CHAPTER 4

Monitoring IFI and Donor Support for Poverty Reduction Strategies: Malawi

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I Introduction

This chapter presents the third of the country reports prepared under the Commonwealth Secretariat project to monitor implementation of the Poverty Reduction Strategy (PRS) process in Commonwealth countries.

In preparing the report, we drew on a number of previous studies and held a first round of discussions in Malawi with representatives of government, the private sector, civil society and development partners, including officials of the IMF and World Bank. We focused on a set of key issues and questions developed as a template for the series of country reports. A preliminary draft report and its preliminary findings and suggestions were discussed at a workshop held in Lilongwe on 7 February 2006. This final report reflects that discussion and also takes account of subsequent developments.

The chapter is organised as follows. Section II describes the Poverty Reduction Strategy (PRS) process as it has evolved and continues to evolve in Malawi, through the period of the first Malawi PRS (MPRS), leading up to preparation of the new Malawi Growth and Development Strategy (MGDS). Section III examines issues to do with the strategy itself and its implementation. Section IV discusses the quality of support being given by development partners. Section V summarises our main findings and recommendations.

II Evolution of the PRS process in Malawi

The Malawi Poverty Reduction Strategy Paper (MPRSP) was developed in the early 2000s at the request of the Bretton Woods Institutions (BWIs) so that the country could benefit from debt relief under the enhanced heavily indebted poor countries (HIPC) initiative, a poverty reduction and growth facility arrangement and other concessionary assistance. The MPRSP has two key elements: a set of government policies and priorities, both overall and for individual sectors; and broad expenditure allocations, covering both domestic and donor funding. Its purpose is to try and ensure that scarce resources are allocated in accordance with government policies and priorities for poverty reduction. In varying degrees, the MPRSP drew upon and learnt from a number of previous national development strategies. The 1987–1996 Statement of Development Policies, which was developed through extensive consultations within government, contained a profile of the poor, the causes of poverty and the measures for addressing the problem of poverty. In the early 1990s, the government started implementing the Social Dimensions of Adjustment Project to minimise the adverse effects of Structural Adjustment Programmes (SAPs) on the poor and strengthen the capacity for integrating the poor in the national development process. In 1995, the government published a policy framework for the Poverty Alleviation Programme, which was developed through an internal consultation process. It identified groups that were considered poor and policies for alleviating poverty.

Vision 2020 followed the Poverty Alleviation Programme in 1998. For the purpose of creating the vision, the Malawi government set up a National Core Team (NCT) comprising ten persons from the private sector, the government and the University of Malawi to manage the process. As it was intended as a shared vision incorporating people's aspirations, the government chose a participatory process to formulate this long-term perspective development strategy. This process included two workshops, a period of wider consultation with Malawians and a national conference to discuss the draft Vision, leading to the final adoption and launch of the Malawi Vision 2020 document.

However, neither the Poverty Alleviation Programme nor Vision 2020 was followed by concrete or fundable action plans. Upon the introduction of the PRSP concept, both the policy framework of the Poverty Alleviation Programme and the Vision 2020 became source documents, although it was observed that no thematic working group used them seriously as inputs into the formulation of the PRSP (Jenkins and Tsoka, 2003). Before preparing a full PRSP, the BWIs requested Malawi to prepare an interim PRSP (I-PRSP). Between them, the National Economic Council and the then Ministry of Finance and Economic Planning prepared the I-PRSP and submitted it in December 2000 to enable an early start to debt relief. Essentially, the I-PRSP was prepared in a hurry without wide consultation outside official circles.

Preparation and content of the MPRSP

The institutional structure that guided the preparation of the Malawi PRSP was dominated by the government. A Technical Committee was set up to manage the process; it was composed of officials from the Ministry of Finance and Economic Planning, the National Economic Council (the chair) and the Reserve Bank of Malawi. It reported to a National Steering Committee comprising principal secretaries from key ministries which, in turn, reported to a Ministerial Committee comprising the Minister of Finance, Director-General of the National Economic Council, the Governor of the Reserve Bank and the Minister of Agriculture (the chair). Broad participation was allowed at the level of developing the MPRSP. The development of sector strategies was given to 21 Thematic Working Groups (TWGs), which were composed of relevant officials/representatives from government, civil society, the private sector, parliamentary committees, statutory bodies, international organisations and donors. The TWGs made submissions to the Technical Committee on the basis of which it drafted the PRSP, along with two representatives of civil society and a representative of a research institution.

The highlights of the consultation process were district workshops, which were facilitated by members of the Technical Committee and some members of the TWGs and held from 5–23 February 2001. The purpose of these workshops was to explain the PRSP process, discuss the government's proposed strategy and to discuss the prioritisation of issues for poverty reduction in the districts. Participants were local members of parliament, councillors, politicians, traditional authorities, local non-governmental organisations and other influential people in the districts. It appears that altogether 1,193 people attended. The gender distribution is not known exactly since most of the district lists did not distinguish between men and women. In the few districts that did so, the number of women ranged from one to six, far below the number of male participants.

The causes of poverty and strategies for addressing them as summarised in the MPRSP can be found in table 4.1, below.

The information in this table is misleading to the extent that it conveys the impression that poverty in Malawi is caused only by factors that constrain the productivity of natural, human and physical capital and of supporting public institutions. The characterisation of the poor and the contents of the poverty-reduction programme in the MPRSP indicate that it is recognised that poverty is also caused by: inadequate use of science and technology; inadequate financial and social capital; unequal distribution of political power; limited market opportunities; and vulnerability to exogenous factors, such as droughts, floods and other natural disasters, and to economic instability, among other things. The main goal of the MPRSP was to achieve sustainable poverty reduction through empowerment of the people. The MPRSP saw the poor as active participants in economic development. It was built around four groups of activities and policies, known as pillars, and a mechanism for monitoring and evaluation:

- **Sustainable pro-poor growth** – economically empowering the poor by ensuring access to credit and markets, skills development and employment generation (Pillar 1).
- **Human capital development** – ensuring that the poor have the health status and education to lift themselves out of poverty (Pillar 2).
- **Improving the quality of life of the most vulnerable** – providing sustainable safety nets for those who are unable to benefit from the first two pillars (Pillar 3).
- **Good governance** – ensuring that public and civil society institutions and systems protect and benefit the poor (Pillar 4). In addition, there are four issues that cut across the four pillars: HIV/AIDS, gender, environment, and science and technology.
- Involvement of all stakeholders in implementation with the Ministry of Finance co-ordinating public expenditure, National Statistical Office co-ordinating all outcomes and impact monitoring across all sectors, and the National Economic Council serving as a focal point for poverty analysis, documentation and dissemination of poverty data.

The Malawi PRS process was described as involving selective participation at the beginning while being broadly open at the end. However, stakeholders raised questions about the selection of those who took part, the commitment of those who were invited to take part and the quality of their participation. They also raised questions about the adequacy of representation of special interest groups and of women, who were marginalised in district consultations. Other problems with the Malawi PRS process relate to the institutional set-up and the time frame. The Technical Committee did not include non-official stakeholders; both that committee and the drafting committee were dominated by economists. The commitment of committee members to the process declined with time, because they were not released for the full time of the exercise. Some of the TWGs lacked technical back-up, so their work suffered. Others were inactive. The quality of

