2012:9

Joint Evaluation

Alta Fölscher
Alex Mkandawire
Ruth Faragher

Evaluation of Public Financial Management Reform in Malawi 2001–2010

Final Country Case Study Report

Joint Evaluation 2012:9

Evaluation of Public Financial Management Reform in Malawi 2001–2010

Final Country Case Study Report

Alta Fölscher
Alex Mkandawire
Ruth Faragher

Submitted by Fiscus Public Finance Consultants and Mokoro Ltd
to the Evaluation Management Group

June 2012

Authors: Alta Fölscher, Alex Mkandawire, Ruth Faragher

The views and interpretations expressed in this report are the author and do not necessarily reflect those of the commissioning agencies, Sida, Danida and AfDB

Joint Evaluation 2012:9

Commissioned by Sida, Danida and AfDB

Date of final report: April 2012

Published by: Sida, 2012

Digital edition published by: Sida, 2012

Layout and print: Citat/Edita 2012

Art.no. SIDA61500en

urn:nbn:se:sida-61500en

ISBN: 978-91-586-4197-6

This publication can be downloaded/ordered from: www.Sida.se/publications

Acronyms and Abbreviations

AAP	(HIPC) Assessment & Action Plan (for PFM)
AC	Audit Committees
ACB	Anti Corruption Bureau
AfDB	African Development Bank
AGD	Accountant General Department
APRM	African Peer Review Group
ASYCUDA	Automated SYstem for CUstoms DAta.
CABRI	Collaborative African Budget Reform Initiative
CABS	Common Approach on Budget Support
CAE	Country Assistance Evaluation
CAP	Country Assistance Programme
CBPEMPC	European Union Capacity Building Programme for Economic Management and Policy Coordination
CFAA	Country Financial Accountability Assessment
CIDA	Canadian International Development Agency
CO	Controlling Officer
CPAR	Country Procurement Assessment Review
CPIA	Country Policy & Institutional Assessment
CRS	Credit Reporting System
CSOs	Civil Society Organisations
DAD	Debt and Aid Division
DAS	Malawi Development Assistance Strategy
DFID	Department for International Development (UK)
DHRMD	Department of Human Resources Management and Development
DIMS	Debt Information Management System

DP	Development Partner
DPP	Democratic Progressive Party
DPSM	Department of Public Service Management
EC	European Commission
ESF	Exogenous Shock Facility
EU	European Union
FAD	Fiscal Affairs Department (of the IMF)
FINTAP	World Bank Financial Management, Transparency & Accountability Project
FRDP	Fiscal Restructuring & Deregulation Programme
GBS	General Budget Support
GCU	General Contracting-out Unit
GDP	Gross Domestic Product
GFEM	Group on Financial and Economic Management
GFS	Government Finance Statistics
GIZ	Gesellschaft fur Internationale Zusammenarbeit
GoM	Government of Malawi
GNI	Gross National Income
GTZ	German Technical Cooperation
GWAN	Government Wide Area Network
HDI	Human Development Indicator
HIPC	Highly Indebted Poor Countries
HIPC AAP	HIPC Public Expenditure Tracking Assessment and Action Plan
HRMIS	Human Resources Management Information System
IAU	Internal Audit Unit
IDA	International Development Assistance
IEG	Independent Evaluation Group (World Bank)
IFAD	International Fund for Agricultural Development
IFMIS	Integrated Financial Management System
IMF	International Monetary Fund

IPC	Internal Procurement Committees
IPU	Internal Procurement Unit
IPG	Internal Procurement Guidelines
IPSAS	International Public Sector Accounting Standards
ISA	Institutional Strengthening Activities
IT	Information Technology
JICA	Japanese International Cooperation Agency
LDC	Least Developed Country
LGFC	Local government Finance Committee
MASAF	Malawi Social Action Fund
MCC	Millennium Challenge Corporation
MDAs	Ministries, Departments and Agencies
MDCP	Ministry of Development Planning and Cooperation
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
M&E	Monitoring and Evaluation
MEGS	Malawi Economic Growth Strategy
MEPD	Ministry of Economic Policy Development
MoF	Ministry of Finance
MGDS	Malawi Growth and Development Strategy
MLG	Ministry of Local Government
MPRSP	Malawi Poverty Reduction Strategy Paper
MRA	Malawi Revenue Authority8
MTEF	Medium Term Expenditure Framework
NAO	National Audit Office
NDP	National Development Programme
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organisation
NORAD	Norwegian Agency for Development Cooperation
NSO	National Statistic Office

OAGN	Office of the Auditor General of Norway
OBI	Open Budget Initiative
ODA	Official Development Assistance
ODI	Overseas Development Institute
ODPP	Office of the Director of Public Procurement
OECD	Organisation for Economic Cooperation & Development
OPC	Office of the President & Cabinet
PAA	Public Audit Act
PAC	Public Accounts Committee
PAF	Performance Assessment Framework
PEFA	Public Expenditure & Financial Accountability
PFEM	Public Financial and Expenditure Management
PEG	Project of Economic Governance
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Survey
PFM	Public Finance Management
PIU	Project Implementation Unit
PPAC	Parliamentary Public Accounts Committee
PRGB	Plan of Action to Strengthen Budget Management
PRGF	Poverty Reduction and Growth Facility
PRS(P)	Poverty Reduction Strategy (Paper)
PRSC	Poverty Reduction Strategy Credit
PSIP	Public Sector Investment Programme
RBM	Results Based Management
ROSC	Report on the Observance of Standards & Codes
SADC	Southern African Development Community
SBS	Sector Budget Support
Sida	Swedish International Development Cooperation Agency
SPU	Special Procurement Unit
SSA	Sub-Saharan Africa

STA	Single Treasury Account
SWAp	Sector Wide Approaches
ToR	Terms of Reference
UDF	United Democratic Front
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USD	United States Dollar
VAT	Value Added Tax
WB	World Bank

Table of Contents

Table of Figures & Tables

Executive Summary

This Country Report has been prepared by Fiscus Limited, UK, in collaboration with Mokoro Ltd, Oxford, as one of three country reports in the Joint Evaluation of Public Financial Management Reform, managed by the African Development Bank, Denmark and Sweden. The evaluation looked at two main questions: (i) where and why do Public Finance Management (PFM) reforms deliver results and (ii) where and how does donor support to PFM reform efforts contribute most effectively to results? Our conclusions are summarised in Table 1 below, which presents our answers to the 12 Evaluation Questions.

The findings show that between 2000 and 2010 Malawi has made significant strides in improving its PFM systems and that these improvements can be traced to direct PFM inputs by donors and government, as well as external domestic pressure for reform. A key driver of improved PFM functionality in this period has been the successful implementation of an IFMIS system to control commitments and payments, coupled with the centralisation of the payment system and the establishment of a Single Treasury Account system.

This statement must be qualified in two important ways: firstly there are areas of PFM functionality where significant inputs – particularly donor inputs – did not translate into sustained improvements in PFM functionality; secondly, most improvements occurred between 2004 and 2008. Between 2008 and 2011 few PFM areas showed improvement; many more areas experienced deterioration. In attempting to explain these developments, we have identified three cross-cutting trends, which we believe may be of wider importance in designing and managing PFM reforms and in providing external support to those reforms.

Firstly, Malawi has exhibited a PFM reform cycle, closely linked to the political / electoral cycle, which has effectively determined the pattern of progress in PFM reforms. Since the first democratic election in 1994 the second term of the incumbent president – under both President Muluzi and President Mutharika – has been associated with deterioration in PFM systems, increasing fiscal distress and a breakdown in the relationship with donors. By contrast, the 2004 to 2009 period of fast reform implementation and PFM improvement coincided with President Mutharika's first term, when economic reforms were necessary to address the fiscal and economic crisis, improve food security and regain the confidence of the IMF and donors. Reforms were also sustained in this period by external pressure from Parliament, in which President Mutharika's party was the minority. In the second term however, the commitment to reform appears not to be as strong, judged by the deterioration in outcomes, under-funding of key PFM institutions and delays in taking key decisions.

Local ownership and commitment determines whether reform inputs result in sustained intermediate outcomes. When the political conditions have been supportive (i.e. when the moment within the electoral / political cycle has been "right"), direct donor inputs to reform have generally produced targeted outputs, which have been sustained. However, where PFM reform was not on the political agenda or where targeted outputs were not core to the PFM agenda of the political leadership, these gains have tended to be more transactional than operational and often narrowly focused on changing laws, rules and regulations in line with donor conditionalities, without achieving any sustainable change in functionality. Thus, local commitment to reform is essential if reform inputs are to result in sustained PFM functionality. This can be achieved even in the absence of donor inputs, the development of IFMIS over 2005 to 2008, being a prime example

However, donor inputs have been influential and showed a degree of adaptation to the political/ electoral cycle : (i) donors have set the discourse and determined 'the policy space' to a significant degree (ii) donors have accelerated reforms when the political/institutional drive was there and (iii) even when the drive was absent, donor inputs introduced and sought to sustain reforms until conditions were right for their acceleration.

Secondly, the policy space available to Government in selecting reform models and options was often unnecessarily limited and the reform models adopted were often inappropriate. In some PFM sub-clusters the chosen PFM model did not take sufficient account of the Malawi public sector environment in which it is difficult to recruit or retain skilled people and in which the incentives for institutional change are very low. The chosen PFM inputs furthermore did not include enough activities to address these gaps. As a consequence reform approaches in these areas were discredited or abandoned, having taken up reform space and resources.

Thus, Donors need to be cognisant of the PFM reform / political cycle and local context in Malawi in order to maximise the effectiveness of their inputs. This has two aspects:

(i) Given their high influence on reform choices, donors need to be more aware of the local context and constraints on reform choices. This may mean making much higher use of local and regional technical advisory capacity and in line with Malawi preferences, focusing on advisory rather than managerial technical assistance;

(ii) Secondly, Donors need to match the scale and focus of their support to make full use of PFM reform windows on the one hand, and on the other, sustain critical PFM functions when the political conditions turn adverse. This means that donor PFM programmes should be responsive to changes in conditions for reform. They should accelerate the amount of funding and other inputs and support new reforms / use policy dialogue to argue for new reforms when conditions turn positive. Equally it also means that when conditions turn adverse – e.g. when PFM slips from government's critical priorities or when the ownership and leadership of reforms in a sub-sector and reform drive are not present – donors should not attempt to introduce further reforms, but rather focus their efforts on sustaining existing reforms and results.

Thirdly, lack of effective reform coordination and sequencing has been costly: The GoM reform leadership strengthened throughout the period. Yet, for most of the period evaluated, the PFM reform agenda in Malawi remained a smorgasbord of the various reform priorities of individual donors and individual PFM institutions. The current efforts to draft a joint, coordinated and sequenced reform plan and to pool resources to bring focus to reforms, appear to be steps in the right direction. They will need to be coupled with appropriate measures to strengthen the monitoring of PFM reform, so as to ensure that reform models and approaches are adapted to the implementation context as and when necessary.

Table 1: Summaries of evaluation question responses

Evaluation questions	Key findings
Inputs & Context: the design of PFM reform (Chapter 2)	
EQ 1: **What has been the nature and scale of PFM reform inputs provided by Government and Donors?**	**Donors have committed PFM Reform support of around USD 104 million over the decade**, largely in the form of institutional capacity building activities and advisory TA. Government's inputs were staff time, the recurrent cost of new PFM institutions like the ODPP and the common procurement service, the CIAU and the common internal audit service, and development budget spending on PFM institutions. Of significant importance for the evaluation are **government's inputs in respect of IFMIS development and roll-out after 2004, which was almost entirely funded by the GoM and costed an estimated USD 15 million in project costs**.
EQ 2: **What type of structure has been used for the design and management of reform inputs? Have they served to provide a coordinated, harmonised delivery framework?**	The establishment of formal structures to coordinate PFM reforms (the PFEM steering committee, technical committee and unit, and various working groups) has been important in creating capacity to support Malawi ownership and leadership of reform plans. The GFEM group – and CABS – provided a structure to harmonise donor PFM inputs. However, until 2010 budget support performance assessment frameworks and PFEM Action plans were an amalgamation of individual reform interests rather than a coordinated and sequenced response to PFM weaknesses. The GoM has recognised this in the drafting of the next PFEM Reform Plan.

Evaluation questions	Key findings
EQ 3: **What types of complementary actions have Donors taken to support PFM reforms and what has been their significance? Have they influenced the external constraints to reform?**	In Malawi there is a correlation between reform outputs and the conditions that attached to debt relief and general budget support agreements. However, there are also examples of conditions that did not successfully translate into effective and sustained reform outputs. The real impact of complementary inputs seems to be a more subtle but possibly more pervasive and more sustained influence over the policy space for PFM reform: the perceptions of the Malawian institutions of the PFM reforms now required seem to be significantly influenced by the donor-required PFM reform actions associated with earlier complementary inputs. The high overlap in donor membership of the CABS and GFEM group also meant that donor views on reform priorities converged over the period.
EQ 4: **To what extent has there been domestic public pressure or regional institutional pressure in support of PFM reform and what has been the influence on the external constraints to reform?**	External pressure for reform has played a role in putting procurement reform and an effective external audit function on the reform agenda. Some respondents during the fieldwork also argued that the pressure of the Legislature was important in President Mutharika's first term, stating that reforms were sustained up to 2009 due to the fact that the President did not have the majority party in government, and that the political impetus for PFM reforms has weakened in the second term where the President has a majority in Parliament and no third term to contest. Other external factors, such as learning from regional experiences and international standards, have broadened the policy space for reforms.

Evaluation questions	Key findings
EQ 5: **How relevant was the PFM reform programme to the needs and the institutional context? To what extent were adaptations made in response to the context and the changing national priorities?**	Even if reform inputs were directed at areas of PFM weakness, PFM reform models were not sufficiently adapted to the institutional context, the level of ownership of reforms or the capacity for reform implementation. The procurement reform model, the internal audit model and even some of the budgeting reforms follow international best practice, but are not suited to a context in which the technical and managerial skills to run the envisaged systems are scarce in society overall, and in which the civil service context means that these skills are difficult to recruit and to retain when trained. The result is a sophisticated system on paper, which does not deliver functionality on the ground. A less sophisticated reform might not have checked all the boxes, but could have provided a greater improvement in functionality. While reforms in the early years of the period proceeded without sufficient GoM ownership, the targeting of reform inputs became more responsive to the level of ownership over the period, primarily because ownership emerged rather than because donors changed their approach. It is not clear that going forward donors will continue to be proactive, providing support which takes into account the PFM reform cycle, or will again be reactive, with their support out of sync with PFM reform windows of opportunity. .
Outputs: the delivery of PFM reforms (Chapter 3)	
EQ 6: **What have been the outputs of the PFM reform process and to what extent has direct donor support contributed to these outputs?**	Major reform outputs were delivered over the period, signalling significant change in the capacity for budget preparation, budget execution and audit. Most of the outputs put in place over the period had external support. However, the effect of the political change in 2004 and the degree to which it drove reforms from within is significant. In retrospect, among the reform achievements of the GoM, the procurement and roll-out of an IFMIS that functions stands out as perhaps the most significant change, supporting a series of further secondary reforms. Yet, this functionality was achieved with relatively little direct external support.

Evaluation questions	Key findings
EQ 7: **How efficiently were these outputs generated? Was the pacing and sequencing of reforms appropriate and cost-effective? Was the cost per output acceptable?**	In the first half of the period, reforms were inefficient on account of low reform output compared to targets and inputs. In the second half most outputs were achieved later than originally targeted, with some outputs still outstanding by the end of the period. While consistent progress was made against targets over the period, the gap between actual and planned processes indicates a need for greater realism in reform planning. Moreover, reform resources and capacity were thinly spread over the period. The quality of coordination of reforms was poor for almost the full period, even if coordination improved after the creation and capacitation of coordination structures. The lack of coordination in reforms – with different institutional and donor champions – resulted in duplication and poor linkages between outputs in different institutions and sometimes even within the same institutions.
EQ. 8: **What have been the binding external constraints on the delivery of PFM reform: political, financing or policy factors? How has this varied across the different PFM reform components?**	Outputs of people, skills and organisational change were not produced or not produced in sufficient quantities. Even when people and skill outputs were planned and produced, high public sector staff turnover often meant that newly skilled personnel were lost to the private sector. The non-production of other necessary outputs can be related to policy, financial and political constraints: • There has been a high focus on putting in place laws, rules, systems and procedures that follow international best practice, and a lack of consideration for the skill and the organisational change requirements that their implementation would require in the Malawi context. The over-emphasis on international best practice is interpreted as a policy constraint. • Since 2004 the production of reform outputs has been slowed down by financial constraints. It is arguable that reform resources are spread too thinly, and that donors did not step up their support sufficiently in the 2004 to 2009 reform window. • In some PFM functions – such as Internal Audit and procurement – lack of political support for reforms has resulted in an under-supply of necessary outputs. In others, (e.g. IFMIS) political support has ensured the minimum level of outputs necessary to secure PFM functionality. Thus, the extent and nature of political constraints has varied by reform area.

Evaluation questions	Key findings
Outcomes & overall assessment of PFM reform and of donor support to PFM reform (Chapter 4)	
EQ.9: What have been the intermediate outcomes of PFM reforms, in terms of changes in the quality of PFM systems?	Between 2006 and 2011 Malawi PEFA scores show a significant improvement of just over half a "notch" on average, i.e. from 2.1 (C) to 2.52 (C+), with 31 of 65 indicators improving, 29 remaining stable and only 9 deteriorating. This places Malawi above the median value for the 100 countries in the De Renzio et al sample (2010) for three of the six PFM functional clusters. Strategic budgeting and resource management improved significantly, budget preparation and accounting and monitoring showed small improvements and external accountability and internal control moderate improvements. Note that for internal control the IFMIS improvements were already factored into the 2006 report. However, a comparison of the three PEFA reports (2006, 2008 and 2011) show that most improvement occurred prior to 2008, and that for most clusters there was some deterioration between 2008 and 2011.
EQ 10: To what extent are the outcomes generated relevant to improvements in the quality of service delivery, particularly for women and vulnerable groups?	The implementation of budget classification changes and the integration of these into the chart of accounts for reporting against budgeted allocations, improvements in in-year predictability of cash transfers from the Treasury, as well as the improvement of the links between policies and budgets have been key parts of the GoM reform programme since 2000s. But there is no systematic effort to provide quality information at service delivery unit level yet. Donors have been supporting these reforms since the HIPC action plan, and the GoM through the Budget Division in the MoF has been pursuing performance oriented reforms since the mid-1990s. If sustained improvements in these areas can be achieved, they ought to impact positively on service delivery, including for women and vulnerable groups.
EQ 11: Have reform efforts been effective? If not, why not? If yes, to what extent PFM reform outputs been a causal factor in the changes identified in intermediate outcomes?	Areas with high improvement in PEFA scores (of 1 notch and more) had seen significant government inputs. Areas with medium improvement in PEFA scores (less than 1, more than 0.33 points) relate to three scenarios: (i) reforms were supported by both government and donors, but the level or quality of the outputs were not sufficient to generate significant functionality improvements; (ii) reforms were supported by donors in the first period, but there has been a decline in donor funding to sustain the reforms; (iii) reforms were supported by donors throughout the period, but GoM inputs were intermittent. PFM sub-clusters with low improvement or a deterioration in PEFA scores are associated with low government inputs.

Evaluation questions	Key findings
EQ 12: To what extent do the gains identified at the Intermediate Outcome levels appear sustainable? Is the process of PFM reform sustainable?	The comparative analysis of changes in PEFA scores between 2006 and 2008 and 2008 and 2010 highlights the vulnerability of PFM reforms to changes in the financing and the political space for reforms. The analysis also points to the possibility of (i) a reform window applicable for success within certain PFM sub-clusters but not others; and (ii) the vulnerability of inappropriate models to deterioration after initial gain. Unless a minimum level of functionality is achieved and sustained, reform achievements can deteriorate and will be vulnerable to reversal, unless they receive significant political support.

1 Summary of Objectives and Approach

This Country Report has been prepared by Fiscus Limited, UK, in collaboration with Mokoro Ltd, Oxford, as one of three country reports in the Joint Evaluation of Public Financial Management Reform, managed by the African Development Bank, Denmark and Sweden. It incorporates the comments received on the first draft by the Management Group, the peer reviewer and the in-country stakeholders, who attended the presentation of the draft report in Lilongwe during February 2012. This report, together with the evaluation of PFM Reforms in Burkina Faso and Ghana, has been incorporated into an accompanying synthesis report and will be the subject of a wider process of dissemination within the Africa region and beyond.

