	--	--	--	0%	--	--	0%	--
Norway	30	29	29	29	88%	99%	19	69%	65%
OPEC Fund	--	--	--	--	0%	--	--	0%	--
Sweden	13	13	13	13	100%	100%	5	46%	37%
United Kingdom	116	76	76	76	48%	65%	51	35%	44%
United Nations	23	8	0	0	32%	11%	2	0%	8%
United States	38	0	0	0	0%	0%	0	0%	0%
World Bank	45	21	31	31	80%	61%	21	42%	46%
Total	458	219	221	246	55%	50%	162	35%	35%

Indicator 5b measures the volume of aid, as a percent of total aid disbursed to the government sector that uses partner country procurement systems. The 2010 target is relative to Indicator 2b; thus, targets are indicated only for those countries that established scores for Indicator 2b in the context of the 2006 Baseline Survey.

The 2006 Baseline Survey reported that 55% of aid to the government sector in Malawi used government procedures for budget, reporting and auditing. This compared favourably with the global average of 40% but is not consistent with the relative weakness of Malawi's PFM systems. Malawi received a score of 3.0 for Indicator 2a in the 2006 Baseline Survey, thus no 2010 target was set for Indicator 5a. The 2008 Survey reports a slight decrease in the overall usage of Malawi's PFM systems (50%). This suggests that when aid does use government PFM systems, it tends to use all three components equally. Significantly, two bi-lateral agencies and the Global Fund report that they use the PFM system for all their aid to the government sector. By contrast, two of Malawi's larger donors used government systems less in 2007 (though this may reflect the more stringent criteria established for this indicator in the 2008 Survey).

Over 2005-07, aid to the government sector that uses government procurement systems remained constant at 35% – the global average in the 2006 Baseline Survey. The majority of donors actually reported less use of the procurement system in 2007. However, the more specific guidance for this Indicator means that, again, care must be taken in interpreting trends over the past two years. It should be possible to track trends to 2010. Overall improvement is most likely accounted for by the progress made by the Global Fund, which now uses government procurements systems for 75% of its aid to the government sector. Malawi's self-assessment for its procurement system is C in the 2008 Survey (Indicator 2b); thus, no 2010 target will be set for this Indicator.

Apart from Norway and Sweden, most development partners use government PFM and procurement systems to track aid that is programme based. Thus, usage should improve if the various sector PBAs now under discussion come to fruition (though the current health SWAp retains additional procurement requirements over agreed thresholds). The most recent PEFA assessment identified three key constraints to donor use of the government systems: low budget credibility; lack of linkage between the MGDS and the budget; and lack of external auditing. As noted in the country report however, evidence of the effectiveness of recent reforms in Malawi is difficult to establish unless donors channel more resources through country systems.

AVOIDING PARALLEL IMPLEMENTATION STRUCTURES

INDICATOR 6

When providing development assistance, some donors establish specific project implementation units (PIUs), *i.e.* dedicated management units designed to support development projects or programmes. A PIU is said to be “parallel” when it is created at the behest of the donor and operates outside existing country institutional and administrative structures.

TABLE 31.4:
How many PIUs are parallel
to country structures?

	2005 (for reference)	2007 (units)
African Dev. Bank	11	9
BADEA	0	0
Canada	--	4
European Commission	5	7
Germany	0	0
Global Fund	0	0
Iceland	4	--
IFAD	2	2
IMF	--	0
Japan	0	0
Kuwait	0	--
Norway	0	0
OPEC Fund	0	--
Sweden	0	0
United Kingdom	2	2
United Nations	6	4
United States	30	20
World Bank	9	3
Total	69	51

In the short term, parallel PIUs can play a useful role in establishing good practice and promoting effective project management. However, in the long run, PIUs often tend to undermine national capacity building efforts, distort salaries and weaken accountability for development.

To make aid more effective, the Paris Declaration encourages donors to “avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes.” Indicator 6 is a count of the number of parallel PIUs being used in partner countries. The 2010 target is to reduce by two-thirds the stock of parallel PIUs in each partner country.

The 2008 Survey reports that the number of parallel PIUs in Malawi has been considerably reduced – from 69 in 2005 to 51 in 2007. This suggests that the 2010 target of reducing parallel PIUs by two-thirds (to 23) requires further efforts. The country report indicates that some donors continue to use parallel PIUs because of weak implementation capacity within government.