Table 4.1: Causes of poverty and proposed strategies

Causes	*Strategies*
Land related	
Loss of soil fertility due to rapid environmental degradation	Promote the use of organic fertiliser; distribute free inputs to the most vulnerable
Rapid decrease in land access due to population pressure	Support implementation of the draft land policy; address the problem of small landholding sizes and landlessness through land redistribution, family planning, soil conservation and mechanisation and use of organic fertilisers
Labour related	
Low levels of education	Instil a business culture in smallholder farmers; improve teaching/working and learning conditions for teachers and pupils, respectively; increase access to education for girls, orphans and children with spe cial needs; increase access to adult literacy classes for those who are out of school; increase access to public secondary schools for all including girls, children with special needs and orphans
General poor health	Provide an essential health care package to all; promote community-based nutrition interventions; strengthen food and nutrition programmes
The devastating effects of the HIV/Aids pandemic	Ensure that pupils and youth have the knowledge and skills to avoid HIV infection and are provided with counselling skills; prevent infection among the general public; improve management of HIV/AIDS-related conditions; mainstream HIV/AIDS in all sectors and at all planning levels and develop sound support systems for HIV/AIDS interventions
Lack of or limited off-farm employment	Ensure access to skills development; promote self employment in the informal sector; increase the quality, productivity and marketability of indigenous skills
Rapid population growth	Encourage family planning
Gender inequalities	Conduct gender mainstreaming campaigns in all sectors and at all levels of planning; conduct surveys on gender-based biases in all sectors and social life and then develop policy and programmes to remove gender inequalities
Capital and technology	
Lack of access to credit	Increase access to credit for farmers; reduce base interest rate; expand micro-finance coverage; improve quality of micro-finance supply
Inappropriate technology	Conduct demand-driven research to develop easily adoptable technologies; promote development of local agro-storage and processing industry; increase access to draught animals and animal-drawn implements; increase access to tractor hire; introduce technologies to facilitate income generation
Supporting institutions	
Weak institutional structures	Review and establish realistic and equitable remuneration in the public sector; improve accountability of civil servants for results; establish mechanisms for citizens to hold the civil service accountable for its actions

some of the submissions was poor (Tsoka, 2004). From the official launch of the exercise in January 2001, the government wanted the process to be completed in six months. Civil society considered this to be too short a period and so pressed for more time, which was granted. The process dragged on until April 2002 (see table 4.2) as some TWGs were slow. The speed adopted by the Technical Committee affected participation, as meetings were called at short notice. Furthermore, the time extension did not necessarily improve participation.

Integration of the PRSP into the planning and budgeting systems

According to a recent assessment, attempts to integrate the MPRSP into the planning system at ministerial level have been made, but the former has not been fully integrated into the latter (Chirwa, 2005). More specifically, there is in most cases little evidence that the plans of the sectoral ministries are conforming to the MPRSP matrix. Furthermore, ministries do not report on issues that are in the MPRSP matrix, especially if they are not receiving pro-poor expenditures. The study attributed limited penetration of the MPRSP process in sector ministries to capacity constraints.

According to the PRSP, in order to be implemented, the document must be translated into the medium-term expenditure framework (MTEF) and the budget at all levels,

Table 4.2: Chronology of the PRSP process in Malawi

Date	*Activity*
October 2000	Issuance of Issues Paper by the Technical Committee
December 2000	Malawi reaches the decision point under the enhanced HIPC initiative
January 2001	Official launch of PRSP process
January 2001	Launch of Thematic Working Groups (TWGs) at the Malawi Institute of Management. Clarification of roles and discussion of terms of reference (ToR)
February 2001	District consultations in all 27 districts, facilitated by the Technical Committee and some TWG members
April 2001	Circulation of first PRSP draft
May 2001	Workshops for comments on first draft by Technical Committee, experts, civil society and TWGs, and charting of the way forward
May 2001	Stakeholders' meeting on draft PRSP document
July 2001	Sharing of TWG costing experience and addressing problems
August 2001	Status reports by TWGs and charting the way forward
September 2001	Media campaign
October 2001	Workshop for comments on first draft by non-government partners
October 2001	Comments on first draft by members of parliament
Nov–Dec 2001	Finalisation of third draft by drafting team
December 2001	Discussion of third draft by principal secretaries
January 2002	Discussion of written submissions/comments by donors
March 2002	Cabinet discussion of PRSP document
March 2002	Submission of final civil society comments, co-ordinated by the Malawi Economic Justice Network (MEJN)
April 2002	Final draft completed, printed and circulated
April 2002	National launch of PRSP document

Source: Malawi Government (2002), Table A1.1

and the budget itself must be fully implemented. Although attempts were made to develop a MTEF approach to budgeting – starting with a few ministries in 1996/97 – it has never been an operational mechanism, with the figures beyond the year of the budget having little or no significance. However, at the outset of the PRSP, attempts were made to restructure expenditure, both between and within sectors, so that sufficient resources were directed towards higher priority sectors/activities, while cutting back on those of lower priority or dropping them altogether. Ministries were also required to improve their financial accountability and transparency. While some attempts have been made to integrate the PRSP into the budget system, particularly at central government level, and the budget system incorporates pro-poor expenditures that relate to funding commitments in the PRSP, it has been observed that sectoral budgets are not funded according to the PRSP and that budgets still focus on inputs rather than relating to outputs. At local government level, the situation is worse with people being ignorant of PRSP indicators and programmes needed to achieve PRSP outputs (Chirwa, 2005). Each of the two major reviews of the MTEF carried out during the 1999/2000 and 2000/2001 fiscal years concluded that the framework had failed to meet its objectives. Financial accountability and transparency were found to be inadequate. Ministries had only partly practised activity-based or programme budgeting and line-budgeting had been reasserted. In terms of its potential impact on PRSP implementation, the most important shortcoming was that patterns of actual expenditure often bore little resemblance to the budget itself. Expenditure ceilings were regularly violated by line ministries and other government agencies. In addition, ministries continued to allocate the largest amount of resources to personal emoluments and non-essential items of expenditure, leaving materials and transport underfunded. Effectively, it is now generally accepted that the MTEF was never operational and more recently the government has concentrated its efforts on annual expenditure management and control.

Progress in implementing the MPRSP: Annual Progress Reports

Implementation of a PRSP entails ensuring that actual public sector expenditure, both government and donor funded, is consistent with PRSP allocations, and that the policies described in the PRSP are carried out. Implementation of the Malawi PRSP started in 2002 and ended in 2005. The first progress report covering the 2002/2003 fiscal year concluded that the implementation of the MPRSP had been unsatisfactory as actual funds allocated for pro-poor activities had been substantially lower than those envisaged in the strategy paper (see table 4.3). One of the main reasons for this was that Malawi's economic programme supported by the IMF's Poverty Reduction and Growth Facility (PRGF) had been off track since November 2001. This led to suspension of external budgetary assistance and to increased recourse to domestic borrowing to cover large budget deficits. As a result, the stock of domestic debt increased from 26.017 billon Malawi kwachas (MK) at the end of June 2002 to MK741 billion at the end of June 2004, before falling slightly to MK564 billon by the end of June 2005. The debt service needs of this domestic debt required more resources, so the resources available for financing pro-poor activities were reduced. The data in table 4.3 also show that some pro-poor activities were not even allocated resources, whereas non-priority activities received more resources than were envisaged in the MPRSP. The first progress report did not analyse in detail the implementation of the sectoral and policy reforms identified in the MPRSP.

Table 4.3: Comparison of shares of the allocation of resources by pillar

Activity	*2002/2003 MPRSP*	*2002/2003 budget*	*2003/2004 MPRSP*	*2003/2004 budget*	*2004/2005 MPRSP*	*2004/2005 budget*
Total budget	100.0	100.0	100.0	100.0	100.0	100.0
Total MPRSP*	70.1	61.1	74.3	50.2	78.6	60.0
Pillar 1	19.4	15.5	21.4	12.9	26.6	27.8
Pillar 2	33.5	34.4	34.9	25.6	34.2	24.7
Pillar 3	2.9	4.4	4.1	7.0	4.6	3.7
Pillar 4	9.8	6.8	8.6	4.8	7.9	3.8
Cross-cutting	4.0	0.0	4.6	0.0	4.9	0.0
Monitoring & evaluation	0.5	0.0	0.6	0.0	0.5	0.0
Statutory	24.2	32.5	20.5	24.9	16.9	25.4
Statehood	5.7	6.3	5.2	24.9	4.4	14.6

Source: Botolo, B, 'Assessment of Poverty Reduction Strategy in Africa: The Case of Malawi'.
* Totals may not add due to rounding.

Many of these reforms were initiated, but the pace was slower than envisaged in the MPRSP. Examples of this include land policy and privatisation. Nonetheless, substantial progress was reported in tracking pro-poor expenditures, preparing and approving the micro-finance policy, developing the wage policy and developing and passing the new Public Finance Management, Public Audit and Public Procurement Bills.