1.1 OBJECTIVES OF THE EVALUATION

The evaluation aims to address two core questions presented in the Terms of Reference:

a) Where and why do PFM reforms deliver results (i.e. improvements in the quality of budget systems)? ; and
b) Where and how does donor support to PFM reform efforts contribute most effectively to results?

It is thus a dual evaluation, involving first an evaluation of the overall programmes of PFM reform conducted over 2001 to 2010 in Malawi, and secondly, an evaluation of the external support provided to these reforms by donors.

1.2 EVALUATION APPROACH

The evaluation framework has been defined in the Inception Report for the 3-country study[1]. It utilises the Organisation for Economic Development (OECD-DAC) evaluation criteria and thus assesses the relevance, efficiency, effectiveness and sustainability of both the overall programme of PFM reform and the external support provided. The overall goal is to draw lessons on (i) the types of PFM reform pursued and their interaction with the Burkina Faso context and (ii) the mechanisms of external support that most contributed to their success. Success is associated with improvements in the quality of budget systems, as measured primarily by changes in the Public Expenditure and

1 Lawson, A. (2011). Joint Evaluation of PFM Reforms in Burkina Faso, Ghana and Malawi: Inception Report. Oxford, Fiscus Limited, Mokoro Limited.

Financial Accountability (PEFA) assessment framework indicators and the narrative PEFA reports. The evaluation framework characterises these changes as intermediate outcomes in a 'PFM Theory of Change Framework', which underlies the evaluation.

The Framework (presented in Figure 1 below) requires the detailing of PFM Reform inputs, outputs and intermediate outcomes and the examination of the relationship between them. In addition, it allows for the analysis of how external constraints – conceptualised as political, financial and policy space constraints – impact on the translation of reform inputs into outputs.

Inputs are defined as the resources and other inputs provided in order to promote PFM reform. These are divided between direct funding by governments to internal PFM reform efforts, external funding by Donors of PFM reform efforts and complementary inputs by Donors, aimed at facilitating better PFM through the use of country systems and the provision of budget support, or improving the design and implementation of PFM reforms through policy dialogue and external monitoring (often linked to budget support or to IMF supported arrangements).

Outputs are defined as the immediate changes in the architecture and substance of the PFM system generated by the combined set of inputs. These are categorised into four groups: i) Changes in human resource endowments (people and skills); ii) Changes in laws, procedures and rules; iii) Changes in systems and business processes; and iv) Changes in Organisational factors (the quality of management, the work culture, the degree of organisational development).

Intermediate Outcomes are the changes generated in the quality of the PFM system, as measured by changes in the quality of:

i) Strategic budgeting;
ii) Budget Preparation (including budget deliberation by the Legislature);
iii) Resource management (covering both inflows and outflows);
iv) Internal controls, audit and monitoring;
v) Accounting and reporting; and
vi) External Accountability.

The framework utilises the PEFA assessment framework to measure changes in each of these clusters of functions, based on a categorisation of the subdimensions of the PEFA indicators between each of them. The categorisation is based on Andrews (2010) and is also applied by De Renzio et al (2010). The characteristics of (a) transparency and comprehensiveness, (b) the quality of links to policies and plans, and (c) the efficiency and effectiveness of control, oversight accountability are subsumed within this categorisation.

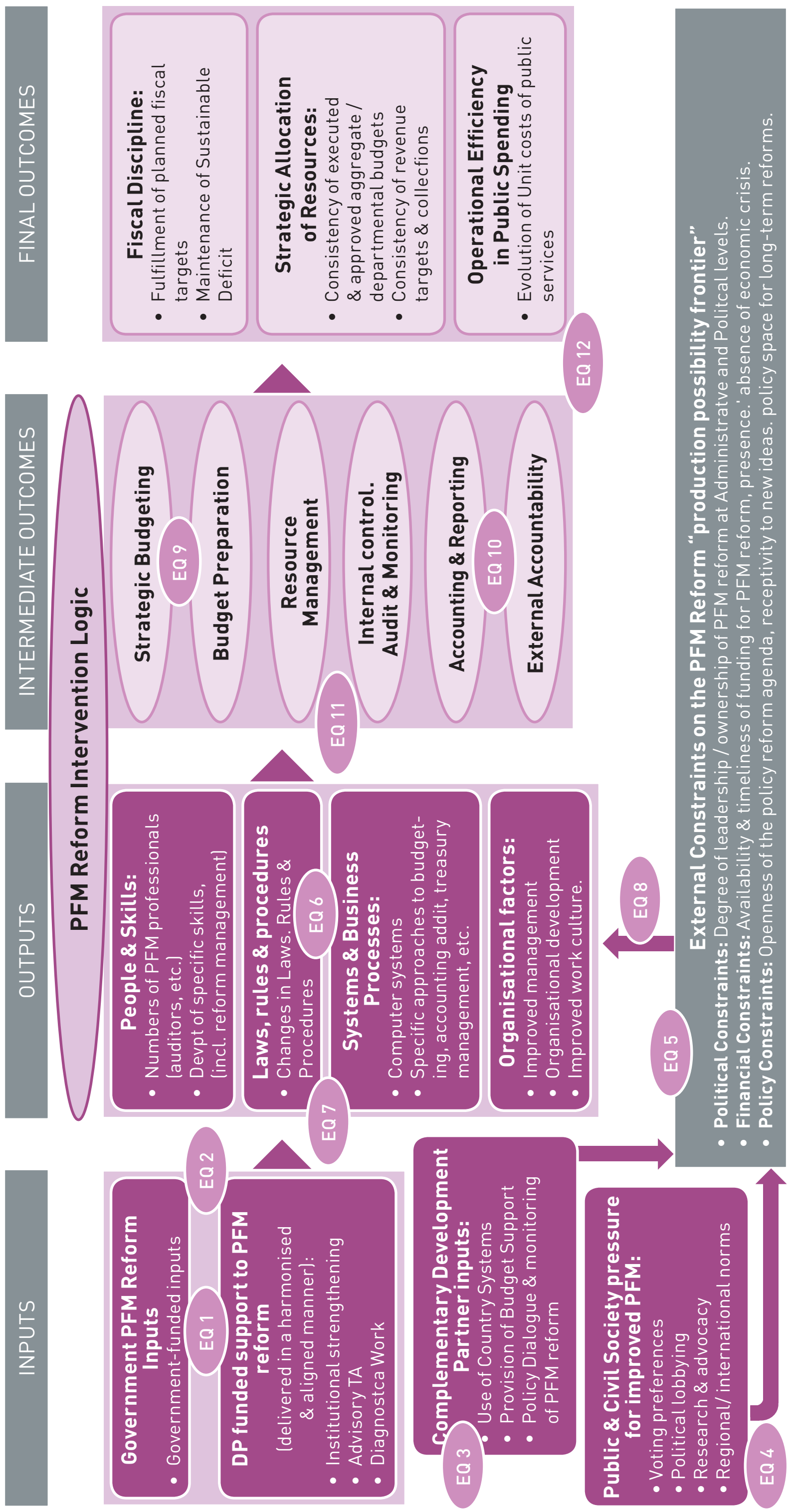
External constraints are seen to impinge on the PFM reform 'production function', in other words with the capacity of PFM reform inputs to generate the planned outputs. Key constraints are "political constraints" related to the degree of ownership and support for given PFM reforms, "financial constraints" related to the ability to finance PFM reforms in the face of competing priorities, and "policy space constraints", related to the nature of policy ideas which might potentially be considered in designing PFM reforms.

A key task for the evaluation of PFM reforms in Malawi was therefore to examine whether there have been external constraints which have prevented or slowed down the translation of reform inputs into reform outputs and which of the three types of constraint have been most significant in this respect. The purpose has been to identify what have been the binding constraints on different types of reforms and to reach a judgement on whether reform challenges were due to reform models which lay beyond the prevailing "production possibility frontier", examining also the role of donor support in this process.

In Malawi, as in the other two country studies, an assessment was made of the overall progress of the PFM reform programme and of three specific reforms, as case histories. The three reforms selected for Malawi were (i) the Integrated Financial Management Information System (IFMIS) reform (ii) the reform of the procurement system and (iii) reform of the external audit function.

All three sets of reforms were initiated early in the study period and have met with both successes and challenges in translating reform inputs into outputs that could lead to real improvements in the intermediate outcomes. All three therefore provided good material for comparison within their own histories, between each other and with other key reform areas. These comparisons allowed for conclusions to be drawn in relation to the specific reforms, but also for Malawi overall. The three chosen reform areas are also relevant to the downstream part of the PFM cycle and, particularly for the IFMIS and procurement reforms, required engagement with deconcentrated PFM actors at spending agency and council levels. These have been identified as areas of weakness in Africa's PFM reform experience, as detailed in the Andrews (2010) study.

Figure 1: The Evaluation Framework and the place of the Evaluation Questions within the Intervention Logic



1.3 MAIN EVALUATION QUESTIONS

Box 1: Main evaluation questions

A INPUTS & CONTEXT: THE DESIGN OF PFM REFORM

EQ. 1: What has been the nature and the scale of PFM reform inputs provided by Government and by Donors?

EQ. 2: What types of structures have been used for the design and management of these reform inputs? Have these structures served to provide a coordinated and harmonised delivery framework?

EQ. 3: What types of complementary actions have Donors taken to support PFM reforms and what has been their significance? Have they had any influence on the external constraints to reform?

EQ. 4: To what extent has there been domestic public pressure or regional institutional pressure in support of PFM reform and what has been the influence on the external constraints to reform?

EQ. 5: How relevant was the PFM reform programme to the needs and the institutional context? Was donor support consistent with national priorities? To what extent were adaptations made in response to the context and the changing national priorities?

B OUTPUTS: THE DELIVERY OF PFM REFORM

EQ.6: What have been the outputs of the PFM reform process and to what extent has direct donor support contributed to these outputs?

EQ. 7: How efficiently were these outputs generated? Was the pacing and sequencing of reforms appropriate and cost-effective? Was the cost per output acceptable?

EQ. 8: What have been the binding external constraints on the delivery of PFM reform outputs: political, financing or policy factors? How has this varied across different PFM reform components?

C OUTCOMES: OVERALL ASSESSMENT OF PFM REFORM & OF DONOR SUPPORT TO PFM REFORM

EQ. 9: What have been the intermediate outcomes of PFM reforms, in terms of changes in the quality of PFM systems?

EQ.10: To what extent have the outcomes generated been relevant to improvements in the quality of service delivery, particularly for women and vulnerable groups?

EQ 11: Have reform efforts been effective? If not, why not? If yes, to what extent PFM reform outputs been a causal factor in the changes identified in intermediate outcomes?

EQ. 12: To what extent do the gains identified at the Intermediate Outcome levels appear sustainable? Is the process of PFM reform sustainable?

The Malawi country study focused on twelve evaluation questions (see Box 1 and the detailed criteria in Annex), shared among the three country cases. The Evaluation Questions provide the basis for an assessment of the changes identified in each country in the light of the underlying theory of change represented in the evaluation framework. They are structured so as to provide a standardised framework for assembling evidence, so that the results of the country studies can be easily synthesised to provide answers to the overall high-level questions, which the evaluation addresses. Note that the questions marry core OECD DAC evaluation questions with the study-specific evaluation questions.

1.4 FIELDWORK PROCESS

The fieldwork for the study was undertaken from 1 to 12 August 2011. It involved interviews with key informants in the executive, parliament, the Auditor General's Office, the donor community and in civil society. This was complemented by two focus group discussions, which were held at the end of the fieldwork period respectively with donors and key PFM respondents in the executive. A full list of respondents is provided on page 52.

In the executive the team engaged with central institutions (various divisions of the Ministry of Finance, Ministry of Economic Planning and Development, the Office of the Director of Public Procurement and the Local Government Finance Commission), national level spending agencies (Ministries of Health; Education and Roads, Transport and Public Works) and two councils (the Blantyre City Council and the Blantyre District Council).

As Members of Parliament were not in Lilongwe at the time of the fieldwork, the team could not follow through on its intention to have a third focus group, but did have a discussion with the chair of the public accounts committee.

The fieldwork was the second phase of the Malawi country study: the first phase comprised the production of an internal country desk report, which detailed the Malawi context and specific reform inputs, outputs and intermediate outcomes based on publicly available documentation. This work forms the basis of much of section II: Inputs and Context and III: Outputs: The delivery of PFM Reform. However, as complete documentation could not be sourced prior to the country visit, some further fleshing out was done in country. There are however still gaps in the detailing of reform inputs, particularly in respect of donors who were not available for an interview during the country visit.

1.5 REPORT STRUCTURE

The report follows the standardised structure for the three country studies. In addition to this chapter on the Study Objectives and Approach, it comprises (i) a chapter describing and evaluating the inputs to PFM reforms in Malawi, overall and for the three focus areas; (ii) a chapter on the planned and actual outputs; (iii) a chapter discussing the intermediate outcomes; and iv) a chapter providing conclusions and recommendations.

2 Inputs and Context: the design of PFM reform

2.1 INTRODUCTION

PFM Reforms in Malawi date back to the mid-1980s when reform of budget preparation was a conditionality under the World Bank structural adjustment credits (Durevall and Erlandsson 2005, p18). In the 1990s, the Government of Malawi undertook several initiatives to strengthen public financial management, such as the introduction of a medium term expenditure framework (MTEF) in 1995; a cash budgeting system in 1996 and cash management improvements in 2000 in the form of the Credit Ceiling Allocation System; and the initiation of an IFMIS programme in 1996.

Amongst other countries highlighted in the study evaluating donor support to PFM reform (De Renzio, Andrews et al. 2010, p31)) Malawi falls in group that was judged to have manifested an unclear trend in respect of its PFM performance between 2001 and 2010, with a – 1 difference in its summary Highly Indebted Poor Country (HIPC) and PEFA scores. Other countries in this group include Tanzania and Ghana. Zambia, which has undertaken similar reforms to Malawi, and Ethiopia are ranked in the group considered to have exhibited a clear positive trend, while Uganda and Rwanda were considered to have experienced a worsening level of PFM quality (see Annex 4 Table 1). The results of this country case study however places the accuracy of the HIPC assessments in doubt: the – 1 score for Malawi is a result of relatively high HIPC scores in the first half of the decade, compared to PEFA scores in the second half. However, given the PFM reforms that were implemented successfully in the middle years of the decade, particularly the IFMIS roll-out, and the problems documented in studies such as the Malawi Financial Accountability Assessment, it is highly unlikely that this state of affairs (reduced performance from the earlier to the later years of the decade) is an accurate reflection of reality. It seems more likely that Malawi should have been in the group with Zambia and Ethiopia.

The focus in this report is on the reforms undertaken between 2001 and 2010. The reforms targeted in the four reform plans relevant to this period affected every PFM function identified in the evaluation framework: macro-fiscal planning, budget calendars, classification, budget / policy links, budget documentation, revenue administration and tax collection, cash management, debt management, procurement, payroll management, aid management, internal audit, commitment controls, payment systems, accounting standards and chart of accounts, IFMIS, accounting and reconciliation procedures, financial reporting and external audit. Annex 5 table 2, ‘Targeted reforms by

PFM cluster', provides a summary of Malawi's reform plans. The four plans are the 2003 Malawi Financial Accountability Action Plan, the 2006 Public Financial and Expenditure Management (PFEM) Action Plan and the 2009/10 Revised PFEM Action Plan. At the time of the fieldwork, the Government of Malawi was in the process of finalising a 4th plan, the PFEM Reform Programme 2011–2014.

2.2 REFORM CONTEXT

Earlier studies have recognised the degree to which the political economy of Malawi and the incentives faced in the public sector impact on the likelihood of PFM reform inputs resulting in outputs beyond changed laws and rules. The 2004 document prepared by the NEPAD African Peer Review Mechanism (APRM 2004) noted that what Malawi lacked was not law, but disciplined implementation and leadership to command compliance with existing laws.

Studies undertaken in the earlier part of the decade (APRM 2004; Rakner, Mukubwu et al. 2004; Booth, Cammack et al. 2005; Durevall and Erlandsson 2005) linked poor implementation to a break down in discipline in the public sector. The APRM mechanism described it as "an internal culture of impunity in which regulations, laws and the constitution itself are routinely ignored and violations are rarely punished" (APRM 2004, p2). This culture of impunity was made possible by "unrestrained presidential power and inadequate checks and balances" (p2). Fozzard and Simwaka (2002) noted that the centralisation of power and political interference in the operations of the civil service already started towards the end of the Banda regime, with the President interfering in policy decisions and the Office of the President and Cabinet (OPC) stepping in to assume responsibility for a wide range of functions formerly fulfilled by sector departments. Within departments too, ministers and senior managers interfered with operations, sometimes right down to field level (p10).

Booth, Cammack et al (2005, p ix) explained the capture of the civil service by politicians in terms of the "hybrid neopatrimonial state" in Malawi which operates within a framework of formal law and administration but in which the state is informally captured by patronage networks. In this structure rent-seeking and the distribution of gains took precedence over the formal functions of the state – a view shared by some respondents on Malawi today. Not only did this directly limit the ability of public officials to make policies in the public interest, but also in the long-term eroded policy capacity in the state with politicians refusing to delegate lest they lose power in the short term to use policies for political gain or patronage. It also led to the gradual loss of a professional ethic in the civil service and the emergence of disincentives to individual performance.

The degree to which the abuse of power by political leaders was likely to be checked by the electorate is influenced by the perceptions of ordinary citizens of their relationship to the state and politicians. In 2003, 70% of Malawi respondents to the Afrobarometer survey described their relationship to the state in a binary choice as "people are like children, government should take care of them" rather than "government is an employee, the people should be the bosses who control the government" (supported by 21 % of the respondents). By 2009 these percentages had shifted, but only to 61 % and 26.5 % respectively (Afrobarometer 2003 and 2009).

In Malawi, a decline in the relative pay for public servants from the mid-1980s exacerbated the effects of political incentives on the capacity of the public service to design and implement reforms, including PFM reforms. Low pay coupled with frequent use of allowances to undertake duties distorted the incentive structure away from professionalism, public efficiency and a public service ethic (see Box 2 for a discussion) to the expectation of additional pay for the additional effort required by reforms, particularly in the middle and lower levels, on which deconcentrated PFM reforms depend.

Malawi is and has for some time been a highly aid dependent country. Grants and external financing equalled 36 % of government expenditure and net lending in 2008/9, and was expected to reach 41 % in 2009/10 (IMF Article 4 Report, 2010). The GBS Evaluation Report for Malawi (Claussen , Amis et al. 2006) reported that since 1994, aid flows have fluctuated between USD 375 million and USD 550 million – at times representing over 40 per cent of Gross National Income (GNI). From 1994/95 to 2003/04, external resources contributed to between 33 and 57 per cent of all public expenditure. When all donor reported disbursements are taken into account – including disbursement at headquarters level and on administration – total ODA disbursements from all CRS reporting donors have fluctuated between 84 % and 60 % of total government expenditure and net lending[2] over the period under review (See Annex 4 Table 3).

2 Calculated using the World Bank Development Indicators reporting on government expenditure, the official exchange rate and OECD DAC aid statistics.

Box 2: Incentives for capacity building and reform in the Malawi public service

While it is commonly perceived that a decline in the incentive structure in the Malawi Civil Service started from the switch to a multi-party system in 1994, Durevall and Erlandsson (2005) argue that a decline in remuneration from the mid-1980s onwards (coupled with the decentralisation of the payments system which led to a decline in expenditure control) already signalled change. By 2001 real compensation in the civil service was half the level it was in the early 1980s. The effect of the decline in salaries on the incentives faced by civil servants to perform, is exacerbated by (i) too small differences between job grades to provide a reward for experience, skills or performance, (ii) the pay and conditions of service are not sufficient to recruit and retrain skilled personnel, (iii) to compensate for low salaries a host of allowances and benefits were introduced which has weakened the transparency of the compensation system and skews incentives, (iv) there is a lack of rewards and sanctions within the incentive system which makes little distinction between good and bad performance.

In these circumstances they argue (drawing on the pay study done by Valentine (2003) for the Office of the President) that building sustainable capacity becomes hard: while some make an effort to improve their capacity so that they can move to the private sector – where pay particularly for the middle-grades is better – others participate for the allowances paid. In 2003 only 35 % of the wage bill comprised salaries and wages, the rest was allowances. While some of the allowances relate to performance, others are earned by fulfilling duties, for example travel, per diem, sitting allowances and attendance fees. These allowances 'distort the incentive structure away from public sector efficiency'. Moreover, department heads – or reform leaders – are required to pay personnel allowances to provide the incentives for the additional effort required by reforms.