Malawi has no explicit government plan to phase out parallel PIUs, although the DAS Action Plan includes a target to use PIUs only for large projects or as SWAp secretariats. Donors, such as the World Bank and United Kingdom, have developed their own plans for phasing out parallel PIUs and integrating PIUs within government ministries and agencies. An increase in PBAs should also reduce the number of PIUs. For example, within the education sector, it is planned that an Infrastructure Management Unit will integrate PIUs that focus on implementing construction programmes on behalf of the Ministry of Education and development partners.

PROVIDING MORE PREDICTABLE AID

For many countries, development assistance constitutes a vital source of revenue and resources. Being able to predict aid disbursements – in terms of both how much aid will be delivered and when – is as an important factor in the ability of countries to manage public finances and undertake realistic planning for development. It is particularly crucial to enabling partner countries to implement medium- to long-term development plans and to optimise the allocation of resources within and across sectors. In this regard, the Paris Declaration calls on donors to provide reliable, indicative commitments of aid over a multi-year framework, and to disburse aid in a timely and predictable fashion according to agreed schedules.

Indicator 7 examines in-year predictability of aid to the government sector, measuring the proportion of planned disbursements (as reported by donors) that are recorded by governments in the national accounting system as actually disbursed. Indicator 7 assesses predictability from two angles. The first angle is the combined ability of donors and government to disburse aid on schedule. The second is the ability of donors and government to record comprehensively disbursements made by donors to the government sector.

Indicator 7 is designed to encourage progress in relation to both angles, with the aim of gradually closing the predictability gap – by one-half – by 2010. The ultimate goal is to improve not only the predictability of actual disbursements, but also the accuracy of how disbursements are recorded in government systems – an important feature of ownership, accountability and transparency.

The 2006 Baseline Survey recorded in-year predictability of aid in Malawi at a level of 58%, establishing a 2010 target of 79%. The 2008 Survey reports that the in-year predictability of aid remains at 58%, with USD 196 million of scheduled aid unrecorded. However, the average donor ratio has deteriorated slightly – from 41% in 2005 to 39% in 2007. The USD 50 million of undisbursed aid in 2007 could account for some of the predictability gap, with the two largest donors account for most of the predictability gap.

INDICATOR 7

Overall, it appears that the discrepancy arises mostly from the government's inability to record both scheduled and disbursed aid resulting from lack of timely information from donors and inaccuracies in the reporting of disbursement information (as discussed in relation to Indicator 3). For example, the European Union disbursed all of its scheduled aid for 2007 but the government did not record USD 13 million of the planned disbursements. Gains made by some of the smaller donors appear to have been negated by the worsening situation with respect to Malawi's largest donors. Sweden's scheduled aid is disbursed by Norway through a delegated funding arrangement. This is a positive development but has implications for the data in Table 5 as Norway's contribution is not captured by the current survey instrument.

TABLE 31.5:
Are disbursements
on schedule and recorded
by government?

	Disbursements recorded by government in 2007 (USD m)	Aid scheduled by donors for disbursement in 2007 (USD m)	Aid disbursed by donors for government sector in 2007 (USD m)	2005 (for reference)	2007*	
	a	b	for reference only		c = a / b	c = b / a
African Development Bank	28	29	25	6%	95%	
BADEA	0	1	5	--	0%	
Canada	0	13	13	--	0%	
European Commission	48	61	61	85%	79%	
Germany	7	14	15	24%	54%	
Global Fund	0	51	55	--	0%	
Iceland	0	--	--	--	--	
IFAD	0	7	2	0%	0%	
IMF	0	0	0	--	--	
Japan	8	10	17	4%	78%	
Kuwait	0	--	--	--	--	
Norway	42	28	30	95%		66%
OPEC Fund	0	--	--	--	--	
Sweden	0	13	13	--	0%	
United Kingdom	77	140	116	86%	55%	
United Nations	18	38	23	7%	46%	
United States	0	2	38	3%	0%	
World Bank	45	63	45	96%	71%	
Average donor ratio	--	--	--	41%		39%
Total	272	469	458	58%		58%

* Ratio is c=a/b except where disbursements recorded by government are greater than aid scheduled for disbursement (c=b/a).