The second annual progress report concluded that implementation of the MPRSP during the 2003/2004 fiscal year was characterised by policy slippages, particularly in the field of fiscal management, and underfunding of pro-poor activities as compared to the MPRSP. It noted that fiscal indiscipline led to increases in domestic debt, interest rates and inflation. This strained relations with donors, resulting in reduced budgetary assistance. Consequently, the share of resources allocated to pro-poor activities was much lower than planned in the MPRSP. The new government, which took office in May 2004, successfully adopted measures to restore fiscal discipline. An inherent problem with pro-poor expenditures (PPEs) was that since they were supposedly protected and hence could not suffer a cut in budgetary resources, ministries and cost centres prioritised too many activities (including those that were not relevant) as being pro-poor. Hence, there was misallocation of resources. On top of that, ministries are known to have been diverting funds from the identified pro-poor activities. At the same time, resources were sometimes left unused, because cost centres did not know or were not sure how HIPC funds should be utilised. The third annual progress report for the 2004/2005 fiscal year noted that expenditure on protected pro-poor activities had been less than budgeted, except under Pillar 1 (sustainable pro-poor growth).

Experience with MPRSP outcomes

It is probably too early to make a proper assessment of the success or failure of the Malawi PRSP in terms of final results. For this reason, this part of the report focuses on the process and intermediate outcomes. In this regard, what are some of the achievements to date? Civil society groups have expressed the view that the MPRS process has stimulated debate in the country on poverty issues and increased interaction between civil society on the one hand, and the government and donors, on the other hand. With respect to resource inflows, the expected increase in external financial support did not materialise during the first two years of MPRSP implementation. It was assumed that the pledged sum of about US$191.32 million would be received; however, the actual sum received was about US$110.05 million. The shortfall in external financial receipts was in part a consequence of poor macroeconomic management (as noted above), but also further contributed to macroeconomic instability in terms of the unstable exchange rate caused by inadequate supply of foreign exchange, and high interest rates caused by excessive borrowing on the money markets by the government to cover budget deficits.

In terms of growth, the MPRSP assumed that the rate of economic growth would average 4.2 per cent during the implementation period, spurred by the agricultural sector. In each of the three years, the rate of economic growth averaged 3.9 per cent per year, below the average requirement of 6 per cent needed to reduce poverty. The 3.9 per cent would have been sufficient if it had originated in smallholder agriculture, in which the majority of Malawi's poor are engaged. Unfortunately, it did not originate there (see table 4.4).

As regards inflation, during the first year of the Malawi PRSP implementation the outturn was lower than the MPRSP target (see table 4.5). This was made possible by the introduction of strict government expenditure control measures. The following year saw the actual inflation rate exceed the MPRSP target because of laxity in government expenditure control. In the final year of MPRSP implementation, the actual rate of inflation again exceeded the target. This was so not because of weaknesses in expenditure control, but because of drought-related food shortages. With respect to fiscal operations, actual total government revenue as a percentage of GDP exceeded the target every year, except

Table 4.4: Real gross domestic product percentage growth rates by sector (2000–2005)

Sector	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*
Agriculture	5.3	–6.0	2.7	5.9	2.7	–6.7
Small-scale	1.6	–4.8	–0.4	12.4	–1.4	–7.4
Large-scale	21.0	–10.3	14.2	–15.4	20.5	–4.2
Mining and quarrying	10.8	7.5	–38.7	18.6	–11.6	40.1
Manufacturing	–3.0	–14.2	–0.1	3.2	6.9	3.6
Electricity and water	10.2	–7.0	5.8	2.4	7.5	5.8
Construction	–2.2	–4.7	14.1	13.3	10.9	17.1
Distribution	–0.3	1.1	1.6	–0.8	6.9	10.0
Transport and communications	–4.2	–0.6	17.5	8.3	7.2	7.7
Financial and professional services	2.0	–3.0	6.7	6.1	7.3	9.7
Ownership of dwellings	2.6	2.8	2.8	2.8	2.8	2.8
Private, social and community services	2.7	2.9	2.9	2.9	2.9	2.8
Producers of government services	–9.9	0.8	–0.5	1.7	2.3	2.4
Unallocable finance charges	2.4	–0.3	13.5	9.6	7.5	10.0
Real GDP growth at factor cost	0.8	–4.1	2.1	3.9	4.6	2.1

Source: Malawi Economic Report 2005

Table 4.5 Planned macroeconomic targets against outcomes

Target	*2002/2003 MPRSP*	*2002/2003 Outturn*	*2003/2004 MPRSP*	*2003/2004 Outturn*	*2004/2005 MPRSP*	*2004/2005 Outturn*
Real GDP growth rate	3.0	2.9	4.5	4.5	5.2	4.4
Inflation rate	11.5	9.6	5.0	11.6	4.4	15.7
TRG/GDP	26.59	25.87	23.58	34.96	25.16	38.01
TGE/GDP	26.46	33.03	23.36	47.87	25.34	41.54
Deficit/GDP	0.13	–7.15	0.22	–12.92	–0.18	–3.53

N.B. TRG = total government revenue; TRE = total government expenditure; and GDP = gross domestic product
Sources: MPRSP and Economic Report 2005

during the first year of MPRSP implementation. In contrast, actual total government expenditure as percentage of GDP exceeded the target during the entire period of MPRSP implementation. In determining the overall fiscal balance, the MPRSP assumed a surplus in each of the first two years. It was hoped that the surplus would have a positive impact on the economy. As it turned out, deficits were incurred. The third year was less ambitious, but the deficit turned out to be larger than the MPRSP target. In terms of the ultimate objective of poverty reduction, the evidence is that the incidence of poverty hardly changed. Bearing in mind that the measurement of poverty is subjective and subject to statistical errors, the results of the 1998 and 2005 Integrated Household Surveys indicate that the proportion of the population living below the national poverty line fell slightly from 53.9 per cent to 52.4 per cent. There was also a significant increase in the incidence of poverty in urban areas. In rural areas, there was a slight decline in the Central and Southern Regions, but an increase in the Northern Region. The draft comprehensive review of the MPRS noted that the degree of implementation varied across sectors, with many sectors attaining average or below average implementation. In agriculture, food security had not been achieved, but there was an improvement in livestock production. There was also an improvement in most of the non-income (for example, education, health, water and sanitation) measures of poverty over the three years 2002 to 2005.

Malawi Economic Growth Strategy and Malawi Growth and Development Strategy

The Malawi Economic Growth Strategy (MEGS) was formulated from 2002, and was completed and finally launched in 2004. MEGS aimed to complement the MPRS by stimulating private-sector growth and ensuring that the poor are key participants and beneficiaries of economic growth. It owed its origin to a number of missing links in the MPRSP, about which both the government and the private sector were concerned. The first is that the strategies and actions in the MPRSP were insufficient to achieve sustained annual economic growth of at least 6 per cent and thus contribute to poverty reduction. The second is that the 2002/2003 MPRSP review revealed that housing and land policies, among others, were not adequately articulated to effectively contribute to broad-based economic growth. The MPRSP contained a pro-poor growth strategy for stimulating economic growth in ways that directly attack poverty, but it did not articulate the role of the private sector sufficiently. Its focus was on the role of micro- and small-scale enterprises. At the same time, while the MPRSP identified certain sectors in terms of their growth potential, it did not emphasise eliminating obstacles to economy-wide growth. Part I of MEGS sets out the background to the strategy, the framework for delivering growth and the strategy for dealing with the macroeconomic constraints that affect enterprises. Part II analyses the main sectors of the economy, and the strategies for the growth of the core and other sub-sectors of the economy. There is also a review of key public institutions that support and regulate the private sector.

The process of developing MEGS was less consultative than the one employed to develop the MPRSP. Because a broad spectrum of stakeholders were consulted during the preparation of the latter, it was not considered necessary to go through a new round of consultations, which, in any case, was considered to be resource intensive and expensive. The Director-General of the then Department of Economic Planning and Development (DEPD) co-ordinated the development of the MEGS. A taskforce, comprising personnel from key economic ministries and institutions and supported by a team from the DEPD and the National Action Group Secretariat, was established. There was a series of consultations with the private sector and other key public-sector organisations. Thereafter, the document was considered by the National Acton Group, which comprises key economic ministers, heads of donor organisations and leaders of the private sector. Finally, the document was submitted to the cabinet for approval before implementation.