During the 2000s the GoM and its donors initiated two main efforts at addressing the poor incentive structure for capacity building, performance and reform. In 2000s performance contracting for the top salary grades was introduced, but abandoned in 2007 (Tambulasi 2010) and in 2003 the Medium Term Pay Policy Reform. However, by mid-2011, respondents reported that besides the top 4 grades of the public sector where civil servants earn comparably to the private sector, remuneration levels were too low to attract and retain scarce skills and that many reforms are scuppered because many mid-level and lower civil servants expect allowances in addition to their salaries for undertaking additional or new work.

By the early 2000s, donors responded to weak capacity and incentives in the state for identifying PFM problems and designing PFM policies, by stepping in and under the guise of technical advice usurping the policy making function, with the formalisation and implementation of proposed policies linked to disbursement of resources (Booth et al, 2005). Booth et al (2005) however argue that whereas donors had the economic resources, they were under pressure to disburse and had incomplete knowledge of the situation on the ground. When the recipient had interests that were different from the donors and more complete knowledge, this asymmetry created a situation in which any conditions imposed by donors, could be subverted or avoided.

However, donors did not acknowledge the risk posed to PFM reform by the political system and the weak political commitment to reforms, and tended to see PFM reforms as technical interventions that operated outside of the political realm, except for the need to engage the political level in budgetary decisions (World Bank Operations Evaluation Department, 2005,(Barnett, Chisvo et al. 2006). This failure to understand the political and institutional context and the prevailing incentives in the public sector underlay many unsuccessful reforms in the late 1990s and early 2000s. The weak performance of the early PFM efforts, for example, can be explained by the reforms – such as IFMIS – running against the interest of political principals and senior bureaucrats at the time who wanted to retain their discretionary power to overspend (Durevall et al 2005).

We argue in this paper that the "PFM reform cycle" in Malawi is linked to the electoral cycle. Malawi has had four democratic elections. In 1994 Bakili Muluzi of the United Democratic Front (UDF) was elected as President. In 1999 he was re-elected for a second term. This term saw a progressive decline in the quality of fiscal management, increasing corruption and generally declining standards of public management (Barnett, Chisvo et al. 2006). Specifically, it was characterised

- by macro-economic instability caused by unsustainable fiscal policies. Periodic surges in public spending resulted in unsustainable increases in the budget deficit, high domestic borrowing, rising inflation, curtailed investment and poor savings. For example, by the end of the term in 2004, the overall balance excluding grants had deteriorated to – 20.8 % of Gross Domestic Product (GDP) from less than 9 % in 1999. Domestic debt stock was at 22 % of GDP in 2004, up from less than 10 % in 2000. Inflation was back at over 15 % over declining earlier in the term from the high levels at the end of the 2000s (IMF Article IV Staff Report, 2002 and 2004).
- institutional weakening with political loyalists appointed to head ministries and run parastatals, departments and key institutions such as the electoral commission (Booth et al, 2005, p. 25). Corruption became widespread with many civil servants copying the behaviour of senior officials and politicians, demanding fees for public services for private gain.

By the end of the Muluzi government Malawi was in deep crisis, after a famine in 2001/2002, with a stagnant economy and a break down in relations with donors and the suspension, for a second time, of the IMF programme and budget support.
His appointed successor, economist Bingu Wa Mutharika was elected in 2004. After the election however, President Mutharika refused to appoint Muluzi-

proposed ministers to Cabinet and presented a clear stance on the need for governance and economic reforms. This soon caused a breach with the party resulting in President Mutharika forming his own party while in office, but facing a minority in parliament. He launched a crackdown on corruption and took steps to improve fiscal discipline, actions which restored the confidence and support of international donors (Cooney, Wenderoth et al. 2010). After turning around Malawi's fiscal, economic and food security crisis and five years of economic reforms, he was re-elected in 2009 and his party, the Democratic Progressive Party (DPP), won a strong parliamentary majority. It is however not clear, as reported below, that President Mutharika's second term in office has been as strongly associated with strong political support for PFM reforms as the first. Towards the end of the evaluation period, key macro-economic indicators were also turning, for example with inflation rising again from a low of 7.9 % in 2007 and an increase in domestic debt to 20.3 % of GDP from a low of 12 % in 2007 (IMF Article IV Staff Report, 2009).

2.3 REFORM BASELINE

During the 2000s, the GoM launched a number of reforms (parliamentary, civil service, public financial management, economic, etc.) and national level plans and strategies. The latter are the Malawi Vision 2020 (2000); the 2002 Malawi Poverty Reduction Strategy (MPRS); the 2003 Malawi Economic Growth Strategy (MEGS); the 2006 Malawi Growth and Development Strategy (MGDS) 2006–2011; and the 2006 Malawi Development Assistance Strategy (DAS) 2006–2011.

PFM reforms in this period – whether driven by the GoM or by donors – responded to specific PFM weaknesses, which were already apparent at the start of the decade. Reviews in the early 2000s (see Annex 5 Table 1: State of PFM in the early 2000s for a detailed discussion) highlighted weaknesses in Malawi PFM. Information gathered from the fieldwork for this study did not contradict the findings of these analyses. Weaknesses included:

- *Strategic budgeting and budget preparation*: unrealistic forecasts, weak links between policy and budgets, non-functional MTEF and poor integration of development and recurrent budgets;
- *Resource management*: donor funding not fully captured, debt management weaknesses, poor capacity for and non-compliant practices in procurement, weaknesses in payroll management;
- *Internal control, audit and monitoring*: weak framework and capacity for internal audit, internal control failures, significant variance between budgets and actual spending;
- *Accounting and reporting*: accounting procedures not followed, public accounts incomplete and unreliable, backlog in audited financial statements, weak fiscal and bank reconciliation practices; and
- *External audit*: weak capacity, late audit reports, weak follow-up.

Reviews further highlighted that the downstream weaknesses in budget execution, procurement, accounting, reporting and external audit meant that earlier budget reforms in budget preparation were ineffective and that the GoM and donors remained exposed to significant fiduciary risk. Reviews also highlighted lack of institutional and human resource capacity in key PFM areas. Later analyses noted improvements in PFM systems since the early 2000s – particularly in respect of accounting and financial reporting. However, the analyses still emphasised the persistence of weaknesses in budgeting, budget execution, the completeness of financial reporting and audit.

2.4 DIRECT REFORM INPUTS

EQ1: What has been the nature and scale of PFM reform inputs provided by Government and Donors?

Both the Government of Malawi and its donors financed the PFM reforms over the period. Donor inputs included both direct support and complementary inputs. Direct donor inputs comprise concessional loans and grants, provided as cash transfers or as technical assistance, goods and services.

Direct donor support

Over the period 2001 to 2010, donors committed direct PFM support programmes amounting to USD 104 million (in constant 2008 prices). The largest of the direct support programmes was the World Bank Financial Management, Transparency and Accountability Project (WB FIMTAP), followed by the European Union Capacity Building Programme for Economic Management and Policy Coordination (CBPEMPC) and support from the Millennium Challenge Corporation (MCC) in the Malawi Threshold Programme. If the two DFID programmes over the period are added together and the support programme for the Malawi Anti-Corruption Bureau (ACB) included, it committed support to PFM activities of just over USD 22 million (2008 prices) over the period.

The table below captures major programmes of donor support to PFM. Note that for programmes that either started before 2001 or will continue after 2010, the budgets provided here reflect a straight-line portion of the funds for the years that fall within the review period, and not the full budget of the programme. In addition to the programmes and projects reflected here, the Japanese International Cooperation Agency (JICA) and Irish Aid also supported PFM.

Table 2: Direct Donor support for PFM Reform

Donor	Period	Amount Budgeted ($2008 m)	Objectives/areas of work[1]	Counterpart institutions[2]
WB FIMTAP	2003–2008	25.30	IFMIS and HRMIS, capacity development, strategic planning and linking to budget planning, MTEF, payroll audits, government IT infrastructure to support PFM	OPC, ODPP, AGD, DHRMD
EU CBPEMPC	2003–2007	13.75	Economic Management and Policy Coordination, Improving aid and budget coordination	MEPD, MoF, Chancellor College
MCC through Casals & Associates	2006–2008	11.69	IFMIS, capacity building in Public Procurement and National Audit Office, debt management capacity development in MoF, including long-term advisor, capacity development in the MEPD, support for tax administration capacity, including long-term advisor, support for parliamentary oversight and training of journalists	MoF, MEPD, NAO, ODPP
DFID – SPMBC	2005–2007	9.17	IFMIS Piloting, TA and financial assistance to the MoF DAD and Budget Division, including funding Director of DAD, 2 ODI fellows, advisor in Revenue Policy Division and support for advice on negotiating uranium tax regime	MoF
DFID – ACB Support	2001–2010	7.66	TA and support for capacity building. Funding for prosecution of high-level cases	ACB
GTZ Macro-economic Advisory Services Project	2004–2010	7.37	Strengthening of macro-economic planning, budgeting, PFM reform planning and management, provision of long-term advisors	MoF, MEPD

Donor	Period	Amount Budgeted ($2008 m)	Objectives/areas of work[1]	Counterpart institutions[2]
CIDA – Governance Assistance Project (GAP)	2001–2006	5.66	Strategic planning and policy formulation, organisational development, human resources development, gender	OPC, MEPD, MoF, DHRMD, MLG
DFID – PEA	2008–2010	5.47	Support for NSO strategic plan, MEPD M&E Road Map, PRSP/JCPR reviews, PETS, performance audits and community monitoring	NSO, MoF, MEPD, NAO
Norway	2007–2009	4.87	Economic Statistics, national accounts, poverty statistics, macro-economic modelling, gender issues, poverty trends and institutional development of NSO and MEPD	NSO, MEPD
DFID-Tikambirane	2003–2009	4.56	Support for parliamentary committees	Parliament
Norway	2004–2007	3.13	Provision of long-term advisor to NAO, local consultants, training and equipment in human resource management, audit training, parastatal and performance auditing, internal planning, NAO independence, IT, Improvements to standards, methods, manuals and codes of ethics	NAO
EU add to WB FIMTAP	2003–2008	3.01	Added to FIMTAP, for capacity building to AGD and NAO.	AGD, NAO, and MoF
World Bank – MASAF III-APL II through the Local Development Fund	2008–2010	2.50	Capacity building for financial management at the district level	MoF

Donor	Period	Amount Budgeted ($2008 m)	Objectives/areas of work[1]	Counterpart institutions[2]
CIDA – PEG Programme	2003–2008	2.33	Support for parliamentary committees and Parliament's Strategic Plan	Parliament
UNDP – Debt management and Aid Effectiveness	2007–2008	1.62	Capacity building of DAD, gap-funding for posts in DAD	MoF
IMF East Africat	2006–2010	1.10	Missions on Cash Management, IFMIS, budget preparation, revenue administration reform, accounting and financial reporting.	MoF
UNDP – procurement	2006–2008	1.06	Capacity development in procurement, assessment of procurement, training to ODPP and procurement entities, website set-up, support to market price analysis and legal and regulatory framework	ODPP
IMF FAD	2002	–	Resident advisor in Fiscal Management	MoF

[1] Human Resources Management Information System (HRMIS), Medium Term Expenditure Framework (MTEF), information technology (IT), Technical Assistance (TA), Overseas Development Institute (ODI), Monitoring and Evaluation (M&E), Public Expenditure Tracking Survey (PETS).
[2] Office of the President and Cabinet (OPC), Office of the Director of Public Procurement (ODPP), Accountant General Department (AGD), Debt and Aid Division (DAD) Department of Human Resource Management and Development (DHRMD), Ministry of Economic and Policy Development (MEPD), Ministry of Finance (MoF), National Audit Office (NAO), Ministry of Local Government (MLG), National Statistics Offie (NSO).

Source: (World Bank 2008; De Renzio, Andrews et al. 2010; Government of Malawi 2010; Thebault-Weiser and Chilumba 2010; UNDP 2010)

Available data suggest that actual disbursements fell significantly short of the budgeted expenditures. The database compiled for the De Renzio et al (2010) quantitative study, drawn from the OECD Creditor Reporter System and a direct survey of donors, estimated a total of USD 38 million disbursed by donors for PFM reforms between 2001 and 2010. Some of the discrepancy may be explained by (i) programmes that stretch beyond the period of review where lower amounts were disbursed during the review period than apportioned in the table above; (ii) activities included in the list above which might not have been included by the donors themselves as PFM oriented (such as support for planning in the MEPD) and (iii) the portion of budgeted funds that is used for programme administrative costs. Nevertheless, the gap between funds committed for PFM reforms and the funds actually disbursed is still significant.

Reform inputs in the three areas of investigation

Donor inputs into the three areas of investigation were dominated by institutional capacity building activities over the period under review, including support for training delivery, development of training capacity and the preparation of manuals, the latter particularly in external audit. Advisory services through TA were also common (for example for IFMIS in the early years and the NAO in the second half of the period), and the purchase of equipment (particularly for IFMIS). Unusual for donor support programmes, financial support for recurrent cost like salaries and office costs was also provided to the ODPP, the MoF, the NAO and Parliament, where the Millennium Challenge Corporation Threshold Programme provided support for the development of the committee function through the State University of New York.

Key programmes that supported all three areas were the World Bank Financial Management and Accountability Project (FIMTAP, although support to IFMIS was limited after 2006) and the Millennium Challenge Corporation's Malawi Threshold Programme. In procurement, support was also provided by the UNDP and in external audit, by Norway (initially jointly with Sida). The table below provides an overview of key donor programmes by area of support.

Table 3: Key donor programmes in focus areas

Donor	Programme	Duration	Amount committed (USD 2008 million)	Focus of Inputs	Nature of Inputs
Procurement					
WB	Financial Management and Accountability Project (FIMTAP)	2003–2009	5.79	Establishment of the Directorate of Public Procurement, monitoring the implementation of the Public Procurement Act, development of regulations training procurement specialists.	Institutional Strengthening Activities
UNDP	Complementary support to FIMTAP	2006 to 2007	0.734	Provision of Market Price Analyst to produce quarterly Market Price Index for most purchased goods in government; capacity building	Institutional Strengthening Activities
	Capacity Building Programme	2008	1.14	Capacity building through training for ODPP and procurement entity officers, development of manuals, and training of trainers.	Institutional Strengthening Activities
US: Millennium Challenge Corporation	Malawi Threshold Programme	2006–7	Committed – 0.929m[1]	Support for training, including short courses and degree programmes.	Institutional Strengthening Activities
IFMIS					
WB	FRDP III and FRDP-TA 3	2000 to 2004	7.4 (committed) 2.7 (spent	Procurement of IFMIS, TA	Institutional Strengthening, Equipment, Software, TA

Donor	Programme	Duration	Amount committed (USD 2008 million)	Focus of Inputs	Nature of Inputs
WB	FIMTAP	2003–2006	14.3m 5.46 m paid to IFMIS suppliers 2002 to 2004 [2]	Capacity building support for design and implementation of IFMIS, including technical assistance, hardware, equipment, software and training. Support for IFMIS from FIMTAP only ran up to 2006, although FIMTAP continued beyond. After 2006 review – the IFMIS component was reduced to supplying 3 back-up generators.	Institutional Strengthening Activities
US-Millennium Challenge	Malawi Threshold Programme	2006–8	2.44 [3]	Setting up automated regional payment centres and a disaster recovery centre: purchasing the hardware and software.	Advisory TA, Institutional Strengthening activities
IMF East Africat	Technical missions	2006–2010		Technical support missions on IFMIS, first in 2006 to assess implementation	
External Audit					
WB	FIMTAP	2003–2009		Support for modernising legal framework; capacity building of NAO and PAC; development of audit modules; TA assisting to clear backlog of audits.	Institutional Strengthening Activities TA
EC	FIMTAP		2.857	Training and developing audit modules	Institutional Strengthening Activities
CIDA/DFID	Project on Economic Governance (PEG) Tikambirane	2003–2009	6.1	Capacity building of external stakeholders to engage with economic issues; work with Parliamentary committees	Institutional Strengthening Activities

Donor	Programme	Duration	Amount committed (USD 2008 million)	Focus of Inputs	Nature of Inputs
Norad/SIDA (co-funded but managed by Norad)	Support to NAO	2004–08	3.12	Support for capacity building in NAO, including the provision of a long-term advisor; support for HR management; training of NAO officers; IT systems support; development of audit manuals; development of performance auditing and auditing of parastatals.	Institutional Strengthening Activities, Advisory TA
Norad	Support to NAO	2009–12	3.263m	Support for implementation of the Strategic Plan of the NAO, this includes development of audit methodology; information and IT systems in NAO; development of office; improving the independence of the AG; performance auditing. Provision of long-term TA.	Institutional Strengthening Activities, Advisory TA
Office of the Auditor General of Norway	Twinning agreement	2007 onwards	No amount available	Twinning agreement with Malawi NAO, funded from the OAG Norway.	Institutional Strengthening, Advisory TA
DfID and GIZ	Support to NAO	2005 to 2010	2.326m	Support for auditing of local councils	Advisory TA, additional personnel
EC	Support to NAO	2009	2.86	Development of audit methodology, additional to FIMTAP support	Institutional Strengthening Activities
US-Millennium Challenge	Malawi Threshold Programme support to NAO	2006–08	Committed – 1.23 m Actual – 0.44	Recruiting, training and equipping staff for NAO.	Institutional Strengthening Activities

1 Actual – 0.531 m (excludes TA and operational cost of implementing agent)
2 Rwamibazi, H. (2004). Government of Malawi IFMIS Implementation Peer Review Report. Lilongwe, Government of Malawi.
3 Actual on non-consultancy and overhead costs 0.978m

Government of Malawi reform inputs

The Government of Malawi, besides development expenditure in key PFM institutions, such as the Ministry of Finance, the Office of the Director of Public Procurement (ODPP) and the National Audit Office, and in-kind inputs for PFM reforms associated with staff time and overheads, also financed reforms in the three focus areas. The table below captures GoM inputs in the IFMIS: between 2005/6 and 2010/11 spending by the GoM on developing and rolling out the national and local government IFMIS equalled USD 14.7 million (nominal terms) or 0.33 % of revenue excluding grants.

Table 4: GoM spending on IFMIS (national and local councils)

Malawi Kwacha million (nominal)	2005/6 to 2010/11	
	Budgeted	**Actual**
Licence fees	1 120	956
Budgeting system	623	417
Accounting system and IFMIS Roll out	1 097	803
Total	**2 840**	**2 175**
As percentage of revenue excluding grants (for actual spending 2005/6 to 2009/10)		**0.33 %**
In USD (nominal)	**19.28**	**14.77**

Source: GoM, African Development Indicators, Quanda historical exchange rates, authors' calculations.

2.5 STRUCTURES TO DESIGN AND MANAGE PFM REFORM INPUTS

EQ 2: What type of structures has been used for the design and management of these reform inputs? Have these structures served to provide a coordinated and harmonised delivery framework?

PFEM reforms are coordinated and monitored by the PFEM Steering and Technical Committees, supported by the PFEM Unit. The PFEM Technical Committee comprises the heads of the key PFM institutions, both from within the Ministry of Finance such as the Accountant General's Department (AGD) and the Budget Office, and outside of the Ministry, such as the Office of the Director of Public Procurement (ODPP), the National Audit Office, the Malawi Revenue Authority (MRA), the Ministry of Development Planning and Cooperation (MoDPC) the Department of Public Service Management (DPSM) and the Office of the President and Cabinet (OPC). The Committee meets monthly and is chaired by the Secretary to the Treasury. It reports to a PFEM Steering Committee of Principal Secretaries and Chief Executives, which is also chaired by the Secretary to the Treasury and meets quarterly. The Technical Committee operates with standing working groups (for example on cash management, audit and Public Expenditure Reviews) and ad hoc task forces.

The PFEM Secretariat was first established in the Ministry of Finance under the Policy Assessment and Review Unit (PARU) in 2008, as a way of fast tracking the implementations of the PFEM reforms and the PFEM Action Plan. It emerged from the EU Economic Management Capacity Building programme. After a functional review of the Ministry, it was however moved to the Debt and Aid Division (DAD) in January 2010. The unit comprises five staff members (in addition to a head) and is supported by a GIZ advisor. It is charged with supporting the PFEM Steering and Technical Committees, the working groups and task forces; and drafting, coordinating and monitoring PFM reform plans.

PFEM Reforms are also discussed at the government / donor Group on Financial and Economic Management (GFEM), which meets quarterly, subsequent to the PFEM Steering Committee meeting. This group too is chaired by the Secretary to the Treasury, but is co-chaired by one of the leading donors, presently the World Bank. All donors involved in PFM and economic management in Malawi are members of the group, currently the World Bank, the African Development Bank (AfDB), GIZ, the Canadian International Development Agency (Cida), USAID, the European Union, DfID, the Millennium Challenge Corporation, Norway, the UNDP, Irish Aid and Jica. The GFEM was originally a donor-only group, but the emergence of a government technical PFM unit created the opportunity for a joint forum inclusive of all key stakeholders.