Malawi's 2006/07 Annual Debt and Aid report indicates that poor predictability is particularly associated with project aid: only three development partners disbursed within 10% of their commitments. This is an important factor that affects predictability as 58% of aid was non-PBA in 2007. Delayed disbursements occur for a variety of reasons, including failure to meet standard conditions or implement project activities on schedule. Providing counterpart funding on the part of the government and raising no letters of no objectives on the part of the donors also delays disbursements. Simple inaccuracy of projections is also a factor. Closing the predictability gap and moving towards the 2010 target will therefore require a concerted effort by both the government and development partners. As predictability of general budget support and pooled funding was better than for projects, greater use of PBAs should contribute to progress towards the target.

UNTYING AID

Aid is said to be “tied” when it is provided on the condition that the recipient country will use it to purchase goods and services from suppliers based in the donor country. Experience shows that aid with such conditions attached increases the costs of goods and services provided to partner countries; it also increases the administrative burdens on both donors and partners. By contrast, untied aid helps build a country’s capacity to provide goods and services.

Country figures for untying aid are based on voluntary self-reporting by donors that are members of the OECD Development Assistance Committee (OECD-DAC). The 2010 target is to continue progress towards untying aid over time.

On the basis of data covering 70% of 2005 commitments, the 2006 Baseline Survey reported that 97% of aid to Malawi was untied – slightly below the average (75%) for countries participating in that Survey. The Paris Declaration 2010 target is for continued progress with untying. The most recent data, covering 92% of aid to Malawi in 2006, shows movement away from the target, with only 91% of aid untied. All multi-lateral agencies, as well as some bi-lateral partners (*e.g.* Norway, Sweden, Germany and the United Kingdom), provide untied aid to Malawi. ■

HARMONISATION

DECADES OF DEVELOPMENT EXPERIENCE show that poor co-ordination of aid increases the cost for both donors and partner countries, and significantly reduces the value-added of aid. Harmonisation of aid delivery procedures and adoption of common arrangements help reduce duplication of effort and lower the steep transaction costs of managing aid. The Paris Declaration focuses on two dimensions of aid as a proxy for assessing overall harmonisation: the use of common arrangements within programme-based approaches (PBAs) and the extent to which donors and partner countries conduct joint missions and share analysis.

Malawi has improved substantially the number of joint missions and analytic work. However, this has been accompanied by an equally substantial increase in the total number of activities. Some progress has been made in increasing the use of the PBAs – more significant progress should be achieved by 2010, particularly if the various SWAPs currently under discussion are operationalised. Greater government leadership and co-ordination are critical to meeting the 2010 targets for harmonisation.

USING COMMON ARRANGEMENTS

Aid effectiveness is enhanced when donors use common arrangements to manage and deliver aid in support of partner country priorities. A sound mechanism for aid co-ordination can be described as one that builds on shared objectives and that reconciles, in a constructive manner, the various interests of stakeholders.

Indicator 9 assesses the degree to which donors work together by measuring the proportion of total ODA disbursed within PBAs. In practice, there are many different modalities for implementing PBAs, which operate at various levels. At one level, the partner country is responsible for defining clear, country-owned programmes (*e.g.* sector policy) and establishing a single budget framework that captures all resources (both domestic and external).

INDICATOR 8

How much aid is untied?

INDICATOR 9

At the second level, donors are responsible for taking steps to use local systems for programme design and implementation, financial management, monitoring and evaluation. Finally, partner countries and donors are jointly responsible for donor co-ordination and harmonisation of donor procedures. The 2010 target is that 66% of aid flows are provided in the context of PBAs.

In the 2008 Survey, 42% of aid to Malawi is reported as using PBAs. This is an improvement on the figure of 32% in the 2006 Baseline Survey, but still remains below the 2005 global average of 43%. Most donors, including for the two largest, have increased the proportion of aid that uses other PBAs. However, the proportion of use of PBAs in the form of budget support has declined between the two surveys (from 59% in 2005 to 39% in 2007). Aside from budget support, all PBA funding is associated with the health sector (SWAp for health and HIV/AIDS) which has the strongest thematic groups. These PBAs are supported by both pooled and parallel financing arrangements. The HIV/AIDS SWAp has a single co-ordinating authority and unified frameworks for action and for monitoring and evaluation. SWAp are also being prepared for education, water and sanitation, public sector management, food security and agriculture, and roads. The simultaneous development of sector strategies has slowed this process, as has the negotiation of joint financing agreements or memoranda of understanding involving different requirements for individual donors.

TABLE 31.6:
How much aid is
programme based?