At the time of writing this case study (August 2006), the government was in the process of replacing the MPRSP and MEGS with a new strategy called the Malawi Growth and Development Strategy (MGDS), which was being prepared under similar institutional arrangements. MGDS draws upon and combines critical issues in the Vision 2020, the Millennium Development Goals (MDGs) and other development strategies and is consistent with the vision of President Bingu wa Mutharika. Like the MEGS, the MGDS focuses on achieving strong sustainable economic growth that will enable Malawians to create their own wealth through economic empowerment. The strategy is comprehensive, with five pillars (the original four pillars in the MPRSP and infrastructure, emphasis on which is highly desirable). Improving food security, so as to ensure that Malawi is a hunger-free nation, features prominently. Attempts have been made to incorporate the cross-cutting issues of HIV/AIDS, gender, environment and science and technology into the five pillars. Key stakeholders, principally the private sector, civil society and donors, have been consulted. However, the drafts of the MGDS were found to suffer from some of the weaknesses that we identified with the MPRS, including insufficient selectivity and prioritisation. We hope that some of these issues will be addressed as the MGDS is further developed and implemented, as discussed below. Given the capacity constraints in government, absence of a functioning medium-term expenditure framework (MTEF), the vulnerability of the Malawi economy to exogenous shocks and uncertainties about future aid flows, we also believe it will be important to see the MGDS as a broad statement, with a good deal of flexibility about implementation, and not as a multi-year financial or expenditure plan.

III Quality of the strategy and its implementation

This section seeks to answer a set of questions about the nature and quality of the Poverty Reduction Strategy process in Malawi. It focuses on the whole process – including the PRS documents, the process of drawing them up and strategy implementation, including the link with budget and other government processes – not just on the strategy documents themselves. The section also looks at the original MPRSP, and the ways it was implemented and evolved over time, and also at the new Malawi Growth and Development Strategy (published in draft form at the time of writing) that will guide policy over the years ahead.

Ownership

Ownership is a complex issue. There is ownership by officials in the central economic ministries; ownership at the highest political level, by cabinet and the president; ownership by officials and ministers in the key implementing ministries; ownership by those responsible for implementation at the local and district level; national ownership as endorsed by national democratic processes through parliament; ownership by other stakeholders, including the private sector and civil society; and ownership – or at least a degree of understanding of the strategy – among the general population. In different ways all these forms of ownership are likely to be relevant to success or failure in implementing a national strategy. Both comments made to us during our research and experience with implementation over the three years 2002–2005 suggest that for most of these dimensions, there was relatively weak country ownership of the original MPRS, adopted in 2002. It was widely seen, both within government, (other than in the core ministries that led design of the strategy) and outside it, more as a process undertaken to meet donor and BWI requirements for HIPC debt relief than as a development strategy deriving from domestic processes. This is also evident from the record in implementation. Some priority was given in successive budgets to protecting social expenditures, as the strategy required, although this appears to have been seen more as something donors required, less as a national priority. Critically, however, the lack of ownership at a political level was demonstrated by decisions to depart significantly from priorities set out in annual budgets. It has been suggested that the figures given in table 4.3 may overstate the extent of departure from MPRS objectives, but even so it is clear that the departure was substantial. Donors initially accepted the MPRS as a basis for their support, but then suspended support as it became clear it was not being implemented – illustrating the problems of adopting a strategy as a framework for donor support when there is insufficient national ownership.

Certainly there was a degree of ownership by the small number of officials in central departments who drew up the original strategy. The team responsible – the MPRS Technical Committee and the National Steering Committee of principal secretaries to which it reported – did a good job in preparing what appeared to be a coherent strategy, which was approved by cabinet. Although sector and implementing ministries made considerable contributions to the process through the Technical Working Groups, final decisions on content of the strategy were made by the core drafting team, subject to approval by the Technical and Steering Committees. For this and other reasons, it appears that outside the core team even the key sector and implementing ministries did not, initially at least, feel wholly part of the process, although they appear to have become more engaged over the years of implementation. At the time of writing, only very few ministries – possibly only the Ministry of Health – had fully aligned their strategies with the MPRS (and since the health strategy predated the MPRS, it is more accurate to say that the MPRS incorporated the ministry strategy). Moreover, understanding about what the strategy seeks to achieve appears to be extremely limited where in some ways it matters most – at the district level, which is responsible for so much of the implementation. This is partly due to the very limited outreach carried out by central government.

Outside of government, no formal parliamentary approval is required, although members of parliament were involved in discussions leading to up to the MPRS, and there was a parliamentary workshop in October 2001. Somewhat paradoxically, it seems that the group with the strongest sense of ownership of the MPRS may have been civil society. The consultation process in drawing up the MPRS was extensive, and while, as noted in section II, there were some weaknesses and the relatively well-organised civil society organisation (CSO) movement in Malawi feels that its inputs were not fully reflected in the final document, evidence suggests that that civil society feels a stronger sense of ownership than any other group. Certainly, CSOs have put and are putting much effort into spreading knowledge of the MPRS among groups responsible for its implementation – among parliamentarians and elsewhere – and told us that they stand ready to do the same kind of outreach for the new MGDS. That said, there are questions about how representative many CSOs really are: with the exception of faith-based organisations, few CSOs in Malawi have a solid grass roots foundation or strong membership base. They also differ in structure, with some being single-issue NGOs and some addressing a broader spectrum of concerns, and are often funded from external sources.

The private sector, on the other hand, felt the original MPRS paid too little attention to the needs of business. The government sought to right the imbalance with the adoption in 2004 of the MEGS, and its subsequent incorporation into the MGDS.

For the future, the MGDS seems to offer the prospect of wider and more genuine country ownership. The government sees it as home grown, and fitting with the vision of the President (who previously had responsibility for the MEGS, when he was Minister of Economic Planning and Development) to develop the country's productive and export capacity, achieving sustainable economic growth through empowering people, and to provide the infrastructure and operating environment needed for a successful private sector. Most donors have deliberately stood back, giving the government space in which to develop its own strategy. The MGDS has drawn on separate consultations on the MEGS and on the government review of the MPRSP, as well as on three major regional consultation meetings, including those with members of parliament carried out in parallel with a process of costing and prioritising the MGDS. Therefore, while consultation was less extensive than with the original MPRS, our fieldwork discussions suggest that most domestic stakeholders – CSOs as well as businesses – feel adequately engaged with the process. The MGDS was to extend for a period of five years, beyond the date of the next election. We believe therefore that it will be helpful to do more to develop national forms of accountability, in particular to parliament, to make it completely clear that the government is accountable for the strategy and its implementation to the people of Malawi, not to development partners; and that the strategy is to some degree at least a truly nationally owned – not just government-owned – strategy. We hope it will be possible to find a way to present the MGDS formally to parliament, and to stimulate genuine parliamentary discussion and debate.

Nature and quality of the MPRS

As noted in section II, the MPRS was based on four strategic 'pillars': sustainable pro-poor growth; human capital development; improving the quality of life for the most vulnerable; and good governance, together with a number of key cross-cutting issues such as HIV/AIDS and gender. While the strategy itself is generally seen as coherent and comprehensive – and was certainly judged adequate for support by the international financial institutions (IFIs) and other donors – it is now widely accepted that there were some important weaknesses.

First, there was insufficient selectivity and prioritisation. While a national development strategy should be comprehensive, in a country like Malawi, which has limited capacity, it is essential to clearly identify priorities for action. This also appears to be a weakness in the drafts of the Malawi Growth and Development Strategy that we saw, a weakness we hope will be addressed as the strategy is finalised and implemented. For example, if improving food security is a top priority for the immediate future, then the strategy should say so and say what is to be done to achieve it, such as improving water harvesting and encouraging commercial farming. We also think the strategy should identify priority policy changes, some of which may have few expenditure implications, as well as expenditure priorities. While it is right to try to cost the first year of implementation, and to illustrate the full cost over time of major capital projects, we think it would be a mistake prior to the strategy's finalisation and implementation to attach much weight to any costings developed for future years or to try to draw up anything like a five-year expenditure plan. The uncertainties, both about what will be feasible and about future aid flows, are too great. It would be more sensible to think in terms – as we believe was planned – of various possible scenarios for future levels of expenditure, exploring what might be achieved under different scenarios, with final decisions made within the strategic guidelines in annual budgets.