Since its inception in 2005 (originally as the Malawi Financial Accountability Action Plan Technical Committee set up after a diagnostic study undertaken by the EU Capacity Building Project) the PFEM Technical Committee has played an increasingly strong role in driving and coordinating PFM reforms. The development of a first action plan through the committee in 2006 and the creation of a specialised support unit in 2008 were significant, signalling the intent of the Government of Malawi to exercise leadership in the design and management of these reforms. The Government of Malawi also initiated the funding of PFM Reforms through a SWAp basket, first mooted in a PFEM Technical Committee Meeting in 2008 (Ministry of Finance 2007 to 2011).

The current draft PFM Reform Programme is the result of a two-year long inclusive process with stakeholders in the Government of Malawi to assess all PFM and economic management institutions and determine reform priorities, which resulted in the PFEM Situation Analysis for Malawi (Government of Malawi 2010). The minutes of the PFEM Technical Committee (Ministry of Finance 2007 to 2011) illustrate the iterative process between the Committee, the PFEM Unit and PFEM institutions in Government to finalise the analysis and draft the reform programme. The plan was drafted with the full participation of affected institutions, but ironically it perhaps suffers from having been excessively participative. The draft Reform Plan is better characterised as a collection of individual institutional strategies, rather than a coordinated plan with well-reasoned proposals for prioritisation and sequencing.

A shared aspect of the plan across PFM sub-sectors, however is a concern with capacity building and skills development.

At the time of the fieldwork a team of consultants hired by the European Union was about to initiate work to prioritise and cost the proposed activities. If the mission is able to factor in fully the Malawi reality, is not disproportionately influenced by donor priorities, and is thus able to establish a coherent and viable sequencing of actions, it will be an important technical input.

It was also planned that the World Bank should manage a multi-donor trust fund to support the PFM Reform Programme. This should aid donor coordination but the management role will need to be handled sensitively so as to preserve the increased ownership of PFM Reforms which has been achieved through the PFEM Committeesю

Towards the latter half of the review period, the use of country systems by key donors also served to improve ownership of PFM Reforms. In external audit for example, the Norad support was channelled through Malawi systems and broadly targeted to support the implementation of the Strategic Plan of the NAO. However, this ownership benefit is offset by slow implementation on account of weak project management capacity (see paragraph 103 below).

2.6 COMPLEMENTARY DONOR INPUTS TO PFM REFORM

EQ 3: What types of complementary actions have Donors taken to support PFM reforms and what has been their significance? Have they had any influence on the external constraints to reform?

In Malawi all three forms of complementary donor inputs are present, namely the use of country systems, the provision of budget support, policy dialogue and external monitoring of PFM reforms. We look at each of these separately addressing the evaluation questions of what has been their significance and whether they have had any influence on the external constraints to reform.

Use of country systems

Altogether 50 % of aid disbursed in Malawi made use of government budget execution and financial reporting systems in 2007, compared to 55 % in 2005; 35 % of aid disbursed for the government sector used country procurement systems in both survey years. By 2007, key donors such as the European Commission, the UN family, Germany, and IFAD had significantly reduced their use of country systems. However, this was countervailed by two major donors, the Global Fund and DFID, increasing their use of country systems (OECD 2009) from 67 to 100 % and from 48 to 65 % respectively. It is likely however that with the introduction of sector-wide approaches (SWAps) coupled to the use of country systems and agreements on joint financial procedures in health and education, the 2011 survey results will show an increase in the use of country systems.

Key donors to the health and education sectors use country systems to disburse development assistance under the arrangements of the SWAps. For example, whereas only 7 % of development funds on the education budget used country systems in 2007/8, by the third year of the SWAp, in 2010/11, 47 % of funds did[3].

While this has contributed to an increased focus on the quality of PFM systems within these sectors with commensurate support by donors for strengthening systems through training in financial management, monitoring and evaluation, and procurement[4], additional operational and reporting safeguards that apply under the SWAp agreement to all funds in the SWAp basket (whether donors or government funds) affect how government's own funds can be spent and still detract capacity from government's own systems. For example in both health and education, *all* procurement above a threshold has to be through international competitive bidding, using World Bank Procedures even for GoM funds, causing significant delays and using GoM staff time and capacity that could have been spent on fully mastering and implementing Malawi's own procurement procedures[5]. In-year reporting on health and education expenditure from the council level includes an extra loop as reporting for all funds is not only in terms of the Local Government Finance Committee (LGFC) procedures, but also in terms of SWAp-defined procedures[6], although the GoM has taken steps through the LGFC to reduce multiple reporting lines.

Provision of Budget Support and the Policy Dialogue

Over the period under review budget support became an increasingly important aid delivery mechanism (see table below). Malawi has been receiving General Budget Support (GBS) since the late 1990s, with its provision being harmonised from the early 2000s onwards through the Common Approach to Budget Support (CABS) group which currently comprises DFID, EU, Germany, Norway, the African Development Bank (AfDB) and the World Bank. The IMF and the UNDP are observers in the group.

Most budget support donors suspended their programmes in 2002 and 2003 when the IMF suspended its economic programmes due to fiscal mismanagement and the ruling party attempted to have the constitution amended to allow unlimited presidential terms. Interim debt relief – which Malawi was receiving having reached the highly indebted poor countries (HIPC) debt relief decision point in 2000 – was suspended too. After the change of government in 2004, the IMF agreed a new Poverty Reduction Growth Facility with Government. In 2006, Malawi reached the HIPC completion point, releasing USD1.6 billion (nominal terms) in debt relief ((Botolo 2009).

3 Figures provided by Ministry of Education.

4 Interview, Ministry of Education; Government of Malawi (2010). Public Financial and Economic Management Situation Analysis Report. Lilongwe, Ministry of Finance, Malawi.

5 Interviews, Ministries of Health and Education.

6 Interviews LGFC, Blantyre District Council.

Table 5: GBS and SBS as a percentage of total aid disbursed (2002 to 2008)

	GBS as % of total aid	SBS as % of total aid
2002	0%	0%
2003	4%	4%
2004	13%	19%
2005	16%	16%
2006	3%	5%
2007	4%	10%
2008	15%	25%

Database from the De Renzio et al study (De Renzio, Andrews et al. 2010)

Since 2005 the CABS partners' partnership with the GoM is guided by a Joint Framework, which sets the procedures for budget support cooperation and dialogue in Malawi. Since 2006 the parties also have used a Joint Performance Assessment Framework (PAF), which provides a set of indicators that inform the policy dialogue associated with GBS. PFM is one of four PAF sections.

Examination of the CABS agreement and the individual conditions that attached to the World Bank, IMF and AfDB budget support operations during the period show that significant aspects of PFM reform are related to budget support performance assessment framework measures: these include (by PFM function):

- *Strategic Budgeting and budget preparation*: linking national and sector strategies and budget; budget and chart of accounts formats and classification; budget transparency reforms including the publication of budget briefs, pre-budget statement and the use and publication of prioritised delivery targets; budget calendar reforms
- *Resource Management*: debt management; revenue administration reforms; cash management reforms; finalisation of the procurement audit and procurement reforms;
- *Internal control, audit and monitoring*: IFMIS roll-out;
- *Accounting and Reporting*: IFMIS roll-out; account reconciliation; improvements in in-year monitoring and reporting;
- *External Audit*: capacity building in external audit; the reduction of reporting backlogs, timely production of new audit reports and improved mechanisms for audit follow-up.

The HIPC completion point conditions also influenced the emphasis in PFM reform outputs: four conditions are relevant in this respect (IMF and World Bank 2000), namely (i) rolling out IFMIS to four national ministries, (ii) separating audit and public finance management in the legal framework and (iii) quarterly reporting on actual expenditures in accordance to a mutually agreed MoF/ IDA format and (iv) successful completion of the IMF Poverty Reduction Grant Facility programme. The HIPC country assessment and action plan document (IMF 2001) also set out a country action plan (HIPC AAP). Key reform outputs achieved during the review period can be related to the completion conditions and the action plan, including the enactment of the new Public Finance Management Act in 2003 and (by PFM Function):

- *Strategic Budgeting and Budget Preparation*: increased comprehensiveness of budget to meet GFS standards ;
- *Resource Management*: Issue of debt management guidelines; establishing a cash management unit; strengthening of internal audit by allocating central agency responsibility and developing manuals; procurement reform; payroll reforms.
- *Internal control, audit and monitoring*: IFMIS outputs between 2004 and 2006; the centralised payment of utility bills through IMFIS by 2007; improved in-year monitoring.
- *Accounting and Reporting*: IFMIS roll out; quarterly reporting.
- *External Audit*: Strengthening external audit.

In short, the HIPC completion conditions and action plan measures have together set the Malawi reform agenda for the decade.

The IFMIS roll-out – which was largely financed by the GoM after the withdrawal of the World Bank from the project – and the speed with which it was implemented between 2004 and 2006 can be related to the HIPC completion point. Respondents during the fieldwork however argued that Government support for IFMIS is also to be explained by the interest of government itself in gaining control over payments and government cash. This argument is convincing, since the IFMIS reforms continued after the benchmark was reached.

PFM Reforms can therefore be related to debt relief and GBS:

- With debt relief and GBS both associated with additional resources and GBS also the preferred support modality, and both dependent on the quality of Malawi's PFM systems, they created positive incentives for PFM reform.
- Similarly, the policy dialogue space provided by GBS created the opportunity for donors to influence government reform priorities. For example, external audit reforms can arguably be attributed to donor pressure in the CABS group. The CABS PAF PFM section, supported by the use of harmonised indicators in donor agreements, has consistently included specific required improvements in PFM, which for the most part, have been achieved as evidenced in CABS Aide Memoires (CABS Partners 2009, 2010, 2011).
- In Malawi, Donors argue that GBS provides additional funding to the GoM, enabling it to fund and manage PFM reforms through its own

budgets thus relaxing the financial constraint and enabling ownership of reforms[7].

Two arguments however, prevent an easy conclusion that GBS supports effective PFM reform through these three mechanisms. Firstly, in Malawi many reforms can indeed be related to the content of the HIPC completion point conditions (see below) and general budget support frameworks. However, that does not mean that the incentives created by GBS are sufficient conditions or even necessary conditions for PFM reform outputs. There was also a lack of progress against some performance measures, even over a long period of time (e.g. the integration of recurrent and development budgets).

Secondly, the MFAAC and the first PFEM Action plan content were driven by the priorities of GBS partners. It should be noted however that the first PFEM Action plan was developed by the PFEM Technical Committee, taking into account the concerns of donors. The role of GBS donors in determining the content of the 2010 Revised PFEM Action Plan was also acknowledged (GoM, 2010). While this donor influence through GBS may support the achievement of PFM reform *outputs*, it may undermine the achievement of improved PFM *outcomes* if the influence is uncoordinated, or if outputs are not sustained, due to a loss of ownership and commitment by Government. By 2010 it had become clear to stakeholders that the achievement of a series of uncoordinated outputs had not resulted in the systematic PFM improvements needed[8]. The elaboration of the 2011–2013 PFM Reform Plan, still in a draft form during the field visit, was intended as a response to this problem. A similar argument was expressed in the 2006 Malawi Country Report of the Joint Evaluation of General Budget Support (Claussen , Amis et al. 2006) which highlighted that the CABS PAF, as developed at that time by the GBS donors, was not conducive to a coordinated, sequenced PFM Reform programme, as the indicators used at the time were simply the sum total of individual donor preferred PFM actions. While GBS may open the space for reforms to happen, it has not adequately supported the coordination and strategic sequencing of reforms.

With regards to the impact of GBS on the financing available for reforms, donors argue that GBS increases funds for key PFM reforms like IFMIS by increasing the budget, provided that it is a GoM priority. However, the GoM argue that as PFM reforms have to compete with other pressing priorities like education and health for a share of the budget, increases in budget support will not necessarily translate into commensurate increases in government funding for PFM reform. Even if PFM reform is a priority for the Ministry of Finance, the institution would still need to justify the allocation to political and other stakeholders.

In conclusion, the Malawi experience points to the influence of GBS dialogue on reform outputs through conditionality-type mechanisms only working where Government is also committed to achieve the reform targets estab-

7 Donors group discussion, 11 August 2011.

8 Interviews PFM Coordination Unit, GIZ.

lished as conditions. As is argued further in sections 4 and 5, even when Government acquiesces to the conditions, but there is an absence of real commitment, the narrowly specified outputs may be achieved, but these do not lead to real PFM improvements, as they are insufficient and not sustained. Instead, the mechanism of influence may be more subtle: the coincidence between what were initially donor-proposed PFM reform policies and government's own PFM Action plans in the 2nd half of the period suggests that donor-driven discourses may capture the policy space so that when Government does want to address PFM weaknesses on its own behalf, the direction and form of reforms are close to those initially proposed.

2.7 EXTERNAL PRESSURES FOR REFORM

EQ 4: To what extent has there been domestic public pressure or regional institutional pressure in support of PFM reform and what has been the influence on the external constraints to reform?

Respondents in country identified four main mechanisms for external influence on PFM reforms, in line with the sources of influence identified in the evaluation framework. Only two of these however can be deemed to be pressure impacting on the political space for reforms, rather than influence over the policy space, that is over the nature of the reform ideas brought up for consideration:

- *The demand for improved economic governance by organised civil society and the public:* several civil society organisations with capacity for engaging with public expenditure and financial management issues are active in Malawi. The engagement of civil society organisations in PFM has been largely through publication of briefs, opinion pieces and research reports, as well as through the media. It is only recently – with the creation of Sector Working Groups in national planning processes that a formal mechanism is in place for participation of civil society organisations in economic governance policy discussions[9]. Besides following and commenting on government's performance in terms of budget policy, civil society organisations have also been vocal at times – particularly in the run-up to the 2004 elections – for improvement of specific functions in government, notably procurement and external audit. Some respondents saw this pressure as an important factor behind increasing and maintaining political support for PFM reforms. This pressure reflected a general concern by the public with government's performance in managing the economy, accountability and acting in peoples' interest. For example, in the 2003 Afrobarometer 66 % of respondents thought government was handling corruption unfairly or very badly; the management of the economy was picked as the most important issue by the 5th highest number of respondents; almost two

9 The November 2009 CABS Review included a formal decisions that the membership of the economic governance SWG will include civil society organisations CABS Partners (2009). Aide Memoire, Common Approach to Budget Support, 2009. Lilongwe, CABS.

thirds of respondents thought that leaders did not look after the interest of the people and (in a separate question) that people should question the actions of their leaders.

More recently civil society organisations have kept up the pressure for improved external oversight. It is difficult to determine the degree to which this pressure exerted an influence: the economic governance and PFM issues emphasised by Malawian civil society coincide significantly with the issues emphasised by donors.

- *Oversight from the legislature:* several respondents made the point that the first term of President Mutharika was marked by his party being in the minority in parliament. This provided an element of oversight, which kept pressure up for effective reforms. A perceived decline in political will for reform they argue, can be ascribed to his party having a majority in parliament for his second term, and the fact that he is not able to run for a third term in office, in terms of the Malawi Constitution. With no prospect of re-election, the incentives to sustain economic governance reforms at the leadership and decision-making level are weaker.
- *Learning from regional experiences:* Respondent's highlighted three sources of regional influence, all three affecting the policy space for reforms. These are (i) the work of East Afritac, (ii) the African Organisation of Supreme Audit Institutions English (Afrosai-E) and (iii) review and copying of solutions developed elsewhere in the region. Government respondents who have had contact with the support provided by the East Afritac, were consistently complimentary, noting that the support was practical and tailored to the Malawian context. In audit, Malawi's participation in the work programme of Afrosai-E was noted both by the Auditor General and Norad as an important reference point for reforms. The Malawi IFMIS is largely copied from the Tanzania system.
- *Referencing international standards:* in audit the existence of international standards set by the International Organisation of Supreme Audit Institutions (INTOSAI) and the content of the Lima Declaration – which highlighted the independence of supreme audit institutions as necessary for the fulfilment of their functions – were seen as important to create the policy and political space for the external audit reforms.

In summary, it is difficult to differentiate external, domestic, regional and international influence on PFM reform outputs from other factors. In Malawi, external domestic pressure has increased the political space for reform of procurement and external oversight functions, but in conjunction with donor pressure. Regional and international institutions have influenced the policy space for change.

2.8 RELEVANCE OF PFM REFORM INPUTS

EQ 5: How relevant was the PFM reform programme to the needs and the institutional context? Was donor support consistent with national priorities? To what extent were adaptations made in response to the context and the changing national priorities?

We assess relevance in three main dimensions: (i) were reform inputs relevant to the identified PFM weaknesses and institutional context in Malawi; (ii) were reform inputs adapted to the context, especially to the level of ownership and capacity for reform implementation; and (iii) was there sufficient flexibility in the design of the support to adapt the design and implementation of support to changing needs.

While reform inputs throughout the period were targeted to identified areas of PFM weakness, they were, for the most part, not sufficiently adapted to both the institutional context and needs of Malawi or the level of ownership and capacity for reform implementation.

Reforms inputs were directed at areas of PFM weakness: The team found the reform inputs over the period from both government and donors to be broadly relevant in respect of the areas addressed. The table below matches up the broad categories of reform (see section 2.4 and Annex 5 Table 1: State of PFM in the early 2000s) with the objectives of reform inputs (see Annex 5 Table 2: Targeted Reforms by PFM cluster).

Table 6: Links between diagnosed PFM weaknesses and PFM reform inputs

	PFM weaknesses	PFM Reform inputs
Whole system	Legislative weaknesses	Improved legal framework, separating PFM and audit legislation; managing PFM reforms
Strategic budgeting and budget preparation	Unrealistic forecasts, weak links between policy and budgets, non-functional MTEF and poor integration of development and recurrent budgets	Strengthening national plan and budget links; PRSP reviews; improved revenue forecasting capacity; macro-economic modelling; improving and automating budget formats and chart of account classifications.
Resource management	Donor funding not fully captured, debt management weaknesses, poor capacity for and non-compliant practices in procurement, weaknesses in payroll management	Strengthening debt management; strengthening donor management; strengthening revenue administration capacity and approaches; strengthening cash management and linking it to the IFMIS

	PFM weaknesses	PFM Reform inputs
Internal control, audit and monitoring	Weak framework and capacity for internal audit, internal control failures, significant variance between budgets and actual spending	Developing and implementing a functional IFMIS at national and council level; strengthening internal audit; reforming procurement legal framework and function, capacity building in procurement.
Accounting and reporting	Accounting procedures not followed, public accounts incomplete and unreliable, backlog in audited financial statements, weak fiscal and bank reconciliation practices	Developing and implementing a functional IFMIS at national and council level and strengthening accounting and reporting; bringing the public accounts up to date.
External Audit	Weak capacity, late audit reports, weak follow-up	Strengthening external audit institutions; building capacity in parliament and civil society

This 'topicality' of reform inputs to identified PFM weaknesses is not surprising. In contrast to PFM reform inputs in the 1990s, which were more donor-specific and isolated, reform inputs over the period were broadly aligned with the three reform plans, which in turn responded to diagnostic work and reviews undertaken.

However, a key further query is whether the reform inputs were of the right form and delivered appropriately and were associated with appropriate and correctly sequenced solutions, given GoM priorities and the Malawi institutional context. Here the team made two findings (i) that the form of inputs and resulting solutions were not consistently relevant to the Malawi context and (ii) while reforms in the early years of the period proceeded without sufficient ownership, the targeting of reform inputs became more adapted and more responsive to the level of ownership over the period, primarily because greater ownership emerged over time.

Reforms inputs did not consistently take the institutional context into account: Reform design was not always appropriate to the Malawi context, particularly capacity and institutional constraints. For example:

- The procurement reforms initiated through the drafting of the Public Procurement Act arguably did not take adequate account of the weak skills base for procurement in government when decentralising procurement responsibilities to spending agencies, Internal Procurement Committees (IPCs) and professional internal procurement units (IPUs, see Annex 6 for a discussion of the procurement reforms). While this was in line with international perceived best practice, it is not clear that it was good practice for Malawi. Reviews of the procurement function throughout the period consistently find that the reformed system is not fully functional, significantly because of capacity shortfalls both at the centre and at procurement entity level (ODPP 2007; O&M Associates 2010). This was confirmed in interviews undertaken for this study[10].