	Programme based approaches (PBAs)			Total aid disbursed (USD m) d	2005 (for reference)	2007
	Budget support (USD m) a	Other PBAs (USD m) b	Total (USD m) c = a + b			
African Development Bank	0	1	1	25	0%	2%
BADEA	0	0	0	5	0%	0%
Canada	0	4	4	13	--	30%
European Commission	17	0	17	68	45%	25%
Germany	0	0	0	15	0%	0%
Global Fund	0	55	55	55	100%	100%
Iceland	--	--	--	--	0%	--
IFAD	0	0	0	2	100%	0%
IMF	0	0	0	17	--	0%
Japan	0	0	0	18	0%	0%
Kuwait	--	--	--	--	0%	--
Norway	8	12	20	48	32%	42%
OPEC Fund	--	--	--	--	0%	--
Sweden	0	10	10	13	68%	72%
United Kingdom	39	33	71	119	45%	60%
United Nations	0	7	7	25	0%	26%
United States	0	2	2	49	0%	5%
World Bank	21	10	31	45	35%	68%
Total	85	132	217	517	32%	42%

Both the government and its development partners must take measures for aid to be considered a PBA. Government must provide leadership and a nationally-owned framework for co-ordination; partners must harmonise and align their efforts behind this framework. This poses a challenge of mutual interpretation and assessment of progress. In the 2008 Survey, the government interpreted this Indicator more narrowly than in the 2006 Baseline Survey on the basis that government leadership over programmes was largely lacking. Attaining the 2010 target of providing 66% of aid through PBAs will be difficult, though not impossible, to reach; several of the larger donors are already close to or surpassing that figure. Development partners need to continue to increase the proportion of support administered through government and formally harmonise their procedures. Establishing a donor lead for each sector, through which other donors provide support, would expedite this process.

The extent to which progress is made in this area depends mainly on the government. It is a cause for optimism that several sector PBAs are currently under discussion. Still, sustaining this positive trend requires stronger government leadership (*e.g.* chairing thematic groups, establishing clear sector or thematic plans [including for capacity development] and allocating resources to these programmes of work) and more reliable country systems. Progress on this Indicator will contribute significantly to progress on other indicators.

CONDUCTING JOINT MISSIONS AND SHARING ANALYSIS

One of the most frequent complaints of partner countries is that donors make too many demands in relation to their limited resources: country authorities spend too much time meeting with donor officials and responding to their many requests. The Paris Declaration recognises that donors have a responsibility to ensure that, to the greatest extent possible, the missions and analytical work they commission are undertaken jointly – *i.e.* that the burden of such work is shared.

Indicator 10 measures the extent to which donors are merging their missions (Indicator 10a) and analytical work (Indicator 10b) at the country level – either with country partner authorities or amongst the donor community (or both). It calculates the proportion of missions to the country undertaken jointly (*i.e.* by more than one donor) and the share of country-analysis exercises undertaken on a joint or co-ordinated basis. The 2010 target is that 40% of donor missions to the field are conducted jointly and that 66% of country analytical work is carried out jointly.

The 2006 Baseline Survey reported that – of a total of 180 donor missions – only 24% were conducted jointly. This was slightly higher than the global average of 22%. The total number of missions reported in the 2008 Survey remained close to the 2006 Baseline survey at 178, with the UN accounting for the vast proportion of missions. The qualitative survey inputs suggest that donor missions remain largely individualised. There is considerable variation between donors, both with regards to the proportion of missions conducted jointly and in terms of progress or deterioration in this figure since the 2006 Baseline Survey.

INDICATOR 10a

TABLE 31.7:
How many donor missions are co-ordinated?

	Co-ordinated donor missions* (missions) a	Total donor missions (missions) b	2005 (for reference)	2007 c = a / b
African Development Bank	1	23	33%	4%
BADEA	0	0	--	--
Canada	1	18	--	6%
European Commission	1	5	67%	20%
Germany	7	11	0%	64%
Global Fund	2	3	0%	67%
Iceland	--	--	0%	--
IFAD	6	6	45%	100%
IMF	0	3	--	0%
Japan	0	8	0%	0%
Kuwait	--	--	0%	--
Norway	0	2	100%	0%
OPEC Fund	--	--	--	--
Sweden	0	1	100%	0%
United Kingdom	16	23	64%	70%
United Nations	9	24	78%	38%
United States	0	10	--	0%
World Bank	18	41	14%	44%
Total	46	178	24%	26%

* The total of co-ordinated missions was adjusted to avoid double-counting in 2005, where a discount factor of 35% was applied.