The second weakness was that there was little if any consideration of alternative strategies. While the Malawi Poverty Reduction Strategy covered a wide range of issues, most of the policies set out were those already tried (with limited success) under previous structural adjustment programmes – including, for example, policies such as the focus on improving the efficiency of the financial system as a way to reduce interest rates (when high government borrowing was the real problem).

The strategy's growth/private sector/infrastructure pillar was generally seen to be weak, and the private sector felt the MPRS did not sufficiently address its concerns. Consideration of the sources of growth was narrowly focused on macroeconomic stabilisation, access to credit and rural infrastructure. There was little attention to other key factors, such as improving the management of statutory and parastatal organisations; issues of human and natural resources; the internal and external economic environment; trade policy issues; and relevant cultural, social and political factors. Following consultations between the Department of Economic Planning and Development and the private sector, in 2004 the Government of Malawi adopted the MEGS, designed to complement the MPRS. At the time of writing, this was being fully integrated into the new MGDS. Again, we hope the MGDS will identify the immediate priorities – for example, strengthening particular road or rail links; reducing interest rates; reducing taxes on businesses or making them more predictable; improving the reliability of water supplies in urban areas; improving the reliability of the electricity supply; and developing the entire financial sector to improve access to credit. As noted elsewhere, some of the relevant policy changes will have few if any implications for government spending: that does not reduce their importance, but may make them easier to implement.

While the strategy identifies a number of cross-cutting issues, only HIV/AIDS was beginning to be mainstreamed into sector policies at the time of writing. Many see the analysis of gender issues as seriously inadequate, with little attempt to mainstream gender into MPRS policies.

The Malawi Poverty Reduction Strategy targets fell short of meeting the Millennium Development Goals, and there was no attempt in the MPRS to assess how much extra assistance Malawi could effectively absorb to make faster progress towards meeting the MDGs. Nor did the draft MGDS contain such an assessment, although we understood that the government intended to carry one out during the first year of the MGDS. In addition, we understood that the final version of the MGDS was to contain two scenarios, with one of the two demonstrating the faster progress that could be made if more resources were available. Given the possibility of a significant increase in donor flows to Malawi to accelerate progress to the MDGs, these seemed to be useful exercises to carry out.

Although there were monitoring indicators in the MPRSP and the subsequent Monitoring and Evaluation Master Plan, the government did not create an effective monitoring and evaluation system, a weakness that the MGDS intends to address. We welcome the action to strengthen relevant monitoring and data systems, including at the district level and at the National Statistical Office, and the results framework built into the MGDS, which can be used to develop a monitoring system linked to actions.

Finally, we found that the government could have usefully put more effort into outreach to communicate the strategy once it was adopted, explaining it both to the general population and to those on the ground responsible for its implementation. The strategy is more likely to be sustainable and to be implemented, if it is seen and accepted as a national as well as a government strategy. This would involve activities such as running workshops for district officials, and producing a widely available summary of the document, translated into local languages. These activities have all been undertaken in respect of the MPRS by civil society organisations such as the Malawi Economic Justice Network, and this is very welcome. However, with the launch of the new MGDS, we hope the task will also be seen as a government responsibility. For a number of reasons, not least because the period of the strategy extends beyond the next elections, we found it to be important to make the effort to establish a broad national consensus that the strategy is the right road map for Malawi. This is particularly important to ensure that the strategy is understood by those responsible for implementing it at the local level and that it is incorporated into district development plans.

How well has the strategy been implemented?

However good or well written a strategy is, it is worthless if not implemented. One development partner to whom we spoke said we should ask the question: had the Malawi Poverty Reduction Strategy made any difference to anything in practice? His clear implication was that it had not. Our judgement is that up to 2004 at least, the MPRS may have had some minor impact on budget allocations and outturns – but probably not much.

As noted in section II, it was intended that the MPRS would be implemented in annual budgets, using a medium-term expenditure framework (MTEF) as a bridge between the multi-year MPRS and annual budgets. Attempts were made to encourage sector ministries to identify 'pro-poor' expenditures, with the intention that these expenditures would be protected in the event of budget difficulties – and sector ministries maintain that the so-called 'protected pro-poor expenditures' (PPEs) were indeed protected to an extent. However, we doubt whether this is an accurate measure of MPRS implementation, given the incentives for sector ministries to classify as wide as possible a range of their expenditures as PPEs.

In addition, as also discussed in section II and elsewhere, budget outturns over the period bore little relation to budget plans – and the substantial overspends were not on MPRS priorities. As already noted, the MTEF never operated effectively (the draft MGDS implies it will be resuscitated). Following persistent inability to control public expenditure, Malawi went off-track with its Poverty Reduction and Growth Facility (PRGF) in November 2001. Donor budget support (which represented 23 per cent of budgeted revenue in 2001/02) was suspended. However, the Government of Malawi continued spending and financed the deficit through domestic borrowing. As a result, the domestic debt/GDP ratio jumped from 8 per cent in June 2001 to 25 per cent in June 2004. Real interest rates also jumped, leading to a massive increase in domestic interest payments as a proportion of government spending and GDP. Instead of the increased share of expenditure promised in the PRSP, pro-poor expenditure was crowded out by the growing interest bill.

Some of this failure in the link between the MPRS and annual budgets could be attributed to weak financial management capacity. There is no doubt that financial management capacity needs strengthening. The government has been working for many years on an 'integrated financial management information system' (IFMIS), and only recently decided in effect to cut losses on past work and implement a system developed and used in Tanzania. Stronger financial management capacity is also needed in implementing ministries, to ensure that spending priorities really do reflect national priorities as set out in the strategy; and to ensure that these spending priorities are carried through effectively at the local level. However, we found that the finance ministry had managed to deliver expenditures within and in line with the budget in the year leading up to the present study – so weak financial systems can only be a partial explanation of the record of poor MPRS implementation.

We also note the emphasis in the draft Malawi Growth and Development Strategy on the need for all departmental and sector expenditure plans and budget bids to be consistent with the MGDS. We believe the MGDS should become the central feature of the annual budget system, as this emphasis implies, and suggest a number of steps that will help make this an operational reality.

First, such an operational reality requires development of an effective challenge function in the Ministry of Finance budget division: departments' priorities and annual budget bids need to be justified in terms of the MGDS and the Ministry of Finance should ensure that they are. Sending circulars to departments asking them to prepare budget submissions taking account of the MGDS is unlikely by itself to secure the desired outcome. For the immediate future, we suggest that a relatively simple approach of Ministry of Finance scrutiny and challenge of departmental bids may be the best way to try to ensure the MGDS is implemented. We doubt whether the concept of MGDS-related expenditures is useful: in principle the entire budget should derive, directly or indirectly, from the expression of national priorities set out in the MGDS. We also doubt whether reviving the pro-poor expenditures mechanism will be helpful. At the same time, while implementing a functioning MTEF may be a useful long-term ambition, we doubt whether it is realistic or sensible to devote scarce resources to it in the short term.

Second, making the MGDS central to the budget process will require a close working relationship between the Ministry of Economic Planning and Development (MEPD), as guardian of the strategy, and Ministry of Finance budget division. In this context, it was suggested to us that it would be helpful to merge the two departments. In our view, however, that would neither guarantee the level of co-operation needed, nor be necessary to achieve it. With or without a merger of the two departments, MEPD staff should join with Ministry of Finance staff in challenging departments' budget bids and seeking to ensure consistency with the MGDS.