- Similarly, the decentralised internal audit model, while again aligning with international best practice, also arguably does not take into account the low availability of qualified public auditors or persons with appropriate skills to staff the units, even when they are constituted.
- In IFMIS it was not clear that the donor-funded technical assistance between 2000 and 2004 to develop the integrated system was primarily tailored to develop a system that will address Malawi's needs, or operated as an instrument in the self-interest of the individuals managing the design and implementation process[11].
- Subsequent IFMIS input choices – even if allowing quick wins in the short term – can also be criticised from the institutional context perspective: the contract to purchase the software developed for Tanzania's IFMIS, while providing fast functionality for Malawi in core functions, may not have been a cost-effective solution for long-term development of a fully functional IFMIS.
- In budgeting there was doubt whether the detailed output-based budget process proposed by the MoF would be supported by the available capacity in the GoM (ACE and IPF 2006); also it is not clear that the degree of effort to improve budgeting expended in the early years of the period without commensurate effort in improving downstream systems was a strategic choice.

A key factor in the relevance of donor reform inputs to the Malawi context is the quality of technical assistance provided. GoM fieldwork respondents all expressed appreciation for the value of technical assistance as it brings in needed expertise and experience to drive reforms. However, echoing findings by earlier reviews (see for example World Bank 2006) the type of technical assistance and the quality of the technical assistant matter. The kind of support that is provided by advisory and/or mentoring oriented TA – particularly long-term TA – is judged to be useful. Several respondents refer to the high value offered by the IMF East Afritac missions, which is fully demand-driven, brings regional experience and needed regional expertise, engages government in a continuous exchange, offers training courses and provides study tours and exchanges to countries in the region. However, the experience with 'managerial' TA, where external assistants are in charge of a donor support programme and make key decisions on the scope and technical detail of sup-

10 Interviews at Blantyre City Council and Blantyre District Council, Office of the Director of Public Procurement, LGFC, UNDP; closing discussions with GFEM development partners and government PFEM institutions.

11 Interview NAO.

port, is not positive[12]. Furthermore, respondents felt that international TA is not necessarily better than local support, stressing that, when choosing technical assistance providers, donors should be more aware of the trade-off between international (and sometimes not relevant) knowledge and local knowledge (good understanding of the context, but perhaps with more limited exposure to good practice). The consistent appreciation of regional technical assistance should be noted.

Reforms inputs show better awareness of political opportunity over period, but remain reactive rather than responsive: In deciding on the scale, scope and focus of reform inputs donors as a rule do not take sufficient account of political will as a key variable in reform success. The period under review is characterised by three phases of PFM reform, coinciding with changes in the political landscape of Malawi and characterised by different GoM commitment to PFM reforms. Whereas the adverse political and institutional landscape of the first four years were largely ignored in the provision of reform inputs, it is equally arguable that donors did not sufficiently recognise the opportunities for reform offered during the second period and may not be taking sufficient account of warning signs in the third period. Generally, donors in Malawi have been reactive in their response to fluctuations in political commitment to reform – and usually with a lagged response time, rather than proactive, being sensitive to political changes and adapting the scope and nature of support accordingly.

In the first period – 2000 to 2004, coinciding with the 2nd term of the Muluzi government – PFM reform inputs did not result in many more outputs than required by conditions on specific donor flows and in some cases even if outputs were produced to trigger disbursements, they were not sustained[13]. Key donor projects to improve public expenditure management and financial control, such as the World Bank Fiscal Restructuring and Deregulation Programme and Technical Assistance Programme, were deemed not to have achieved their basic objectives as the GoM officials "at all levels – did not perceive an interest in implementing these reforms" (World Bank Independent Evaluation Group 2006, pxi). New institutions created to improve budgeting performance and expenditure control, such as special Cabinet review committees, were ineffective and were abandoned. Overall, reforms were perceived to be donor-led, too broad, too ambitious, not tailored to the Malawi context and not sufficiently adapted to the political context (Durevall and Erlandsson 2005; World Bank Operations Evaluation Department 2005; Barnett, Chisvo et al. 2006).

The second period – 2004 to 2009, coinciding with the 1st term of President Bingu Wa Mutharika – saw a strong commitment by the GoM to eco-

12 The Government however, was interested in continuing the EU Capacity Building Project, which included managerial TA. The lack of responsiveness to this interest by the EU is another example of where donors were slow to respond to the improved conditions for PFM reform.

13 Efforts to improve fiscal transparency for example, were not successful as full budget documentation was made available on the internet once to trigger disbursements, but not subsequently.

nomic governance reforms. The "fight against corruption" was placed at the centre of government's policy agenda, with expenditure control, transparency and accountability as key aspects of public service reforms (Mutharika 2005). Over this period the Government of Malawi had clear PFM reform goals (for example control over payments from the central revenue fund), resulting in government staff and institutions driving their own PFM reform plans and enabling donors to align their reform inputs more closely with the reform paths of relevant government institutions. For example, in IFMIS, government took charge of the development and roll-out of the system; the third NORAD support programme for the NAO simply supported the implementation of the strategic plan; and in procurement UNDP tailored its support to capacity building within the framework established by the GoM. However, there is no evidence that donors stepped up their reform inputs in this period, in response to a changed environment. In fact some key partners, like the World Bank, scaled down their inputs in reaction to the adverse results of the first period.

The third period – post 2009 to date, coinciding with the 2nd term of President Mutharika's term – is characterised by a continued commitment to PFM reform at institutional level (Ministry of Finance 2007 to 2011), but the team encountered mixed views on the continued centrality of these reforms to the policy agenda of the political leadership and therefore the degree to which reforms at the end of the period were still backstopped by political will. While reforms have not been stopped, key actions are stalled or organisations are not sufficiently funded to fulfil their task, for example final approval for full operational independence of the Auditor General[14]. Some respondents even argued that the commitment to reform is about gaining control of the purse strings at the centre: the most recent reform in procurement that re-centralises the procurement of key government supplies such as medicines being a case in point.[15]. Other respondents maintained that the political leadership is still fully committed to PFM reform, and that the changes in procurement are on account of poor compliance and to mitigate weak capacity in the decentralised system resulting in poor value for money[16].

The team is not in a position based on the limited fieldwork to conclusively assess the degree to which PFM reform is still supported by political will from the top but it is instructive that key steps to enable change are stalling (see discussion on outputs below) and that the change in PEFA scores between 2008 and 2010 was negative on balance, compared to a positive change between 2006 and 2011 (see paragraphs 115 to 116 below). Yet, the team was not made aware of readiness by donors to respond proactively to possibly changed circumstances in terms of the scope and focus of their PFM reform support, despite the IMF having declared its Extended Credit Facility programme off-track and CABS partners withholding budget support, some citing deteriorating economic governance (Khanje 2011; Tran 2011). PFM donors were still

14 Interview ODPP, NAO.

15 Interviews CSOs, Development Partners.

16 Interview Budget Director

looking towards renewed support through the proposed PFEM basket funding, including support for PFM Functions that did not appear to the team to be well-supported by the GoM.

In conclusion, the reform inputs were relevant insofar as they targeted identified areas of PFM weakness in the GoM's published reform plans. However, reform inputs were not consistently relevant to the Malawi context, particularly in respect of capacity to implement the new approaches that were put forward by donor technical advice and support programmes. The Government of Malawi acknowledges the value of technical assistance, but does not experience all forms of it as equally useful: advisory / mentoring technical assistance is found to be more effective than managerial technical assistance and it is considered that international technical assistance should be balanced better with local and regional technical assistance. Moreover, the focus and scope of donor reform programmes did not sufficiently take account of the political / electoral cycle and the opportunities and constraints for reform with which it is associated.

3 Outputs: the Delivery of PFM reforms

3.1 INTRODUCTION

This section assesses the delivery of PFM reforms in Malawi. Reviews undertaken at the beginning of the 2000s pointed to limited success in producing sustainable PFM reform outputs from the inputs of the previous decade. This changed in the period under review: the inputs of 2000 to 2010 resulted in significant outputs across the budget cycle, particularly in changed laws and rules; and changed approaches to key PFM functions. As we have argued in the previous section and elaborate further in this section, this can be related more to political changes after 2004, than to changed donor support approaches.

In order to answer the key evaluation question of where and why do PFM reforms deliver results it is necessary as much to assess which outputs were *not* delivered as the outputs which were delivered, so as to track the results chain from inputs to improvements in PFM functions. In this section we therefore look at the following key questions:

- Which outputs were delivered and how efficiently and coherently, given PFM reform plans?
- Which planned outputs were not delivered and which necessary outputs were not planned?
- What was the role of donor support in the delivery and non-delivery of outputs?

3.2 KEY REFORM OUTPUTS

EQ 6: What have been the outputs of the PFM reform process and to what extent has direct donor support contributed to these outputs?

Major reform outputs were delivered over the period, signalling significant change in the approach or capacity for budgeting; budget execution and financial management; and audit. Key outputs in order of the PFM cycle and with an indication of GoM and donor support in brackets are as follows (see also Table 2 in Annex 5 detailing key outputs by PFM function and type of output):

Whole of PFM cycle

- New PFM Act (2003), modernising PFM and setting out responsibilities for Minister of Finance, Treasury and accounting officers (GoM, World Bank).

- Establishing an institutional framework for coordinating PFEM reforms, including setting up a PFEM unit and development of PFEM reform plans and reporting mechanisms (GoM, GIZ long term advisor, East Afritac).

Strategic budgeting and budget preparation

- The development and use of an electronic budgeting module; improved linkages between plans and the budget and improved budget calendar (East Afritac); the development of a performance dimension in the classification system that allows the publication of budget information and fiscal reporting by objective, output and activity; the introduction of an Economic and Fiscal Policy Statement (EC) and improvements to budget documentation using the output-based budget classification (GoM, EC, WB, MCC).
- Budgeting Manual for central government (EC, GIZ), training for central and local government personnel (EC, GIZ, UNDP)
- The establishment of SWAps in the key sectors of health, education and agriculture with joined-up basket funding through the budget for GoM and donor funds (GoM and donors).
- The progressive establishment of a rule-based system of intergovernmental fiscal relations, implementing the 1998 Local Government Act. Despite the dissolution of district assemblies in 2005 after their mandate expired and without new elections to date, the decentralisation – or effectively then deconcentration – of functions have continued. Over the period the GoM has developed and implemented a rule-based system of intergovernmental block and conditional grants, and intergovernmental fiscal reporting, starting from 2002. The system has not been regularly revised or approved by Parliament as required by the Act (GoM).
- Systematic progress to GFS-compliant budget classification and an associated Chart of Accounts, imbedded in the IFMIS. It is expected that the 2011/12 budget will be reported on the new CoA (GoM, World Bank prior to 2006, EC, MCC, East Afritac).

Resource Management

- Introduction of VAT, the establishment of the Malawi Revenue Authority and progressive modernisation of tax administration, for example through linking up tax payer information across different types of tax, establishing a large taxpayers' office, implementation of a risk-based approach and enabling electronic payment of tax, separating key functions to minimise opportunities for corruption and maximise taxpayer service (GoM, MCC, DFiD, East Afritac).
- Revamping of GoM / donor relations through the Debt and Aid Policy and Debt and Aid Guidelines, the development of a debt information management system (DIMS) and the establishment of a Debt Management Unit in the MoF; the development of a donor information manage-

ment system and improved reporting on aid flows through the Malawi Aid Atlas (GoM, DFiD, GIZ).

- Establishment of a Cash Flow Unit in the MoF, a multi-institutional Cash Flow Committee, cash flow framework and the introduction of spending agency cash flow plans (GoM, World Bank, East Afritac).
- The introduction of a Single Treasury Account System, closing down over 150 government accounts in commercial bank (GoM, East Afritac).
- Putting in place the architecture of a new procurement system, including
  - New procurement legislation (the Public Procurement Act 2003) establishing a new decentralised approach to procurement with all spending entities procuring on their own account (GoM, World Bank).
  - Establishment of the Office of the Director of Public Procurement with oversight and system development responsibilities, the establishment of Internal Procurement Committees in all entities, coupled with internal procurement units (GoM, World Bank, UNDP).
  - Issuing of national procurement standards and standardised bidding documents; preparation of national price indexes for commonly procured goods. The preparation of annual procurement plans for eight of the largest procuring entities (GoM, World Bank, UNDP).
  - The establishment of formal training capacity at the Malawi Institute of Management (a masters) and the Malawi Polytechnic (a pre-graduate course) for procurement professionals; the training of first batches of students and the establishment of short training courses at the ODPP (GoM, World Bank, MCC, UNDP).
  - The establishment of a body of procurement professionals (GoM, World Bank, UNDP).
- Development and roll-out of a human resource management information system (HRMIS) implemented in all ministries through 12 geographically distributed sites for uploading information. New system separates different human resource functions and provides an audit trail. Electronic transfer of salary payments implemented (GoM, World Bank).

Internal Control, Audit and Monitoring

- Enactment of a modernised PFM law in 2003, and new Treasury Instructions issued (GoM, World Bank).
- Development and roll-out of IFMIS modules to manage and account for recurrent and development budget part II expenditure (government funds) at the national level (on Epicor software) and local council level (on Serenic Navigator software). Active modules include the general ledger, accounts receivable, accounts payable, commitment control and cash management. Altogether 50 of 66 budgetary units are on line at national level. At local level 22 of the 34 councils are covered, with 12 remaining. Links have been established to the budget module, the MRA and the RBM, and to the HRMI, but these are not real time and involve periodic uploading of

data. The accounts payable module went live on 1 November 2005, the last development of accounts receivable and cash management was recently completed and in the piloting stage during the field work (GoM, limited support MCC after 2006 and World Bank prior to 2006).

- Networking central government and southern regional offices (GoM, WB)
- The centralisation of the payments system, and the establishment of six payment centres (one central, 3 in regions and 1 in the defence force and police each). Payments for non-salary expenditure controlled through IFMIS issued local payment orders; salary and utility payments processed through IFMIS.
- Implementation of regular accounts reconciliation, utilising IFMIS and through the STA (GoM, East Afritac.
- Monthly monitoring of budget execution through consolidated reporting for recurrent budget and development budget part II done via the Budget Monitoring Section of the MOF. Quarterly reporting on some but not all Development Budget Part I spending. Full year-end reporting on Part I spending.

Accounting and Reporting

- See implementation of IFMIS above. IFMIS-supported production of financial reports for recurrent budget and development budget part II (MCC, IMF)
- For 2011/12 budget new GFS compliant Chart of Accounts incorporated into IFMIS, and cash-based IPSAS will be implemented fully (GoM, WB, EC, MCC, East Afritac).
- Regular comparison of budget allocations and actual expenditure, utilising IFMIS, Active Planner (budgeting software) (EC, MCC, WB); quarterly reporting established to Cabinet and the Budget and Finance Committee and reports posted on website (irregularly) (GoM, World Bank).
- Quarterly financial reports compiled for key public enterprises and their annual financial statements published (GoM, World Bank).
- Timely production of the Annual Financial Statements: the 2004/5 statements were submitted to the NAO 36 months after year-end, the 2009/10 statements 4 months, within the statutory deadline.

External Audit

- Enactment of a new Public Audit Act (2003), establishing the functions and powers of the Auditor General (GoM, World Bank).
- Modernisation of audit methodology (World Bank, EC, Norad) and issuing of a Regularity Audit Manual (approved in 2011) (GoM, Norad).
- The development of performance audit capacity (at the time of the fieldwork the first three performance audits were being finalised) (GoM, Norad).

- Additional audit personnel – including specialist IT auditors – recruited and trained in audit methodology (GoM, DfID, Norad, EC, MCC).
- Additional staff to address backlog in audits, e.g. in local council audits, and outsourcing of specific audits (GIZ, DfID).
- Backlog of audit reports cleared and timely submission of AGs report for 2009/10 (GoM, Norad).
- Establishment of a secretariat function for legislature committees, revitalised committee system. Review of 2009/10 audited financial statements within 9 months of year end (GoM, MCC, Norad, Cida).
- Legislative follow-up on audit recommendations activated through issuance of Treasury Minutes that detail actions to be taken, but these Minutes are not yet issued on a timely and regular basis (GoM, World Bank).

As is illustrated above, most of the outputs put in place over the period had external support. In addition some outputs can be related to the HIPC completion point and IMF PRGF programme. These include the new acts; a functional IFMIS in the first five ministries; improvements in reporting and debt management and the establishment of a cash management unit. Others are related to budget support PAFs, such as progress in external audit reform and timely provision of public accounts.

However, the effect of the political change in 2004 and the degree to which it drove reforms from within is significant. In retrospect, among the reform achievements of the GoM, the procurement and roll-out of an IFMIS that functions – notwithstanding its shortcomings – stands out as perhaps the most significant change. Yet, this functionality had been achieved with relatively little external support. While there was significant support for IFMIS development between 1996 and 2004, it is only after 2004 that work on the current system began, mostly financed by the GoM itself (see a summary case history for IFMIS in Annex 6). By contrast other areas that had continued to receive significant donor inputs – such as procurement for which the support detailed in table 3 adds up to over USD8.3 million in contrast to the USD 2.4 spent on the post 2004 IFMIS – have not resulted in the same functionality, either because the targeted outputs were not produced or because they were not sufficient to result in an improved PFM function.

In conclusion, most of the reform outputs enjoyed external support. The most significant output of the period however, was produced almost entirely without direct external support.

3.3 EFFICIENCY AND COORDINATION OF REFORM OUTPUTS

EQ 7: How efficiently were these outputs generated? Was the pacing and sequencing of reforms appropriate and cost-effective? Was the cost per output acceptable?

Up to 2004 the relatively low achievement of functional PFM reform outputs compared to reform inputs, meant that reforms were inefficient (See for example World Bank Operations Evaluation Department 2005; Barnett, Chisvo et al. 2006; Kampanje Date unknown). However, in respect of the post 2004-period, reform outputs were achieved at reasonable cost.

However, reform resources and capacity were thinly spread over the period: the 2006–2008 PFEM Action plan had well over 120 activities and the original 2009–11 plan 130. However, the focus of PFM reforms improved: a shortlist of 49 priority activities were selected from the 2009–2011 plan, indicating greater realism about the match between reform plans and capacity. The development of the shortlist can also be linked to pressure from the African Development Bank which was designing a budget support programme, but the effort that went into the process to develop a shortlist, also speaks of Government of Malawi interest in focusing reforms.

Over the period, most outputs were achieved later than originally targeted, with some outputs still outstanding even though they were targeted from the time of the MFAAP (such as an electronic procurement system linked to the IFMIS). Other outputs remained reform targets over the period, even as progress was made albeit slower than expected (capacity in various functions; IFMIS project management capacity and so forth). In 2007 the average adjustment on the original target dates for outputs on the 2006–2008 PFEM Action plan, was 11 months. Some activities were adjusted by several years however, and although most were achieved by 2009, some were still outstanding in or only achieved in the period just prior to the fieldwork. By January 2011 of the 33 priority actions from the original 48 that remained in the 2009 to 2011 PFEM Action plan in September 2010, only 3 had been completed, with a further 16 on track to be completed by June 2011. That leaves just under half, or 14 of the actions, which either required additional resources or decisions, or which would be completed later than June 2011. Overall, while progress was made consistently over the period, the gap between actual and planned progress indicate a need for greater realism in reform planning.

While coordination improved over the period with the GoM creating and resourcing a coordination structure, the price for uncoordinated reforms is high. As acknowledged by the GoM assessment report (GoM, 2010), the persistence of institutions implementing reforms independently as resulted in duplication of efforts in some cases, trade-offs between reforms that were not thought through fully, and a lack of interface between institutions and even among systems within institutions. An example is the repeated improvement of budget classifications and charts of accounts that have taken capacity in IFMIS development away from developing improved functionality to capture more transactions across the fiscal cycle in a timely manner, and therefore from improved reporting (Anderson 2010).

While there has been significant support for reforms from both the GoM and its donors, most of the funding is short-term for specific activities and time-frames. As a consequence PFM reforms 'would derail once the funds run out, bringing into question the sustainability and the effectiveness of the reforms" (Government of Malawi 2010, p17). Overall, there is a need for greater strategic harmonisation and sequencing of reforms.

In conclusion, in the first half of the period the consensus is that reforms were inefficient on account of low outputs compared to targets. In the second half of the period resources were spread too thinly and there was a lack of coordination with different institutional and donor champions for different outputs, resulting in duplication and poor linkages between outputs in different institutions or even among new systems within the same institutions. Therefore, while individual outputs were achieved at reasonable cost, the increase in PFM functionality was not commensurate with the increase in outputs, meaning that the achievement of some reform outputs were not cost effective.

3.4 OUTPUT GAPS

EQ 8: What have been the binding external constraints on the delivery of PFM reform: political, financing or policy factors? How has this varied across the different PFM reform components?