INDICATOR 10b

For indicator 10b, Malawi reports steady progress on this Indicator, moving from 60% in the 2006 Baseline Survey (which was significantly above the global average of 42%) to 61% in the 2008 Survey. This suggests that the 2010 target of 66% is close to being achieved. It should be noted, however, that the total number of activities has increased dramatically from 35 to 99, with almost 80% of the total number of analyses accounted for by just three donors. Malawi reports several examples of joint activities since 2006: two government-led joint country programme reviews (JCPRs); capacity assessments in the health and education sectors; the annual review by the CABS group of budget support doors; and the PEFA assessment.

TABLE 31.8:
How much country analysis is co-ordinated?

	Co-ordinated donor analytical work* (analyses) a	Total donor analytical work (analyses) b	2005 (for reference)	2007 c = a / b
African Development Bank	1	2	100%	50%
BADEA	0	0	--	--
Canada	1	1	--	100%
European Commission	4	4	100%	100%
Germany	4	5	100%	80%
Global Fund	0	1	--	0%
Iceland	--	--	--	--
IFAD	0	0	100%	--
IMF	0	0	--	--
Japan	2	2	0%	100%
Kuwait	--	--	--	--
Norway	1	2	100%	50%
OPEC Fund	--	--	--	--
Sweden	0	0	50%	--
United Kingdom	13	20	63%	65%
United Nations	20	25	100%	80%
United States	31	34	0%	91%
World Bank	4	4	67%	100%
Total	61	100	60%	61%

* The total of co-ordinated joint analytical work was adjusted to avoid double-counting in 2005, through the application of a discount factor of 25%.

Progress on Indicators 10a and 10b requires action on the part of both donors and the government. Donors must reduce and co-ordinate their activities through measures such as establishing joint criteria for assessment of country systems. Improving donor co-ordination of missions also requires more strident action by the government. The DAS includes a target that, by the end of 2008, all development partners active within a given sector will conduct jointly all missions relating to sector-wide issues. Also, that 50% of all missions be conducted jointly by four or more development partners by 2011. Achieving these targets, and bolstering the number of joint analytic activities, requires the government to establish robust co-ordination mechanisms. At a minimum, the government's development calendar needs to be approved and enforced, and a clear harmonisation action adopted. ■

MANAGING FOR RESULTS

THE PARIS DECLARATION CALLS ON donors and partner countries to make a joint commitment to managing for development results – *i.e.* to manage resources according to desired results. This implies defining desired results and measuring progress toward them, as well as using information on results to improve decision making and performance. It also implies strengthening capacity to undertake such management and helping to increase the demand for a focus on results (*i.e.* adopt a results-based monitoring framework).

Indicator 11 utilises data collected as part of the World Bank's review on *Results-Based National Development Strategies: Assessments and Challenges Ahead*. The review focuses on three particular aspects of a robust results-based monitoring framework: the quality of the information generated; stakeholder access to the information; and the extent to which such information is utilised within a country-level monitoring and evaluation system.

The assessments are expressed in scores running from A (high) to E (low), with B representing a “largely developed results-based monitoring framework.” The 2010 target is to reduce by one-third the proportion of countries lacking transparent and monitorable results-based monitoring frameworks (*i.e.* reduce by one-third the number of countries not attaining at least a B rating).

In the 2006 Baseline Survey, Malawi, along with 59% of other participating countries, received a C rating. The 2006 country chapter notes that the government adopted a national statistical development strategy to improve the quality and availability of poverty-related data and was strengthening the monitoring and evaluation system associated with the NDS.

Malawi again receives a C rating in the 2008 Survey suggesting that significant action to further strengthen or implement existing systems has not taken place in relation to all three criteria for managing results. Quality of development information remains a concern and stakeholder access to information is largely facilitated by civil society organisations, in particular the Malawi Economic Justice Network. However, efforts have been made to improve monitoring and evaluation of the MGDS. The 2005/06 JCPR set a baseline for measuring progress against the MGDS in several sectors and made recommendations for

INDICATOR 11

Do countries have results-based monitoring frameworks?

improving performance. The first MGDS Annual Review was completed in early 2008 and assesses fiscal year 2006/07. This replaces the JCPR – and seeks to improve on it by providing more support and guidance to sectors to improve the quality of their inputs and ensure that they report on progress on recommendations from the previous review. Delays to the Annual Review, as well as uneven quality of review outputs across sectors, have impacted the feedback of results into the policy process. More needs to be done across many areas in order for Malawi to move up to a B rating and meet the 2010 targets. Given capacity constraints, this will require support from development partners. ■

MUTUAL ACCOUNTABILITY

INDICATOR 12

Do countries have reviews of mutual accountability?