There are also aspects of the MPRS – and now the MGDS – that require actions by the government, but which do not necessarily have budgetary consequences: for example, simplifying regulations affecting businesses; reforming the tax system; implementing investment incentives in a predictable non-discriminatory manner; or reducing delays in processing of land applications. Again, our impression is that progress has been slow, possibly reflecting the problems of passing legislation through parliament during a period of intense domestic political activity, other than legislation such as the Public Financial Management, Public Audit and Procurement Acts, which could be presented to parliament and passed into law as part of the annual budget process. In future, we hope that the Ministry of Finance and Ministry of Economic Planning and Development together can work to ensure that where such policy commitments are made in the MGDS, they are carried through and executed effectively.

Last and perhaps the most important of all, is the question of what practical impact the MPRS has had in achieving results on the ground. At the time of writing, the government had carried out two annual progress reports and was engaged in its own comprehensive review of achievements over the whole MPRS period. We saw an early draft of this review and hope that when completed it will throw further light on the issue. However, we found that while a Monitoring and Evaluation Committee was established in 2002, when the MPRS was launched, it only developed and launched a monitoring and evaluation master plan in November 2004. In general, capacity for gathering data about progress in poverty reduction and growth, through the National Statistical Office, remains weak. It is encouraging that the MGDS clearly recognises the need for a plan for better measurement of outcomes and results – and it will be important to implement this. We also welcome the intention to follow the example of some other countries and establish an arrangement for periodic independent monitoring and evaluation of implementation of the MGDS and support given to it by development partners.

IV Quality of support given by external partners

This section assesses the support being given to Malawi by development partners – both multilateral organisations and bilateral partners. Have they given appropriate support to the PRS process, while leaving the government the space it needs to set national priorities? Have partners acted to align their support behind the priorities set out in the MPRS? Are they moving to improve the effectiveness of their support, reducing administrative demands on government and implementing global agreements to harmonise donor procedures and practices?

Support for preparation and review of the MPRS

In general, external support for the process of drawing up and reviewing progress in the Malawi Poverty Reduction Strategy was appropriate: external partners gave the government space to design its own strategy and did not seek to lead the process. External funding financed the extensive consultation process on the MPRSP. IMF/World Bank Joint Staff Assessments (JSAs) and Joint Staff Advisory Notes (JSANs) on the MPRSP and MPRS annual progress reports were helpful and to the point. More recently, external partners have gone to even greater lengths in relation to the Malawi Growth and Development Strategy than they did with the original MPRSP to leave space for the government to make its own decisions and set its own priorities, limiting their involvement in the process to providing valuable technical support only. One donor we spoke to felt unhappy about lack of involvement in the process and would have liked more dialogue earlier, but most felt that by standing back they were helping to achieve an end result more fully owned by the government. In parallel, there has been strong and continuing donor support for the preparation and implementation of the one operational sector strategy – the health sector sector-wide approach (SWAp) – and we hope this support will be extended to other sector strategies when they are developed.

Nevertheless, as noted above, there was a widely held view that the original MPRS was adopted only as a condition for HIPC debt relief, and indeed its priorities reflected quite closely what were thought to be donor priorities at the time, with an emphasis on poverty-reducing expenditures, and less emphasis on fostering the conditions for private-sector led growth. This suggests that continued efforts will be needed by all stakeholders to ensure that the new MGDS really is – and is seen to be – a nationally owned and developed strategy. This requires restraint from all development partners, who need to recognise the importance of developing country-owned policies that will be implemented in a sustained manner over the years ahead, not abandoned once debt relief is secured.

Alignment of support from development partners

Has support from the IFIs and other partners been grounded, as intended, in the Malawi Poverty Reduction Strategy or have external partners sought to impose different, separate conditions? Alternatively, have donor partners financed projects not included as priorities?

Most donors have been willing – or at least say they have been willing – to use the MPRS as the framework for their support. The IMF said its PRGF was fully in line with the MPRS, and at the time of writing expected it to similarly be in line with the new MGDS. The 2003 UK Country Assistance Plan explicitly supports MPRSP objectives; the 2004 World Bank Country Assistance Strategy is aligned behind the MPRSP pillars; EC assistance is similarly aligned with the MPRSP as set out in its 2001 seven country strategy paper. Four donors (the UK, EC, Sweden and Norway) provide budget support and have established the Common Approach to Budget Support (CABS) group to interface with government, and there are prospects for the proportion of aid channelled in this way to increase, and for new partners to join the group. We found that the World Bank, UK, EC, Canada and Norway all said they would align their strategies with the MGDS, with most changing their scheduling to facilitate this and an initial attempt to identify gaps in support and to make an inventory of donor analytical work. At the sector level, a wider group of partners has come together to support the health sector SWAp; and the government is planning to develop similar SWAps in other sectors, including in agriculture and education. We are, nevertheless, concerned that some of the conditions set for reaching the HIPC completion point appear to relate to policy details that do not appear essential to the overall strategy, and which may not in all cases reflect the government's priorities.

That said, for much of the MPRS period failures in macroeconomic management led to a suspension of IMF support, which in effect led to both a breakdown in MPRS implementation and the withholding of donor support. Moreover, all donors still give support in project form, some in effect to finance public-sector activities, some to support facilities and services provided by NGOs. Meanwhile, some donors remain resistant to providing sector support, still less budget support. The Ministry of Finance and sector ministries say they are not always aware of donor-funded activities, although they are trying to collect better information, especially in sectors where there are SWAps. Clearly, even if the macroeconomic situation had been better, it would have been – and remains – difficult for the government to plan to implement its development strategy effectively without such information, which is needed both to inform budget priority setting (if a donor is already building a health centre in an area, then there is no need for one funded from the budget) and for future financial and resource planning (new facilities funded by donors usually need staffing and upkeep). The MGDS and annual budgets should in principle cover all relevant expenditures, whether financed from taxation, borrowing or donor resources. In future it will be important for the government to capture all relevant donor expenditure and planned expenditure, whether it is provided through the budget or in project support. In principle this should be easier to achieve now that the bank accounts of donor projects have been centralised in the Reserve Bank.

Over much of the period under consideration here, donors withheld funds because of governance and other implementation failures, and appeared less willing to switch to budget or sector support than in other countries. Where they do provide such support, they appear less willing than elsewhere to enter into long-term multi-year commitments. However, with the better implementation experience over the year leading up to the research, and with the launch of the Malawi Growth and Development Strategy, we saw an opportunity that external partners and the government together could take to achieve a step change in alignment of support. This would involve three key elements: a substantially increased level of budget support; priority to the development of sector SWAps; and a major effort to integrate and link the MGDS with annual budgets.

First then would be a substantially increased level of budget support, building on CABS, made more predictable by donors turning the commitments they already make for the year ahead into firm multi-year commitments. The government should recognise that encouraging donors to switch substantially to budget support will take a lengthy period of confidence building. And donors should recognise that for the arrangement to work, they should agree on a single, and limited, policy assessment framework (PAF) drawn from the comprehensive matrix set out in the MGDS. It will, however, take time to build sufficient confidence that the Ministry of Finance will maintain financial control and enforce the link between the MGDS, annual budgets and departmental expenditures.

For this reason it may be sensible over the next few years to also give priority to the development of sector SWAps, building on the experience in the health sector. The Ministry of Finance prefers budget support to SWAps – as do we – as being less likely to undermine national priority setting and budget discipline. However, we see sector-wide support as preferable to individual projects, unless these are fully incorporated and monitored as part of national or sector plans. Moreover, over the next few years we see a number of additional advantages in developing SWAps: they should help strengthen departments' human resources and sector management capacities; they may help provide greater stability in sector policies, which in the past have often been subject to change whenever ministers or senior officials change or there is a change in donor preferences; they should help maintain consistency between sector policies and the MGDS; and they should help keep donors focused on medium-term priorities and reduce the tendency of some donors to give priority to high-visibility projects with short-term payoffs. At the same time, in other countries, donor groupings supporting SWAps have proved an effective mechanism for disciplining 'rogue' donors – providing a form of insurance against sudden shifts in behaviour by individual donors.

These developments need to be underpinned by a major effort, as discussed above, to integrate and link the MGDS with annual budgets, developing financial management and information capacity as needed, in the Ministry of Finance, the MEPD and in sector ministries. Building donor confidence will require these links to be explicit and highly transparent: sector plans and budgets should flow and be seen to flow from the MGDS. We commend the idea that was under discussion at the time of our research of a donor-funded SWAp to support strengthening public financial management.