The outputs that are in place and the efficiency with which they were produced, however only tell half of the Malawi PFM reform story for the 2000 to 2010 period. Two further questions are relevant: (i) which planned outputs have failed to be generated by donor / GoM inputs and why; and (ii) which outputs necessary for effective PFM systems were not included in the PFM plans and targeted by support, and why?

The time for the study did not allow the team to answer these questions systematically for all PFM Functions. However, the in-depth examination of the IFMIS, procurement and external audit reforms, as well as discussion on the internal audit function, provided useful findings in this regard.

PFM Reforms require outputs in respect of people, skills and organisational change, which were not commonly or successfully factored into reform plans: The PFM function / output matrix in Annex 5 Table 3: Outputs by PFM Function and Type of Output, points to the dearth of outputs across the PFM Functions in two areas, people and skills, and organisational factors.

Even when people and skill outputs are planned and produced, high public sector staff turnover means that newly skilled personnel are often lost to the private sector. This was reported for macro-fiscal forecasting and revenue administration (Government of Malawi 2010), the procurement function, external and internal audit function and for financial management personnel[17]. It would take significant training and capacity building inputs before these scarce skills could be retained in the public sector, particularly given salary and work condition differentials (see Box 2 in Section 2.2). In procurement significant donor support was provided for developing external and internal courses and supporting first batches of students through these and other programmes abroad, but where personnel was absorbed into the public sector or qualified personnel appointed, they were not retained for long. And, due to a lack of suitably graded posts, not all personnel of the latest cohort that completed post-graduate training, were absorbed.

In other cases reform activities have not yet included specific or extensive efforts to train personnel or to address institutional issues. For example, the internal audit function across government is understaffed: at the end of 2010 the current establishment for the internal audit services was 129. Out of this, 99 posts were filled, leaving 30 vacant posts. However, the earlier functional review draft report by the OPC recommended 364 posts for the service to function effectively. Should this recommendation be approved, it will mean 265 vacant posts in the function (Government of Malawi 2010). In addition, where staff is in place, personnel do not necessarily have the right skills. The quality of personnel and the placement of the function in the hierarchy undermine the attention given by senior management to audit reports[18].

Besides training, none of the reform plans included explicit organisational change strategies, except for the Strategic Plan of the National Audit Office, which included significant organisational development activities – such as career planning and human resource development. The 2009 NORAD support programme was fully aligned with the strategic plan – in effect financing its implementation given limited GoM funding of the NAO (Poyry Management Consulting 2011) – and supporting the various organisational development activities. The Auditor General emphasised the importance of these aspects in establishing an effective audit function, and particularly the role that efforts to incentivise a change in work ethic and behaviour played in eliminating the backlog of audited financial statements and changing practice and organisational culture in the NAO[19]. He used financial incentives to get staff to work the additional hours and put in the additional effort required[20].

Overall, in the case of Malawi, the evidence points to a high focus on putting in place laws, rules, systems and procedures, and a lack of consideration for the skill and the organisational change requirements when designing, funding and implementing reforms. Combined with a 'blinkered preference' for international best practice options, this means that reforms that are not appropriate for the context are programmed, and programmed without any or sufficient activities to address this mismatch. Donor reform support has

17 Interviews ODPP, NAO, Blantyre City Council, AG, PFEM Unit, LGFC, DoH; UNDP, World Bank, donor group discussion

18 Interviews GIZ, World Bank, Blantyre City Council, PFEM Unit.

19 Interview Mr Kampanje

20 It is precisely these additional expenses that raised a query in the Norad mid-term review of its support which noted that some activities were expensive to implement and the high use of allowances as areas of serious concern.

been focused on financing the relatively easy upstream and centralised interventions – changing laws, rules and approaches – and their short-term output targets and not nearly sufficiently on supporting the GoM medium to long term in addressing ministry by ministry the organisational culture and incentive structures that will make these changes effective. It is worth noting though, that the new GoM PFM strategy – under development at the time of the fieldwork – has capacity building and skills development as its main theme.

In the reform window since 2004 the production of necessary reform outputs has been slowed down by financial constraints: Overall, the latest report on the implementation of the 2009–2011 Revised PFEM Action Plan noted lack of resources as a key factor in targets not being achieved. In two of the PFM functions reviewed (procurement and internal audit) the end of the World Bank FIMTAP programme coupled with the delay in establishing a follow-up programme, has meant that while the relevant central government institutions are paying salaries and recurrent costs, very little funding is available to produce the strategic outputs necessary to further their reform agendas.

- In procurement the planned procurement and roll-out of an IT-based procurement system – key to ensuring that the monitoring and reporting functions of the system are operational rendering it transparent – has still not happened. One reason – and the one formally provided – is that the financing is not available. Furthermore, since the end of the World Bank FIMTAP programme, the ODPP has very little resources to fund its strategic activities, besides the UNDP's support for the Polytechnic Degree Programme and the ODPP's workshops (Government of Malawi 2010).
- In internal audit the central Internal Audit Unit in the MoF is currently operating with only 15 % of the funding it used to have when the World Bank FIMTAP programme was still active. This programme financed 90 per cent of the training undertaken and 40 per cent of operations (audits), besides purchasing vehicles and equipment. Funding for internal audit units within ministries, departments and agencies is also an issue (Government of Malawi 2010).

In the NAO, even if strategic activities largely funded by the NORAD support programme are on-going, financial constraints have prevented faster achievement of reform objectives. For example, the introduction of Computer Aided Audit Tools was delayed much later than planned due to a lack of financing, and is still not completely operational (Government of Malawi PFEM Action Plans and PFEM Committee Minutes, Poyry Management Consulting 2011).

Box 3: IFMIS reform window underutilised

Since 2004 to date the GoM has made progress in implementing the IFMIS across central government and for the majority of local councils. Outputs were financed by the GoM, besides some support from the MCC for the hardware and connectivity to set up payment centres, some support from the World Bank FIMTAP to purchase hardware for the Government Wide Area Network (GWAN) and support from the World Bank MASAF III for financial management capacity building at local level.

Between 2005/6 and 2010/11 the GoM spent over USD 14 million. However, full coverage has not yet been achieved: by June 2011, 22 local councils were covered, representing 65% of councils. Rolling out to the remaining 12 councils requires a further USD2.87 million, excluding licencing (Government of Malawi 2011). The achievement of target improvements to the national IFMIS has also been significantly slower than originally planned, again with financing being a major constraint. At the local and national level while training has been done for core financial management personnel, complementary training of senior management, internal and external auditors and procurement officers on IFMIS have lagged, hampering the institutionalisation of the system in government as well as the effectiveness of internal and external audit functions. If it were not for the key change of having to use IFMIS to pay salaries and utility bills, issue local purchase orders and print checks for other recurrent expenditure, the roll-out would have been less successful, as the roll-out of the previous system between 1999 and 2004.

While the withdrawal of key donors – such as the World Bank – should be seen in view of the low return on investment up to that point coupled with the single source purchasing of the EPICOR software (see the Annex 6 discussion of the IFMIS case history for detail), it has meant that donor support for PFM reforms has not made the most of what might be a narrow window for the acceleration of PFM reforms between 2004 and the present. While the AGD benefited from 2006 from on-going technical support by the East Afritac in its engagement with IFMIS suppliers and contractors, additional financing would have accelerated roll-out both in coverage and functionality. Technical support at this critical time could have meant that emphasis on the IFMIS control and audit functionality would have followed sooner on the initial accounting and payments functionality, increasing its impact on overall PFM functionality. It should be acknowledged that general budget support programmes included policy measures directly related to IFMIS (such as the African Development Bank budget support programmes). The influence of general budget support assessment frameworks and policy dialogue on priorities is acknowledged above. However, as competition from other spending pressures for budget support funds is strong (as argued in paragraph 64) the argument here is that direct support could have provided critical financial support.

In IFMIS, even if the GoM has provided significant resources from its own funding, financial constraints have slowed down the roll-out and further development. As illustrated in the box above, the pace of IFMIS roll-out has not fully capitalised on the political commitment to reform of the 2004 to 2009 period. The project was largely financed by the Government of Malawi itself and financial constraints have limited the pace of development and implementation. Technical constraints – which could have been alleviated by more donor input – also limited its impact on overall PFM functionality. At the national level, after the initial fast implementation of commitment control and central payments modules for recurrent and development budget part I transactions (see paragraph 104 and the discussion of IFMIS in Annex 6), achieving further coverage and functionality has been much slower. At local level full coverage of all councils is not yet complete.

Project management capacity as a constraint on output production: even if more financing was available in any of these functions, it is not certain that project management capacity would have allowed faster roll-out. High turnover in project management staff – linked to incentives in the public service as discussed in Box 2 above – also undermines stable reform programme implementation.

- In IFMIS the MFAAP (2003) already identified the establishment of consistent project management capacity for IFMIS as a critical action. The IFMIS peer review (Rwamibazi 2004) found that weak project management and leadership of implementation activities up to that point, affected project roll-out negatively. By 2004 the IFMIS project had been under 5 project managers and 3 accountant generals. This staff instability, exacerbated by lack of handover procedures, lack of project scoping, plans and monitoring, lack of specific IFMIS expertise to check the work of consultants and lack of project record keeping, were all highlighted as contributing factors. Respondents during the fieldwork noted that the management of consultants, from negotiating the contracts through to project implementation and review, is key to efficient spending of PFM reform resources. The IFMIS project could have delivered more in the timeframe and the cost, had this type of capacity been in place from the start. The latest East Afritac IFMIS Review again notes that project management capacity to manage the upgrade should be established. On the other hand, when required, the GoM did put in place good capacity to manage the early phase of current IFMIS implementation (see paragraph 104 below).
- The 2011 mid-term review of NORAD support to the NAO similarly highlighted lack of project management capacity as a key factor in slower than expected implementation of the programme. Other programme reviews, for example the FIMTAP review, emphasised the importance of clear objectives, adequate oversight, work-plans and monitoring mechanisms in reform programme implementation.

Political factors as accelerators of or constraints on production of reform outputs: As highlighted above (see paragraph 75 to 78) 2004 to the present presented a window of opportunity for PFM reform, with the political leadership of the GoM putting expenditure control, transparency and accountability at the centre of its policy agenda. It is instructive how this political commitment played out differently between PFM functions. As the box below illustrates, IFMIS outputs were delivered fast, up to a point, giving government vital control over expenditure. Revenue administration outputs were also generally achieved on time. The same commitment was not apparent to procurement, internal audit and external audit. The production of outputs was not pursued with nearly as much vigour as the IFMIS reforms, and government financing for them is far short of the requirement.

Box 4: The evidence: political commitment and reform in PFM functions

IFMIS outputs and revenue administration improvements were delivered fast, up to a point: The core IFMIS outputs were delivered within 18 months of the 2004 election, and rolled out to all national ministries within 26 months, on a completely new platform. This was after 8 years of previous investment that had not resulted in a functional combination of outputs. Respondents argued that the reason for the focus was the urgency assigned by the central political leadership of the GoM itself to gain control over expenditure, hence the focus on operationalizing commitment control and accounts receivable. In the post-election period the GoM moved fast to replace the then Accountant General with an action-orientated and experienced PFM person, whose actions were backed by the Secretary to the Treasury, the Minister of Finance and the President himself[21]. A 2007 East Afritac Review of the system found that "implementation of the Epicor system, to date, has been an impressive achievement particularly when viewed against similar international experience". It acknowledged that much of the success could be attributed to a streamlined project management approach, flexible project governance structures that enabled fast policy decisions concerning the implementation and little software modification or customisation (Anderson 2010, p7). However, once key control had been gained over payments and cash, some of the reform impetus was lost. It is also notable that in the revision of the 2006–2008 action plan key outputs in respect of increasing the effectiveness of the MRA formed an exceptional block of activities, which for the most part was delivered on time.

In contrast, it is not clear that the GoM perceived equal urgency in reforming and capacitating the procurement function. While strategic outputs (regulations, training capacity and reviews) were produced by the ODPP after 2004, these were largely donor funded. The function receives very little funding from the GoM development budget. While this on its own does not mean it was not supported, questions are raised about the commitment to the decentralised but transparent system envisaged in the Public Procurement Act given the slow achievement of the PFEM Action Plan target of establishing and filling posts for a common procurement service across government; non-activation of a the necessary IT support systems which would contribute to better monitoring and

21 Interview NAO, DoH.

transparency of procurement; and the recent recentralisation of procurement and procurement controls effectively by-passing or duplicating functions of the ODPP.

Similarly, key PFM donors have been supporting the modernisation of the internal audit function, without much input by the GoM beyond covering the remuneration and recurrent cost of internal audit units – which were present in one form or another prior to the reforms of the 2000s. The need for a modern risk-based internal audit function is acknowledged by the GoM in PFEM planning documents. Yet, the roll out of strategic reform activities and outputs beyond establishing the Central Internal Audit Office, procurement units and committees in ministries, departments and agencies, has been funded if not driven by donors. Key enabling documentation such as the Internal Audit Guidelines and Charter is ready for implementation, but formal sign-off by the GoM has been pending for some time. At the same time the post of the head of the Central Internal Audit Office has been vacant also for some time.

External audit reforms proceeded on the back of internal pressure: Progress in external audit reforms after the enactment of the 2003 Public Audit Act was also pending for several years in the period. After the death of the sitting Auditor General in 2006, the post remained unfilled until 2008, resulting in a backlog of audit reports and a stall in reforms, despite significant pressure from donors through the CABS and PFEM Groups and from civil society to address the issue. In 2008 the Accountant General responsible for turning around IFMIS was appointed, possibly signalling change in the priority afforded an effective audit function by the GoM political leadership. Yet, while funding to the NAO in this period was increased by 50 %, it however still fell far short from requirement. Donor funds, particularly from the Sida/Norad partnership, later Norad on its own with the Office of the Norwegian Auditor General, supported much of the strategic development. However, by 2011 the NAO was still faced with lack of financial resources, shortage of personnel, low levels of capacity and lack of capacity to audit IT-based accounting systems (Pohl Consulting and Associates 2011).

3.5 CONCLUSION: INFLUENCES ON PRODUCTION OF OUTPUTS

Would outputs have been produced without external support, or taken another direction in the absence of donor inputs? It is clear that the IFMIS reforms would have proceeded without donor support, as there was a demand from the political leadership for control over payments and cash. It is also clear that it would have taken the form it had (the post 2004 reforms) as it was undertaken largely without donor support and inputs. However, it is not clear that the same holds for the reforms in other PFM functions.

Would procurement reforms have proceeded? It is likely that there would still have been some form of procurement reform: the system instituted through the

2003 Procurement Act responded to a highly dysfunctional system with a poor basis in law which at the time was under scrutiny from civil society and the media. However, it is not clear that the reform would have taken the form it had, if not supported by donors. Even if key decision-makers within the GoM at the time were persuaded by the prevailing understanding of best practice (decentralisation, transparency and a central regulatory body), the impetus for the form that the reforms would take came from donor supported international advisors. There is a strong case to be made that the GoM has never fully bought into the model: the critical recurrent output gaps (staff, facilities, monitoring capacity) combined with the lack of funding for further strategic outputs (IT tools, sensitisation, training) in the absence of donors and the recent re-centralisation of control points in the other direction.

Would internal and external audit reforms have proceeded? The team's assessment is that some form of action would have occurred in external audit. The prevailing political situation before 2009 – when the President's newly formed party was the minority in parliament – gave weight to parliamentary and civil society demands for appointing an Auditor General and clearing the backlog in the submission of audited financial statements to parliament. However, that this was a condition of budget support operations did contribute to the eventual action that was taken (despite it being a missed benchmark in several CABS reviews). It is also likely that it would have taken the form it did, again on account of what is understood to be good practice and the Auditor General's participation in international and regional peer forums. However, in the absence of donor support to clearing the backlog, it is not clear that it would have been done by mid-2011, given that the ruling party majority in Parliament since 2009 would have diminished the incentive to provide the additional resources it took. Certainly, the development of some IT and performance auditing capacity and the modernisation of audit methodologies would have taken a whole lot longer to be in place.

The team is however clear that the internal audit outputs – from the Guidelines and the Charter to the creation of a new common service and the establishment of Internal Audit Units and Audit Committees – in all likelihood would not have occurred in the absence of donors. The absence of proper funding for the function, the delays in fully constituting the legal framework and the absence of key capacity and routine reporting outputs are interpreted as signals that this reform trajectory is largely donor supported and driven, despite the GoM's expressed commitment to it.

In conclusion, Malawi has made considerable progress since 2004 in changing laws and rules, creating new institutions, changing approaches to PFM functions and establishing new systems. Donor inputs contributed significantly to these outputs. However, in sectors where the political commitment to achieving a functional system is not clearly present, these achieved outputs are for the most part not enough. And in some areas, it is not clear that government would have prioritised their production in the absence of donor funding.

Furthermore, it is not clear that the outputs achieved are enough. More significant for PFM is perhaps the outputs that have not been produced yet.

On the whole Malawi faces a severe shortage of skilled human resources; the institutional culture in the public sector has been undermined by low pay and poor incentives for effective change and capacity building. Donor inputs on their own will never be sufficient to overcome these obstacles: they require commitment by political leadership to overcome the resistance to changing how institutions work (as it did in the IFMIS reform), and the commitment of government resources over a long time to build sustainable capacity. Besides, the particular nature of donor inputs – which have been planned over the short term for short term objectives and have been predominantly aimed at the relatively quick outputs of changed rules and regulations, and new systems and institutions – has largely ignored the long-term challenges of recruiting, skilling and retaining people, and of changing organisations and incentives.

4 Outcomes and overall assessment

4.1 INTRODUCTION

This section looks at the relationship between reform inputs and outputs, and the achievement of improvement in intermediate outcomes. Analysis carried out in this section is based on existing diagnostics of PFM reform outcomes in Malawi, in particular the HIPC tracking exercises carried out in 2001 and 2004, and the PEFA exercises carried out in 2006, 2008 and 2010.

4.2 CHANGES IN PEFA SCORES

EQ 9: What have been the intermediate outcomes of PFM reforms, in terms of changes in the quality of PFM systems?

Annex 7 Table 1: "HIPC and PEFA Scores for Malawi", provides a comparative perspective on the performance of Malawi PFM systems between 2000 and 2010[22] clustered by the PFM system intermediate outcomes of transparency and information; links between policy and budget; and control, oversight and accountability. It shows that between 2006 and 2011 (a critical period of PFM reform activity) Malawi PFM systems have improved on average: a total of 31 of the 65 indicators improved, 29 remained stable and only 9 deteriorated (with 3 not scored in either of the two years). The average score[23] improved from 2.01 to 2.52.

Figure 2 shows the progress more clearly, against the PFM clusters used in this evaluation. It plots the Malawi 2006 and 2011 PEFA scores against a box plot of the minimum value, first quartile, median, third quartile and maximum value scores for the 100 countries in the De Renzio et al sample (2010) within each of the PFM clusters. The box in the plot presents the spread of scores of the 100 countries, while the dots present the 2006 and 2011 PEFA scores. Besides the scores for budget preparation, and for accounting and reporting all scores for Malawi are above the median value.

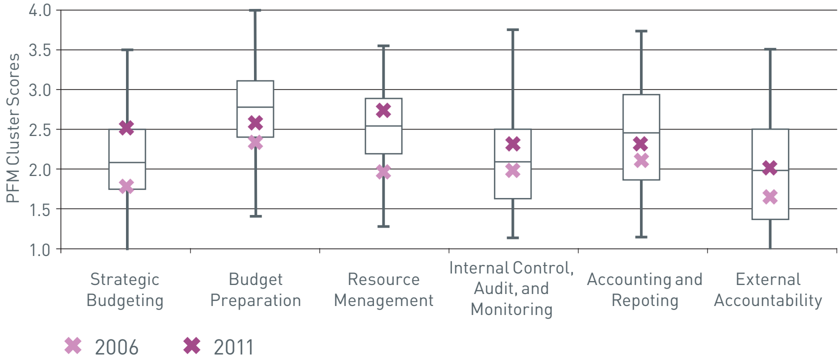
More importantly, average scores within each of the 6 clusters improved from the 2006 to 2011 PEFA. Indeed, Malawi achieved improvements in *de jure*, upstream and concentrated functions, and in de facto, downstream and deconcentrated functions:

22 Given the differences in the respective methodologies, comparisons between HIPC AAP and PEFA scores should be interpreted with caution but they do generally serve to reflect overall trends. See the Inception Report for a more detailed discussion of the methodological issues involved.

23 The PEFA scores are converted to cardinal values by assigning a value of four to an A score, 3 to a B score, 2 to a C score and 1 to a D score. "No scores" are not included in the calculation.