THE PARIS DECLARATION RECOGNISES that for aid to be truly effective, stronger and more balanced accountability mechanisms are required at all levels. In particular, aid is more effective when both donors and partner country governments are accountable – to their respective publics and to each other – for the use of resources and management to achieve development results. The Paris Declaration calls for donors and partner countries to jointly assess (through existing country-level mechanisms) mutual progress in implementing agreed commitments on aid effectiveness, including commitments made under the Paris Declaration.

Indicator 12 is concerned with the specific question of whether there is a country-level mechanism for mutual assessment of progress on the partnership commitments arising from the Rome or Paris Declarations, or from local harmonisation and alignment plans. The 2010 target is for all partner countries to have in place such mechanisms.

Malawi has in place country-level mechanisms by which government and its development partners can jointly assess progress on improving aid effectiveness. The DAS defines key actions for both the government and its partners to implement the Paris Declaration, including an action plan and monitoring framework. The government established an Independent Monitoring Group (IMG), consisting of two consultants, to undertake a baseline assessment of the aid relationship in 2007. Approval of this report is needed before a forward-looking plan can be agreed upon. The MGDS annual review also includes a section for measuring progress against the Paris Declaration indicators within each sector. Meaningful mutual accountability demands that the government and development partners use the findings of such reviews to inform and reform the way they work. ■

PROGRESS SINCE 2005 AND PRIORITIES FOR 2010

MALAWI HAS MADE SOME PROGRESS in relation to many of the 12 indicators of aid effectiveness, and three have already been achieved. Accelerated progress is now needed for Malawi to reach its 2010 targets. Strong foundations have been established – including the DAS, the MGDS and its Annual Review, the PFEM Action Plan and the development of several SWAs. The priority is now for the government and its development partners to ensure that these mechanisms are fully implemented. This implementation should support better alignment of sector plans with the MDGS and national budget, and also ensure that the recommendations from the MGDS Annual Review lead to appropriate reform. This will require greater government leadership, as well as combined efforts by donors and the government to address Malawi's continuing and severe capacity constraints, particularly at the district level. ■

SUMMARY
TABLE 31.9

INDICATORS		2005 REFERENCE	2007	2010 TARGET
1	Operational development strategies	C	C	B or A
2a	Reliable public financial management (PFM) systems	3,0	3,0	3,5
2b	Reliable procurement systems	Not available	C	B
3	Aid flows are aligned on national priorities	54%	64%	85%
4	Strengthen capacity by co-ordinated support	47%	52%	50%
5a	Use of country PFM systems	55%	50%	No target
5b	Use of country procurement systems	35%	35%	Not applicable
6	Strengthen capacity by avoiding parallel PIUs	69	51	23
7	Aid is more predictable	58%	58%	79%
8	Aid is untied	97%	91%	More than 97%
9	Use of common arrangements or procedures	32%	42%	66%
10a	Joint missions	24%	26%	40%
10b	Joint country analytical work	60%	61%	66%
11	Results-based monitoring frameworks	C	C	B or A
12	Mutual accountability	Yes	Yes	Yes

CONTRIBUTORS

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ACRONYMS

AER	Aid Effectiveness Review (World Bank)
CABS	Common Approach to Budget Support Performance (CABS) Assessment Framework
CPIA	Country Policy and Institutional Analysis
DAS	Development Assistance Strategy
DFID	Department for International Development (UK)
EC	European Commission
GNI	gross national income
IDA	International Development Association (World Bank)
IFMIS	integrated financial management information system
JCPR	joint country programme review
MCC	Millennium Challenge Corporation (United States)
MGDS	Malawi Growth and Development Strategy
NDS	national development strategy
ODA	official development assistance
ODPP	Office of the Director of Public Procurement
PBA	programme-based approach
PEFA	public expenditure and financial accountability
PFEM	Public Financial and Economic Management (Action Plan, Malawi)
PFM	public financial management
PIUs	parallel implementation units
PPP	purchasing power parity
SWAp	sector-wide approach
TC	technical co-operation
UN	United Nations