These changes would facilitate one further feature that we believe to be of continuing importance for Malawi: the availability of emergency finance when the country faces unexpected adverse shocks. We note that it proved possible to arrange extra concessional finance from donors and IFIs over the year leading up to the case study highlighted here to meet the food emergency of that period, but think that implementing changes as suggested above would make such assistance easier to arrange if needed in future.

Could a significant increase in donor financing for the MDGs be used effectively?

There is now at least the possibility of a substantial increase in aid flows to Malawi. The policy environment is better than it has been for many years and there is a prospect of 100 per cent debt reduction. Malawi has been selected for the US Threshold Program to help work towards eligibility for Millennium Challenge Corporation (MCC) finance.

Meanwhile, other traditional donors to Malawi are aiming to increase their future funding to the country as in other sub-Saharan African countries. We believe that a new country-owned MGDS and other improvements in the process – especially improved financial management at all levels and improved modalities for support by development partners – should significantly increase Malawi's capacity to absorb aid effectively. As a result, Malawi should be able to make better use of aid flows already available, as well as to make effective use of steadily increasing aid flows over the years ahead.

We would therefore encourage the Government of Malawi, as we believe was planned at the time of writing, to make an assessment of how much aid could usefully be absorbed and help towards meeting the Millennium Development Goals, if it were available. Such a scenario would be a useful assessment to have in future discussions with development partners. Moreover, a Malawi Growth and Development Strategy illustrating different possible scenarios would be consistent with the suggestion that the strategy should focus on short-term priorities and medium- and longer-term possibilities, to be translated each year into annual budgets, rather than seeking to construct a five-year expenditure plan.

Donor co-ordination and harmonisation of practices and procedures

In Malawi, relatively little progress has been made so far in implementing the global agreements to better harmonise and co-ordinate donor practices and procedures set out in the Paris declaration. The Ministry of Finance, Debt and Aid Management Division is responsible for co-ordination of external assistance, and there are various local donor co-ordination groups, including at the sector level. At the time of writing there had been a recent stock take of necessary actions measured against the Paris Declaration baseline. As noted above, much remains to be done if the government is to have a complete picture of donor activities in Malawi; and it will take further efforts to provide the kind of country leadership needed to make progress in better co-ordinating and harmonising donor practices and procedures.

Without such an effort, there is a risk that as aid flows increase, donors will be placing an ever-increasing burden on government ministers and senior officials, as numbers of parallel reporting requirements, donor missions and local consultation committees expand. Key officials in sector ministries told us that handling donor committees and missions takes between 30 per cent and 50 per cent of their time.

Experience in other countries suggests a number of approaches that could be tried. For example, persuading more partners to channel more of their support through the budget, or at least through sector basket funds, can greatly reduce the burden, particularly where government financial management and auditing systems are strong enough to persuade donors to dispense with parallel reporting requirements. The burden of interacting with local donor groups can also be reduced by establishing a regular and well-spaced annual cycle of consultation meetings, timed to fit with key decision points in the annual budget cycle; and by encouraging donors to rely on one of their number to provide expertise in each sector or topic, rather than all wishing to be represented at each meeting. The burden of receiving incoming aid missions can be reduced by declaring 'quiet times' of year, when missions are not welcome; and by agreeing targets for reduced numbers of missions and then collecting and publishing data about numbers of missions from different partners (a process of 'naming and shaming'). Finally, the government should be ready on occasion to say 'no' to aid offered in the wrong modalities or in the wrong form.

Experience elsewhere is that this task of 'aid co-ordination' – organising donors – has to be led by the Ministry of Finance, and that in a country like Malawi, where aid accounts for a substantial proportion of the annual budget, extra effort in this respect has a significant pay off. We therefore strongly welcome and encourage the stated intention of the Ministry of Finance to work with development partners to put such arrangements in place in Malawi. At the time of writing, the proposed arrangements were set to include:

- Building capacity in the Ministry of Finance to provide leadership and co-ordination
- Confirming donors' agreement to align their support behind MGDS priorities
- Agreement on a set of good practices by donors and by the government, covering issues ranging from frequency and timing of missions to accounting and reporting policies and practices
- Agreement on monitoring and evaluation arrangements
- An agreed action plan for all parties, with monitorable benchmarks

V Main findings and recommendations

The Malawi Poverty Reduction Strategy was developed in the early 2000s at the request of the Bretton Woods Institutions, and as in other countries suffered from a widely held perception of being developed simply in order to qualify for HIPC debt relief. It was intended that it should draw on a number of previous national development strategies, though in practice we think the linkage was weak. It was developed with a relatively strong degree of public participation, although there were some weaknesses in the process. After its adoption, the government identified one missing element – a lack of attention to ways to stimulate private sector-led growth – and complemented the MPRS with the Malawi Economic Growth Strategy. However, the main problems that emerged were in implementation. There was at best only a modest connection between the strategy and annual budget allocations, and even less relationship with budget outturns. Because of failures in macroeconomic policy, donor support was less than anticipated, and final results, in terms of growth and measured changes in poverty levels, were disappointing.

We have tried to identify the main causes of failures and successes in MPRS implementation, and to draw out lessons for the future: that is, the lessons for the new Malawi Growth and Development Strategy and its implementation. A number of these conclusions may also have relevance in other countries with similar experiences of mixed success in implementation of their initial poverty reduction strategies.

Successes and failures in the MPRS and its implementation

Ownership: the MPRS in the national context

How far was the strategy nationally 'owned' and how far was it perceived as imposed from outside? Ownership is widely seen as critical to successful implementation, but is a complex issue with many dimensions. Comments made to us in our discussions and experience with implementation over the three years up to the study (2002–2005) suggest that in most dimensions there was relatively weak country ownership of the original MPRS (adopted 2002). Other than in the core ministries that led design of the strategy, it was seen more as a process undertaken to meet donor and BWI requirements than as a development strategy deriving from domestic processes.

Within government, the lack of ownership at a political level was evident from the record in implementation, demonstrated by decisions over most of the period covered by the MPRS that departed significantly from government expenditure priorities. Outside the core team, even the key sector and implementing ministries did not, initially at least, feel wholly part of the process, although they appeared to become more engaged over the years of implementation. At the time of writing, very few ministries – possibly only the Ministry of Health – had fully aligned their strategies with the MPRS. Moreover ownership, or even understanding, of what the strategy sought to achieve appeared to be extremely limited at the district level, which was responsible for so much MPRS implementation.

Outside of government, no formal parliamentary approval was required for the strategy, although MPs were involved in discussions leading to up to it. The private sector felt the original MPRS paid too little attention to the needs of business. As a result, the government sought to right the balance with the adoption in 2004 of the MEGS, and its subsequent incorporation into the MGDS.

Somewhat paradoxically, it seems that the group with the strongest sense of ownership of the MPRS may have been civil society. While CSOs felt that their inputs were not fully reflected in the final document, evidence suggests that they may feel a stronger sense of ownership than any other group. Certainly, CSOs have spread and are spreading knowledge of the MPRS among groups responsible for its implementation.

Nature and quality of the strategy

Was the strategy itself well conceived? It is now widely accepted that there were some important weaknesses:

- There was insufficient selectivity and prioritisation. While a national development strategy should be comprehensive, it is essential clearly to identify priorities for action in a country like Malawi, which has limited capacity.
- There was little if any consideration of alternative strategies. While the MPRS covered a wide range of issues, most of the policies set out were those already tried, with limited success, under previous structural adjustment programmes.
- The strategy's growth/private sector/infrastructure pillar was generally seen to be weak; as noted above, this was subsequently addressed with the adoption in 2004 of the MEGS.
- While the strategy identifies a number of cross-cutting issues, only HIV/AIDS is beginning to be mainstreamed into sector policies. Many see the analysis of gender issues as seriously inadequate, with little attempt to mainstream gender into MPRS policies.
- MPRS targets fell short of meeting the Millennium Development Goals, and there was no attempt in the MPRS to assess how much extra assistance Malawi could effectively absorb to make faster progress towards meeting the MDGs.