- A significant improvement in strategic budgeting was achieved (from a 1.75 average to 2.25 average score), driven by improvement in system to assess debt sustainability and by improvements in the costing of sector strategies. Both of these improvements can be related to PFM reform inputs: debt management and sustainability has remained a focus of budget support performance assessments and the target of both advisory and institutional capacity building inputs, as has the improvement of the links between budgets and national development policies (from the PRSP through the MDGS and now the NDP).
- Resource management also improved significantly (1.96 to 2.74). This was driven by improvements in revenue administration and transfer to the treasury (tax payer access to information; tax appeal mechanisms; effectiveness of transfer of revenue to treasury); debt management (debt data recording and reporting; systems for contracting loans and issuing guarantees); cash management (consolidation of cash balances; improved information on in-year expenditure ceilings); donor management (budget support predictability and the use of country systems); procurement (only one indicator: evidence of open competition in procurement) and payroll management (internal controls on changes to personnel records and payroll). Again, for all of these one can track a line from reform inputs to achieved outputs to the improved intermediate outcomes.

Figure 2: Malawi PEFA Scores 2006 and 2011, compared to median score for 100 countries



Source: Ace and IPF 2006, De Renzio et al 2010, Phol and Associates 2011

- In contrast, quite small improvements occurred in budget preparation (2.34 to 2.57) and accounting and monitoring (2.13 to 2.33). In budget preparation public access to information (on account of non-availability of audited financial statements at the time of the assessment) deteriorated. The late approval of the budget also partially offset the small improvements in other areas.
- In accounting and monitoring the improvements scored in quarterly and annual reporting, were counterbalanced by deterioration in the information available to assess arrears and in the reconciliation of balances. Ironi-

cally, while the improvements in quarterly and annual reporting can be attributed to PFM reform inputs, so too can the deterioration in reconciliations, which is largely the consequence of incorporating the new chart of accounts into the IFMIS, which rendered inoperative the parallel reconciliation procedure that had been in place (as IFMIS could not handle reconciliations automatically as it did not yet – and still does not – cover all transactions within the PFM cycle).

- External Accountability and Internal Control, Audit and Monitoring showed moderate improvements. In internal control audit and monitoring, the internal control improvements brought about by IFMIS was already noted in the 2006 report (ACE and IPF 2006), scoring a B in both years. However, the draft 2011 assessment (Pohl and Associates, 2011) found that the degree of compliance with rules for processing and recording transactions did not merit a repeat of the previous B score. This can partly be attributed to not all institutions managing commitments through IFMIS (the remaining 17 councils at the time of the PEFA assessment, remote locations, donor projects and some statutory bodies), but also according to the PEFA report to "the continued existence of errors and…continued use of unjustified procedures" (Pohl and Associates, 2011, p45). Also, the frequency and distribution of internal audit reports were scored at C rather than the 2006 B. These lower scores were counterbalanced by improvements in the scores for internal monitoring, particularly of autonomous agencies and government enterprises and sub-national government.
- In external audit the improved timeliness of reports to the legislature, and improvements in legislative processes to engage with the reports (both supported by PFM reform inputs), were largely outweighed by the deterioration of the score on follow up to these reports.

Table 7: Comparison of changes in PEFA scores, 2006 to 2008 and 2008 to 2010

	Control, Oversight and Accountability		Linking budgeting, planning and policy		Transparency and Comprehensiveness		Across system	
	2006 to 2008	2008 to 2011	2006 to 2008	2008 to 2011	2006 to 2008	2008 to 2011	2006 to 2008	2008 to 2011
Scores improved	20	5	4	1	7	1	31	7
Scores remained	14	20	6	9	7	9	27	37
Scores deteriorated	6	14	1	1	1	4	8	20
Either data point not scored	2	3	0	0	1	2	3	5

Source: (Pohl and Associates, 2011); (ACE and IPF 2006)

When the relative changes in sub-dimension scores from 2006 to 2008 and 2008 to 2011 are compared, it appears that most of the improvement occurred prior to 2008, and that there was more deterioration between 2008 and 2011 than between 2006 and 2008 – a finding that fits with our argument that the momentum for PFM reforms may have slowed down in the second term of President Mutharika. Table 6 above sets out the number of sub-dimension scores for the PFM cycle as a whole and in each main dimension which (i) improved, (ii) stayed the same, (iii) deteriorated or (iv) was not scored at either of the two data points.

- It shows that most of the improvements occurred between 2006 and 2008, when 27 scores improved (equalling 45 % of scores that could improve, in other words were not an A already). Between 2008 and 2010 only 7 scores improved (equalling 15 % of the scores that could improve).
- The dimension that fared the best in the first period was Control, Oversight and Accountability, in which 61 % of improvable scores improved. However, it was also the dimension that showed the biggest deterioration in the second period, with 47 % of scores that could deteriorate, deteriorating. In the first period transparency and comprehensiveness also showed good progression, with 47 % of improvable indicators improving.
- Table 2 in Annex 7 provides this analysis by PFM Cluster. In the first period, strategic budgeting showed the greatest improvement (with 75 % of scores improved), but this on a base of 4 indicators. The largest contribution to the 27 improved indicators was in the Resource Management cluster, where a total of 15 indicators improved, largely in the revenue and debt management indicators, but also in procurement, donor management and in the predictability of in-year commitment ceilings. Again, all of these were targeted by reform inputs.
- The PFM cluster that showed the greatest deterioration in the second period as a percentage of scores that could deteriorate, was the External Audit and Oversight cluster, on account of a deterioration in the parliamentary oversight scores. However, again this was of a low base: of the 20 indicators that deteriorated, 6 came from the Resource Management cluster, largely internal audit and procurement indicators; this was on the back of reduced donor support for these functions after the completion of the World Bank FIMTAP programme.
- Overall 35 % (or 20) of the scores that could deteriorate, did so in the second period, compared to 17 % (or 8) in the first period.

The deterioration in control, oversight and accountability in the second period occurred particularly in the quality of fiscal information, procurement, internal audit and scrutiny of audited financial statements indicators, which aligns with the findings in this evaluation regarding the lack of clear political commitment to these reforms and the effects of reduced donor financing due to the close of the FIMTAP programme.

4.3 RELEVANCE OF PFM SYSTEM IMPROVEMENTS TO SERVICE DELIVERY

EQ 10: To what extent are the outcomes generated relevant to improvements in the quality of service delivery, particularly for women and vulnerable groups?

Over the period Malawi and its donors invested in several reforms that, if successful, could contribute to improved PFM as a platform for improved service delivery. This includes the development of improved budget structures and classification, to assist in linking policies to budgets and allow for the prioritisation of specific functions and programmes. For example, in 2009/10 government introduced a revised list of 19 government programmes that capture the functions of government, replacing the previous system of 51 spending programmes.

Furthermore, an objective/programme dimension of the budget was coded into the budget classifications and will from the 2011/12 budget, be coded into IFMIS for the generation of reports allocating spending by objectives, outputs and activities. The improvement in the PEFA classification indicator (P5) score to an A bears testimony to the improvement this brought to the budget system. Development and non-personnel recurrent expenditures are also classified into MDGS and non-MDGS expenditure. However, as yet Malawi is not reaping the full benefits from these reforms:

- While the new classifications are coded into the budget module of the IFMIS system (active planner), this module is only used by a few officers in the budget office. Ministries, departments and agencies do not have access to this tool, and still use excel-based tools (Anderson, 2010).
- Budget documentation reforms have focused on providing financial information in accordance with the new classification, but the 2011 PEFA assessment found the documents to be voluminous and detailed, but dense and not necessarily very useful to inform citizens (Pohl and Associates, 2011). In the latest PEFA assessment audited actual spending for previous years was also not available, as the audited statement backlog was only cleared by December 2010.

The new output-based budget documentation however, which was not considered by the PEFA Report, generates data by budget vote, thus providing a lens on what citizens can expect from the spending. In addition for 2010/11 the MoF published extensive quarterly budget implementation reports on the website. These included a project by project report on development budget expenditure, but did not include reports on performance against non-financial performance targets.

The in-year predictability of commitment ceilings and cash disbursements also improved (see section above), coupled to improved cash management mechanisms and improved control over expenditure through IFMIS.

So far there have been no specific reforms aimed at providing quality information at service delivery unit. The GoM has, however, made progress in providing predictability to local councils, by implementing a rule-based allocation and distribution system. The work of the LGFC in this regard is largely funded by the GoM, although in the early 2000s UNDP and Danida provided funding to decentralisation.

These reforms were supported by donors directly through technical assistance and capacity building, and indirectly as measures in budget support Performance Assessment Frameworks (with some first mooted in the HIPC action plan). However, since the introduction in the mid-1990s of bottom-up activity based generation of ministry medium term spending plans, the GoM has been implementing performance-oriented improvements in budgeting. While donor inputs have therefore accelerated the outputs (particularly in the earlier part of the 2000s), these reforms were largely driven by the GoM and in the latter part of the decade, funded by it. Similarly, gaining control over cash and improved cash management were central aspects of the post-2004 GoM reform agenda.

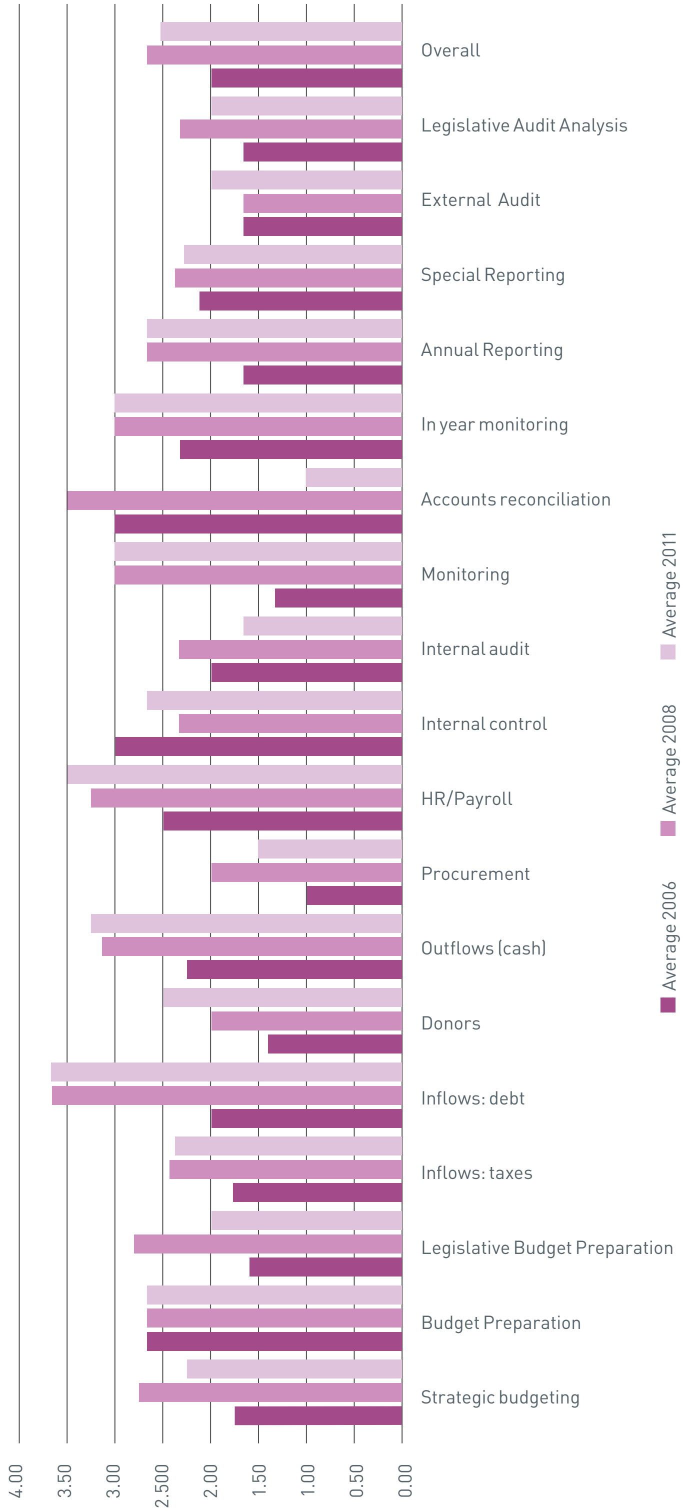
4.4 TRACKING THE EFFECTIVENESS OF PFM REFORMS: FROM INPUTS TO INTERMEDIATE OUTCOMES

EQ 11: Have reform efforts been effective? If not, why not? If yes, to what extent have PFM reform outputs been a causal factor in the changes identified in intermediate outcomes?

Figure 3, below depicts changes in PEFA scores from 2006 to 2008, and again from 2008 to 2011, by the sub-clusters of PFM Functions[24]. It shows that overall, while a big improvement was registered between 2006 and 2008, some deterioration occurred between 2008 and 2011. Overall, 11 sub-clusters saw reduced scores from 2008 to 2011, 3 sub-clusters registered no change (debt management, monitoring and annual reporting) and only 4 sub-clusters experienced continued improvements (external audit, HR/Payroll, cash outflows, and donor management).

24 These sub-clusters are based on Andrews (2010), in which 64 sub-dimensional indicators of the PEFA system are grouped into 18 sub-clusters, which are then further aggregated into the 6 clusters, which have been used as frame of refrence in various parts of this report. (See Inception Report, p.24)

Figure 3: Comparative PEFA performance 2006, 2008 and 2011



Annex 7 Table 3: "Tracking PFM reform inputs/outputs and changes in PEFA scores" provides information on changes in the average score by sub-cluster and analyses the relationship between PEFA scores improvements and PFM reform inputs and outputs. Across the sub-clusters the following trends emerge:

- Areas with high improvement in PEFA scores (of 1 notch and more: monitoring, inflows (debt), outflows (cash), donors, annual reporting and HR Payroll) had seen significant government inputs combined with donor inputs. We also would rate internal control in this group: although the sub-cluster showed a small deterioration between 2006 and 2010, it showed an improvement of 1.3 points between 2005 and 2010 as the 2006 PEFA assessment already had the IFMIS impact factored in. For all of these there was no deterioration in the scores from 2008 to 2011, although some merely held steady. For most of these reforms the assessment is that they would have taken place in the absence of donor inputs, but that donor inputs have accelerated the reforms, or influenced their form and direction. For example, the IFMIS reform was significant for many of these areas (internal control, monitoring, outflows (cash), annual reporting and HR/Payroll). Although the successful phase of this reform was undertaken without significant donor financial support, it did receive technical advice from East Afritac.
- Areas with medium improvement in PEFA scores (less than 1, more than 0.33 points) relate to three scenarios:
  - Reforms were supported by both government and donors, but the level or quality of the outputs did not provide for significant improvements in functionality. In the two cases within this category (inflows (taxes), and in-year monitoring). the PEFA 2011 report noted that systems were in place, but not fully effective. In the case of in-year monitoring (level of improvement linked to incomplete coverage of IFMIS) we have discussed the role of financial constraints in system development and roll-out.
  - Reforms were supported by donors in the first period, but strategic reform inputs and the production of outputs have slowed as a consequence of the decline in donor funding, with the end of the FIMTAP and MCC programmes in 2008. In other words, while the first period had seen improvements, the second period – during which donor inputs diminished – brought a decline in scores. Examples are procurement, legislative budget preparation and legislative audit analysis. Within this group legislative budget preparation and legislative audit analysis can also be associated with a bigger political constraint in the second period, when the relationship between the executive and the legislature changed.
  - Reforms were supported by donors throughout the period, but GoM inputs only occurred late in the period or were intermittent. The example here is external audit: the first period did not register an improvement in average scores, with a small improvement in the second

period. This cluster can also be classified under the group where outputs have been produced, but are not sufficient for significant change.

- Sub-clusters with low improvement or deterioration in PEFA scores are associated with low government inputs beyond the minimum establishment of institutions (internal audit), or with no progress on a particular dimension of the framework, often one which has been supported by donors indirectly through conditionality or as a performance measure in budget support, but without a corresponding initiative to from government.

4.5 SUSTAINABILITY OF REFORMS

EQ 12: To what extent do the gains identified at the Intermediate Outcome levels appear sustainable? Is the process of PFM reform sustainable?

The comparative analysis of changes in PEFA scores between 2006 and 2008 and 2008 and 2011 highlights the vulnerability of PFM reforms to changes in financing and in the political space for reforms. Reforms that are integral to the reform agenda of the political leadership are able to weather changes in donor financing (e.g. the IFMIS reforms). By contrast, the gains from PFM reforms in other areas can be fast eroded (e.g. internal audit).

The analysis also points to the possibility of (i) a reform window applicable only to a specific PFM cluster or sub-cluster; and (ii) the vulnerability of inappropriate models to deterioration after initial gain. Unless a minimum level of functionality is achieved and sustained, reform achievements can deteriorate and will be vulnerable to reversal, unless revived with significant political support.

When reforms are inappropriate for the context, the financial investment and political commitment required to achieve the minimum level of functionality, is so much higher. For example:

- Procurement reforms showed an initial fast improvement, but also a fast deterioration. This can be linked to the failure to provide sufficient skills for the reforms and bring about organisational change. The underlying principle of the reforms which is international best practice – decentralised procurement coupled to transparency, accountability and central oversight – is now under threat of being reversed.
- Internal audit shows a similar trajectory and had significant donor inputs in the first period. However, an adequate platform of functionality was not achieved and in the absence of clear political commitment, deterioration occurred in the second period.
- IFMIS reforms on the other hand, which impacted across the PFM cycle but particularly on cash management (outflows: cash), resource management, internal control, monitoring, accounting and reporting did achieve a sustainable platform, and thus gains were sustained.

5 Conclusion and Wider lessons

This evaluation looked at two main questions: (i) where and why PFM reforms deliver results and (ii) where and how does donor support to PFM reform efforts contribute most effectively to results? A key task of the evaluation was to examine which external constraints prevented or slowed down the translation of reform inputs into reform outputs and in what ways, and how this related to the achievement of the intermediate outcomes. The key findings in relation to each of the evaluation questions are presented in Summary Table 1 in the Executive Summary.

The findings show that between 2000 and 2010 Malawi has made significant strides in improving its PFM systems and that these improvements can be traced to direct PFM inputs by donors and government, as well as external domestic pressure for reform. A key driver of improved PFM functionality in this period has been the successful implementation of an IFMIS system to control commitments and payments, coupled with the centralisation of the payment system and the establishment of a Single Treasury Account system.

This statement is qualified in two important ways: firstly there are areas of PFM functionality where significant inputs – particularly donor inputs – did not translate into sustained improvements in PFM functionality; secondly, most improvements occurred between 2004 and 2008. Between 2008 and 2011 few PFM areas showed improvement; many more areas experienced a deterioration.

To explain these trends the team has made the following concluding observations, linked to three key themes:

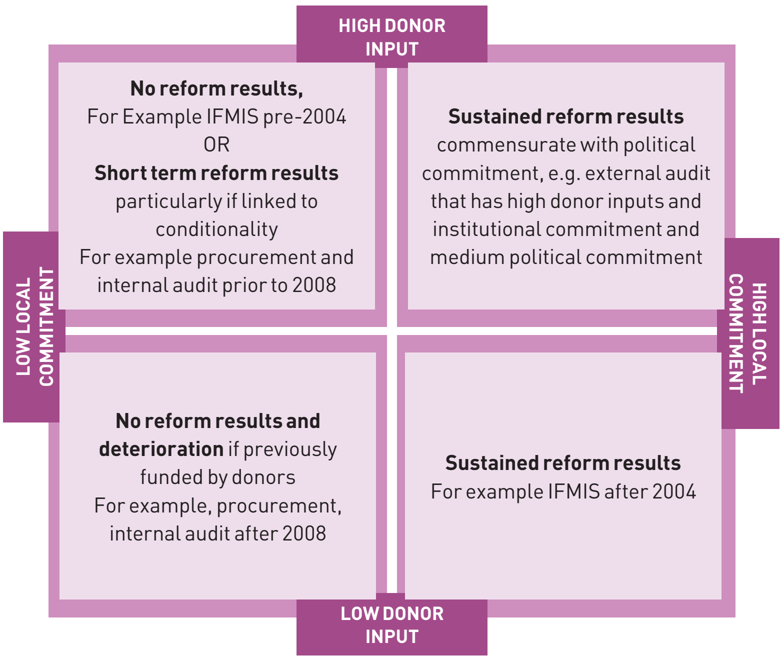
Political cycles, PFM cycles and reform inputs and outputs

Firstly, Malawi has exhibited a PFM reform cycle, closely linked to the political / electoral cycle. Since the first democratic election in 1994 the second term of the incumbent president – under both President Muluzi and President Mutharika – has been associated with deterioration in PFM systems, increasing fiscal distress and a break-down in the relationship with donors. By contrast, the 2004 to 2009 period of fast reform implementation and PFM improvement coincided with President Mutharika's first term, when economic reforms were necessary to address the fiscal and economic crisis, improve food security and regain the confidence of the IMF and donors. Reforms were also sustained in this period by external pressure from Parliament, in which President Mutharika's party was the minority. In the second term however, the commitment to reform appears not to be as strong, judged by the deterioration in outcomes, under-funding of key PFM institutions and delays in taking key decisions.