- Although there were monitoring indicators in the MPRSP and the subsequent Monitoring and Evaluation Master Plan, the government failed to create an effective monitoring and evaluation system.
- Finally, we believe the government could usefully have put more effort into outreach to communicate the strategy once it was adopted, explaining it both to the general population and to those on the ground responsible for its implementation. The strategy is more likely to be sustainable, and to be implemented, if it is seen and accepted as a national as well as government strategy; and it needs to be understood by those responsible for implementing it at the local level – and, for example, incorporated into district development plans.

The record of implementation

As noted above, the record of implementation is poor. Over most of the MPRS period, budget expenditures showed little relationship to MPRS priorities. While weaknesses in financial management and failure to make the MTEF operational will have contributed, these are only part of the explanation, with lack of ownership and political commitment playing a larger part. For the future it will also be important to develop a more effective challenge function in the Ministry of Finance, to seek to ensure departmental expenditure plans are linked with the strategy.

Progress has also been slow in implementing aspects of the MPRS that require policy actions, but do not have budgetary consequences. Again, core departments need to play a more effective role in ensuring that policy commitments in the strategy are carried through and executed effectively.

The government has been slow to create the monitoring and evaluation capacity needed to ensure that the strategy ultimately produces results. We welcome the progress being made in this respect, and also the intention to establish a mechanism for periodic independent monitoring and evaluation of implementation of the strategy and support being given to it by development partners.

Alignment and volume of support by development partners

In principle, most donors have been willing (or say they have) to align their support with the MPRS, though in practice over most of the MPRS period this was not tested because of the breakdown in macroeconomic management and MPRS implementation, and consequent withdrawal of donor support. At the time of writing there is the prospect, which we welcome, of an increased volume of support coming in the form of budget or sector-wide support. Nonetheless, some donors remain resistant to this trend and most continue to provide support in the form of individual projects.

For the future, it will be important for the government to know of all relevant donor expenditure and planned expenditure, whether it is provided through the budget or in project support, to inform budget priority setting and resource planning. In principle this should be easier to achieve now that the bank accounts of donor projects have been centralised in the Reserve Bank.

While budget support linked to a single policy assessment framework agreed between donors and the government will in the long term be the best modality to ensure donor alignment, we recognise that encouraging donors to switch substantially to budget support in Malawi will take a significant period of confidence building. For this reason it may be sensible over the next few years to give priority to the development of sectoral support through sector SWAps, building on the experience in the health sector. They should help strengthen departments' human resources and sector management capacities, may help provide greater stability in sector policies, and maintain consistency between sector policies and the Malawi Growth and Development Strategy, and they should help keep donors focused on medium-term priorities, and maintain consistency in donor behaviour through peer pressure.

These developments need to be underpinned by a major effort, as discussed above, to link the strategy transparently to annual budgets, developing financial management and information capacity as needed. Building donor confidence will require these links to be explicit and highly transparent.

We believe improvements being made in the strategy and implementation process – especially improved financial management at all levels, and improved modalities for support by development partners – will significantly increase Malawi's capacity to absorb aid effectively. The country should as a result be able to make better use of aid flows already available, as well as to make effective use of steadily increasing aid flows over the years ahead. We therefore encourage the Government of Malawi to make an assessment of how much aid could usefully be absorbed and could help towards meeting the MDGs, if that aid were available (this was thought to be planned at the time of writing).

Donor co-ordination and harmonisation of practices and procedures

Relatively little progress has been made in implementing in Malawi the global agreements to better harmonise and co-ordinate donor practices and procedures, and, as in other countries, making progress in this respect will require strong leadership from the Ministry of Finance. Without such an effort, as aid flows increase, donors will be placing an ever-increasing burden on government ministers and senior officials, as numbers of parallel reporting requirements, donor missions and local consultation committees expand. Possible approaches to this problem include: persuading more partners to channel support through the budget or sector baskets; establishing a well-spaced annual cycle of consultation meetings to rationalise interactions with local donor groups; declaring quiet times of the year for donor missions and establishing targets for reducing mission frequency; and on occasion being ready to say 'no' to aid offered in the wrong modalities or the wrong form. We strongly welcome and encourage the intention of the Ministry of Finance to work with development partners to put such arrangements in place in Malawi.

Implications for the MGDS and its implementation

Since this report coincided with the final stages of preparation of the new MGDS, which was due to replace the MPRS, it may be helpful to emphasise a few points we see as being key to the successful design and implementation of the MGDS.

Given the track record with the MPRS and limited financial management capacity in the Ministry of Finance (including the absence of a functioning medium-term expenditure framework), we hope the MGDS will be seen as a flexible medium-term strategy to be converted year-by-year into annual budgets. While it is right to try to cost the first year of implementation and to illustrate the full cost over time of major long-term capital projects, it would be a mistake to attach much weight to any costings developed for later years or to regard the MGDS as any kind of five-year expenditure plan. The uncertainties, both about what will be feasible or make practical sense as events unfold, and about future aid flows are too great. It would be more sensible to think in terms of various possible scenarios for future levels of expenditure, exploring what might be achieved under different scenarios.

While a national development strategy should be comprehensive, it is essential for Malawi to identify priorities for action. For example, if improving food security is a top priority for the immediate future, then the strategy should say so and should say what is to be done to achieve it, such as improving water harvesting and encouraging commercial farming. We think the strategy should also identify priority policy changes, some of which may have few expenditure implications, as well as expenditure priorities. While there was some attempt to define priorities and reduce the number of focus actions and priority activities in successive drafts of the MGDS that we saw, we are still concerned that this effort does not go far enough.

The government should put significant effort into explaining the Malawi Growth and Development Strategy to the general population and to those responsible for implementation at the local level. It is also important to engage parliament. We believe the strategy should be formally endorsed by parliament, either as a document supporting the annual budget process or through another mechanism.

The Ministry of Finance and Ministry of Economic Planning and Development (MEPD) need to work together to try to ensure that annual budgets and budget outturns are clearly and transparently linked to the MGDS. This will require effective arrangements for challenging ministries' budget bids and for monitoring and evaluating outturns.

It will take time to develop the trust needed for most development partners to direct a substantial proportion of their support through the budget. In the meantime, donors should be encouraged to direct less of their support into individual projects and more into sector strategies, through a series of sector SWAps building on the model established in the health sector. As noted above, this form of support has a number of advantages when capacity is weak.

We welcome the Ministry of Finance's intention to work with donors to seek to align their support behind the MGDS and to develop a programme for improved coordination and harmonisation of donor procedures and practices.

Lessons for other countries

There are a number of lessons from Malawi's experience that may be applicable in other countries that have encountered difficulties implementing first generation poverty reduction strategies. These are as follows:

- Even more than in countries where capacity is stronger, it is essential to use the strategy to identify a relatively limited set of achievable actions and expenditure priorities. This should be the strategy's focus. While actions in the first year need to be costed, it may be unrealistic to seek to set out anything resembling a medium-term expenditure plan. Instead, it may be more useful for the strategy to illustrate a range of medium-term scenarios, illustrating, for example, the progress that could be made with different levels or modalities of external assistance.

- The initial aim should be to try to ensure that annual budgets, as they are prepared and executed, are consistent with the strategy, and ministries of finance have a key role to play in challenging sector ministries' spending plans and ensuring plans when agreed are executed effectively.
- Outreach is important, to explain the strategy to the general public and to those responsible for implementation at a local level. So, too, is a process to engage parliament.
- Where confidence among development partners is weak, it may be more realistic to seek to establish arrangements where donors can channel funds into sector baskets – SWAps – rather than expecting a rapid move towards a more substantial measure of direct budget support.
- Strong government leadership can do much – and is usually welcomed by donors – to make progress in implementing in each country the global commitments that have been made to align donor support behind country strategies, and to co-ordinate and harmonise donor practices and procedures to reduce the administrative burden on government.

Finally, in a number of respects, Malawi is now demonstrating the power of learning from the experience of other countries and indeed, where appropriate, importing systems and procedures developed in other countries. We believe that governments can learn more from other governments in this respect than they are likely to learn from international institutions and other development partners.

Note

1. Chinyamata Chipeta is Professor of Economics, Chancellor College, University of Malawi.