The fiscal cycle associated with elections is important. Malawi – which has a highly contested political landscape – has witnessed high pre-election spending by the incumbent government, which then needed to be corrected in the post-election period. In the post-election period there is an imperative to redress the fiscal situation and regain credibility in respect of managing the economy. The external seal of approval by donors and the IMF is important, because it is visible to the electorate, whilst also being associated with additional resources. PFM reforms become a means to rein in spending and to regain donor support. Once the seal of approval is regained and the fiscal position is more stable, there is again space for pre-election spending, and the imperative to win elections again dominates the imperative to see reforms through to their conclusion.

Local ownership and commitment determines whether reform inputs result in sustained intermediate outcomes: The close linkage to the political cycle is reflected in the waxing and waning of political commitment to reform, which in turn impacts on whether reform inputs lead to the expected reform outputs, of the type and quantity necessary to ensure increased PFM functionality. When the political conditions have been supportive, direct donor inputs to reform generally produced targeted outputs. However, where the targeted outputs were not core to the either the political or institutional leadership's PFM agenda, these gains tended to be short-term and narrowly focused on changing laws, rules and approaches in line with donor programme objectives and/or conditionalities. The figure below illustrates how these variables interact.

Figure 4: Interplay of donor input and local commitment



Donor inputs can accelerate reforms by overcoming the financial constraint, which the evaluation found to be a material factor in the pace of reforms and in the achievement of a "functionality platform". By this, we mean a threshold level of functionality in a particular reform area sufficient to ensure that the reform will be sustained.

Donor complementary inputs, such as policy dialogue and conditionalities, 'primed' reforms through their influence on the policy space: In the absence of political commitment, donor policy dialogue did not result in sustained PFM outputs and functionality. However, it is notable that when the political commitment fell into place, the reform outputs frequently aligned with donor-targeted outputs of the prior period. This also reflects donor leadership in designing reforms in the absence of local capacity in the public sector in the late 1990s and early 2000s.

External domestic pressure however, did affect the political commitment to reforms: The timing of the external audit reform outputs only came later in the 2004–2011 period, despite donor pressure for earlier delivery. This can be related to the electoral cycle, with high pressure from parliament and civil society to restore the external audit function and resume submission of audited financial statements, becoming a factor closer to the 2009 elections.

In conclusion, local commitment to reform is essential if reform inputs are to result in sustained PFM functionality, which can be achieved even in the absence of donor inputs (e.g. IFMIS). However, donor inputs have been highly influential: (i) donors have set the discourse and determined 'the policy space' to a significant degree (ii) donors have accelerated reforms when the political/institutional drive was there and (iii) even when the drive was absent, donor inputs introduced and sought to sustain reforms until conditions were right for their acceleration, partly through financing but also through conditionality on budget support. This latter policy certainly has costs in terms of efficiency and effectiveness, and recent history seems to suggest that reform gains are difficult to sustain, particularly where a "platform" of enhanced functionality has not already been reached.

Appropriate reform choices and reform outputs and outcomes

High skill PFM solutions coupled with low attention to skill and organisational development in reform inputs result in cost-ineffective reform outputs: The second concluding theme concerns the interplay between low attention paid to the skill and organisational output dimensions in PFM reform design, and the choice of best practice PFM approaches, particularly by donors and their consultants in the first half of the period. In some PFM sub-clusters the chosen PFM model did not take sufficient account of the Malawi public sector environment in which it is difficult to recruit or retain skilled people and in which the incentives for institutional change are very low. The chosen PFM inputs furthermore did not include any or enough activities to address these gaps. As a consequence reform approaches were discredited or abandoned, having taken up reform space and resources.

Pro-active and context-sensitive donor reform inputs

Donors need to be cognisant of the PFM reform / political cycle and local context in Malawi in order to maximise the effectiveness of their inputs. This has two aspects:

(i) Given their high influence on reform choices, donors need to be more aware of the local context and constraints on reform choices. This may mean making much higher use of local and regional technical advisory capacity and in line with Malawi preferences, focusing on advisory rather than managerial technical assistance;

(ii) Secondly, donors need to match the scale and focus of their support to make full use of PFM reform windows on the one hand, and on the other, sustain critical PFM functions when the political conditions turn adverse. This means that donor PFM programmes should be responsive to changes in conditions for reform. They should accelerate the amount of funding and other inputs and support new reforms / use policy dialogue to argue for new reforms when conditions turn positive. Equally it also means that when conditions turn adverse – e.g. when PFM slips from government's critical priorities or when the ownership and leadership of reforms in a sub-sector and reform drive are not present – donors should not attempt to introduce further reforms, but rather focus their efforts on sustaining existing reforms and results.

Reform coordination and sequencing

Lack of effective reform coordination and sequencing has been costly: The GoM reform leadership strengthened throughout the period. Yet, except for right at the end, when the GoM itself acknowledged the cost of fragmented and poorly sequenced reforms, the full PFM reform agenda in Malawi remained a smorgasbord of individual donor and individual PFM institutions' reform priorities. The current efforts to draft a joint, coordinated and sequenced reform plan and to pool resources to bring focus to reforms, should be lauded in this regard.

Annex 1: Consultant Terms of Reference

1 Introduction

These Terms of Reference are for case studies to be carried out in Burkina Faso, Ghana and Malawi on the reform of public financial management (PFM) systems, the results achieved, the role played by donors and other institutional and contextual factors that may contribute to or hinder PFM reform outcomes. The case studies will build on empirical analysis that investigates where and why PFM reform has delivered results and, conversely, where and why it has not. The main focus of the case studies will be to investigate whether and how donor behaviour and the design and implementation of PFM reform makes a difference to the achievement of results, or whether other domestic contextual factors carry more weight.

2 Background

The Paris Declaration on Aid Effectiveness and the associated emphasis on the use of country systems, budget support, and governance and anti-corruption have triggered increased attention on the reform of PFM. Strong PFM systems are a key element of the institutional and governance framework needed for building peaceful and stable societies and successful economic and social development, essential to improved service delivery and to the achievement of the Millennium Development Goals.

Nevertheless, PFM systems in many developing countries remain weak and there is lack of certainty or consensus on the role of donors and the context under which external support can best assist the process of PFM reform.

To address this, the evaluation departments of DANIDA (Denmark), Sida (Sweden) and the AfDB (African Development Bank) have agreed, in consultation with the OECD-DAC Evaluation Network, to manage a joint evaluation of PFM reforms in developing countries. This and other planned joint evaluations, including the joint evaluation of the impact of budget support, public sector governance reform, support to anti-corruption programmes, and the implementation of the Paris Declaration,will feed into discussions prior to the next High Level Forum on Aid Effectiveness (HLF-4) in Busan (29 November – 1 December 2011).

The PFM evaluation is interested in finding answers to two related questions:

(a) Where and why do PFM reforms deliver results (i.e. improvement in the quality of budget systems); and
(b) Where and how does donor support to PFM reform efforts contribute most effectively to results?

To answer these questions the evaluation design is made up of several components outlined in summary below.

- First, **analytical background work** has been undertaken both to:
  - define what is meant by PFM reform results; and
  - consider how results can be measured across countries and over time to assess the degree to which change in the quality of PFM systems has occurred (see Lawson/De Renzio Approach and Methodology for the Evaluation of Donor Support to PFM in Developing Countries Part A July 2009 and Part B September 2009).
- Second a **literature review** has been completed looking at the range of approaches to PFM reform, donor support and existing evidence on success/failure of PFM reform approaches[25].
- Third, a **quantitative analysis** has been undertaken to identify countries where PFM reform has delivered results in the quality of PFM systems; where it hasn't, and the contextual factors that might explain these differences as well as the correlation with donor support[26].
- Fourth, **country case studies** will follow up the findings from the quantitative analysis and explore why, in some cases, donor support appears correlated with results, and why in others it does not. The case studies will explore whether and how donor behaviour and the approach to PFM reform design and implementation makes a difference to results. Five case studies are planned in Sub-Saharan Africa starting with Burkina Faso, Ghana and Malawi.
- **Finally, a regional Africa synthesis report** will be compiled that will bring together findings from each of the evaluation products outlined above.

Country case studies have been selected on the basis of data availability (see below) and because they provide examples where budget institutions improved with: (i) high donor effort; (ii) low donor effort; and where regardless of donor effort, budget institutions did not improve.

3 Purpose

The purpose of the evaluation is to identify what factors – institutional and contextual – contribute to successful PFM reform and how donors can best support PFM reform processes given the influence of contextual factors on the process of change. Conversely, the case studies will also identify where PFM reform has not worked, and whether the application of aid effectiveness principles to PFM reform is important to results. The evaluation findings are intended for Governments, donors and PFM practitioners. The intention is to improve the design of external support for country led PFM reform efforts.

25 Pretorius, C and Pretorius, N. (2008) *Review of the Public Financial Management Literature*. London: DFID

26 de Renzio, P., M. Andrews and Z. Mills (2010) *Evaluation of Donor Support to Public Financial Management (PFM) Reform in Developing Countries. Analytical study of quantitative cross-country evidence*. London: Overseas Development Institute.

4 Scope and Limitations

Country case studies cover the period from 2001–2009.[27] The period represents a time in which donors became increasingly interested in PFM and agreed to increase the effectiveness of aid expenditure, including by using country systems to channel and deliver aid finance.

As PFM performance information is only widely available for central government, the scope of the case studies is restricted to central government organisations. Nevertheless, country visits may provide an opportunity to gather information (in addition to that contained in PEFA) on the extent to which PFM reforms are beginning to extend beyond central government institutions to local government and to service providers. The extent to which the government is taking a lead in this may indicate ownership and reform sustainability.

The quantitative analysis found a positive and significant, albeit weak, correlation between donor support to PFM reforms and improvements in PFM systems. It also found some positive correlations between the way aid is provided and the strength of PFM systems. However, these average effects cannot be taken as causal and universal, and need to be further investigated. Therefore the main purpose of the country case studies is to unpack the nature of PFM reform in different cases where there is found to be: (i) a positive correlation with donor support; (ii) a negative correlation with donor support; and (iii) no correlation between PFM results and donor support. As such, case studies will focus on the history of PFM reform inputs; what has been provided, for what purpose, in what sequence, for how long and at what cost that might help to explain the correlation (positive or negative) with PFM results or lack of them. The case studies will therefore not investigate the impact of PFM reform (particularly on service delivery) but will instead focus on inputs in the evaluation framework; how they have been identified, designed and delivered and the significance of this for the delivery of intermediate outcomes (explained in detail below). In countries where there has been high donor support to PFM, a key line of enquiry is the extent to which the application of aid effectiveness principles is found to make a difference to results.

However, given the range of factors that contribute to PFM results, it may be difficult to directly attribute results to donor support.[28] PFM reform interventions are treated as inputs in the evaluation framework and the case study methodology is centred on the ability to assess the institutional and contextual factors that helped to support success and/or failure of these inputs at each stage of the evaluation framework. It may also be possible to link intermediate outcomes to outputs and donor inputs. For example, one dimension of PFM reform – linking policy to planning and budget (an intermediate outcome in the evaluation framework) – may receive substantial donor support because while it is difficult from a technical perspective it may be relatively easier from

27 Or the date of the second PEFA report, which might be earlier than 2009.

28 In fact, the quantitative analysis highlights how economic factors in particular explain a large part of variation in the successful implementation of PFM reforms.

a political perspective. Donor support for the achievement of the other intermediary outcomes – greater transparency and comprehensiveness and control, oversight and accountability – may not be as strong because the political costs of these reforms may be higher despite their relative technical ease. It will therefore be important for the evaluation case studies to explore the wider context of reform intervention and whether certain reforms are pursed because they are politically more palatable than others. In other words, the case studies would examine the extent to which donor support is concentrated at particular phases of the budget cycle.

While the evaluation framework identifies final outcomes including the operational efficiency of public spending, it may be too soon to draw conclusions about the impact and sustainability of results. This is largely due to the fact that the evaluation period is relatively short and while quality PFM is necessary for the quantity and quality of service delivery, it is not sufficient. Nevertheless, it may be useful to consider what factors help to support on going reform and what factors risk sustainability e.g. is PFM reform supported by civil society, the Parliament and the business community; implemented in a stable and growing economy; building and developing the capacity of the Ministry of Finance as a key central government body; and spreading further than the centre to include sector Ministries, local government and service delivery units; and supported by on going donor support and technical assistance?

5 Methodology for the Selection of Case Studies

Case study countries have been selected on the basis of data availability. All case studies have at least two Public Expenditure and Financial Accountability (PEFA) assessments available (which covers a period of at least three years) plus World Bank and IMF HIPC assessments which extends the evaluation period by at least another four years (or more depending on the date of the HIPC assessments) which may be sufficient to observe changes in the quality of PFM systems.

The table below separates the 14 countries in Sub-Saharan Africa that meet the data requirements, into countries where reforms have delivered results (i.e. an increase in HIPC/PEFA scores between 2001 and 2007 – or the date of the second PEFA assessment – and countries where reforms did not bring about any improvement or where the quality of PFM systems deteriorated.

PEFA Performance in 14 African Countries 2001–2007

Countries where budget institutions improved	Countries where budget institutions did not improve or deteriorated
Burkina Faso, Ethiopia, Ghana, Mali, Tanzania, Zambia	Benin, Guinea, Madagascar, Malawi, Mozambique, Rwanda, Sao Tome and Principe, Uganda

Source: PFM Evaluation Approach Paper Part A: Assessing Budget Institutions and Budget Reforms in Developing Countries

Of these countries, case studies will be selected so that three types of situation can be examined:

- One in which donor support appears to be positively correlated with PFM improvement;
- One in which donor support appears to be negatively correlated with PFM improvement; and
- One in which significant PFM improvements appear to have occurred despite relatively low levels of donor support.

This suggests that countries are selected from across the following table.

Relative Impact of Donor Support to PFM reforms in SSA (1998–2007)

PFM Reform	Countries where Budget Institutions Improved	Budget Institutions did not improve
High donor support	Burkina Faso, Tanzania, Zambia	Benin, Malawi, Mozambique, Rwanda, Sao Tome and Principe, Uganda
Low donor support	Ethiopia, Ghana, Mali	

Source: As above

However, as stated above, donor support is not the only factor influencing the design and implementation of PFM reform measures and their results. Other factors, notably a range of domestic economic, political and institutional factors, are likely to determine the dynamic of the reform process as well as the results achieved. Hence, country case studies have been specifically selected to include cases where budget performance has improved with little or no donor support for PFM reform to highlight what specific factors contributed to reform outcomes and to provide a relevant counter factual.

6 Analytical Approach

The first step in answering the related questions of where and why do PFM reforms deliver results and where and how does donor support contribute most effectively to results, is to build a common definition of what is meant by results. The second step is to identify empirical information that might help to measure results and compare them across countries and over time (see Assessing Budget Institutions and Budget Reforms in Developing Countries: Overview of theoretical approaches and empirical evidence. Paolo de Renzio July 2009).

For the purpose of this evaluation, the following three dimensions of budget institutions provide a basis for assessing their overall quality:

- **Transparency and comprehensiveness:** looks at issues related to the quality of budget information, from the classification system to the coverage and clarity of budget documents; accessibility to budget information by the Legislature, the general public, media and civil society
- **Linking budgeting, planning and policy:** assesses the extent to which the budget is effective in converting policy objectives into relevant taxation and spending actions; budgets are derived from accurate medium term forecasts and contain a policy perspective
- **Control, oversight and accountability:** considers whether adequate mechanisms are in place to promote overall accountability for the use of public resources

Quality budget institutions are defined as those that exhibit higher degrees of transparency; policy orientation and control/accountability (see Table 1 below). At the opposite end, weak budget institutions are identified by their opacity, their lack of linkages with planning and policy, and the absence or weakness of mechanisms for monitoring and accounting for the use of public funds.

These dimensions are consistent with parts of the PEFA assessment as well as with indicators developed for HIPC assessments (Table 1).

Table 1: PEFA Indicators of Budget Performance

Intermediate Outcome	Definition	PEFA Indicators
Transparency and Comprehensiveness	The quality of budget information, from the classification system to the coverage and clarity of budget documents; accessibility to budget information by the Legislature, the general public, media and civil society	HIPC 1, 2, 4, 5 PEFA 5, 6, 7, 8, 9, 10, 13, 14, 15
Links between planning, policy and budget	Budget is effective in converting policy objectives into relevant taxation and spending actions; budgets are derived from accurate medium term forecasts and contain a policy perspective	HIPC 7, 10 PEFA 11, 12, 16, 23
Control oversight and accountability	Adequate mechanisms are in place to promote overall accountability for the use of public resources	HIPC 8, 9, 11, 15 PEFA 17, 18, 19, 20, 21, 22, 24, 25, 26, 27, 28

Unsurprisingly, there are limited sources of information and cross-country data which can be relied on to assess and compare the quality of budget institutions. The most comprehensive attempt at constructing a framework to assess the quality of budget institutions is the PEFA PFM Performance Measurement Framework (PEFA 2005) based on 31 indicators, which cover institutional arrangements at all phases of the budget cycle. Moreover, the framework contains all the information needed to measure the quality of budget institutions long the three dimensions identified above.

The country case studies will explore the extent to which PFM reform is more likely to produce results when there is an enabling environment for reform, when donor behaviour follows the principles of aid effectiveness, and when PFM reform interventions follow certain principles.[29] This suggests that PFM reform is more likely to produce results in the following circumstances:

- **Economic Growth and Political Stability:** PFM reforms take place in a stable environment that allows for the time, policy space and flexibility needed to implement complex governance reforms, and the additional public funds generated by growth.
- **Reform Planning and Design:** PFM reform inputs consider the local context taking into account the strength of existing institutions. Reform plans have been prioritized and sequenced to implement basics first and do not overwhelm existing administrative capacity.
- **Strengthened Approach:** reforms are country owned and managed through existing processes; with donor support harmonized and aligned behind country led reform programmes and aid is channeled through country PFM systems[30].
- **Political Economy:** PFM reforms have sustained high level political support for governance reforms in general (including civil service reform) and reflect political priorities and feasibility; political economy factors (such as patronage networks) are less powerful.
- **Demand side governance:** PFM reforms build on existing public demand for improved PFM through strengthening transparency of decision making and financial information, and there is greater accountability to the public and users of public services. Countries where these processes exist are more likely to deliver results in PFM reform, but this could also be a necessary pre-condition to more difficult or politically sensitive PFM reforms.

The relevance of these factors to the PFM change process has been incorporated into an evaluation framework. The purpose of the pilot country case studies is to test the evaluation framework and to elaborate further on where and why PFM reforms deliver results and how donor support can more effectively support the PFM change processes.

29 See Paolo de Renzio (July 2009): PFM Evaluation Approach Paper, Part A chapter 6: "Explaining success in budget reforms: lessons from the political economy of government reforms." The theory of change largely draws on the lessons learnt from first generation structural adjustment reforms, rather than second generation governance reforms. However, the theory closely suggests that the principles of aid effectiveness also apply to PFM reform.

30 While this may appear tautological, there can often be several PFM reform project interventions and TA initiatives (World Bank, IMF, ADB and so on) operating within one institution, usually the Ministry of Finance with no single agreed strategy for PFM reform,

7 Evaluation Questions

Detailed questions for each country case study regarding PFM reforms are listed below against the OECD DAC evaluation criteria of relevance, efficiency and effectiveness of PFM reform. The questions have been structured to reflect the theory of change set out in the evaluation framework in Annex 1. At each level of the evaluation framework (inputs, outputs, intermediate and final outcomes) the evaluation will consider the institutional and contextual factors that influenced the design and implementation of PFM reform and their significance in delivering reform success.[31] It is important to note that these questions refer to all PFM reform inputs whether or not they are financed by external donors.

- **How relevant is PFM reform to local context and existing systems?**
  - Is there a government led PFM reform programme that has high level political support?
  - Does PFM reform respond to domestic priorities, e.g. politically driven public sector reform agendas, macroeconomic and fiscal needs, political prioroties for improved service delivery?
  - Is donor support designed and structured to support government led and government managed initiatives?
  - Do PFM reform programmes include a component aimed at strengthening budget reporting e.g. to the public. Or do PFM reform programmes include components to include the public in resource allocation decisions?
  - Is external support to PFM reform designed to fit with the nature of political support for reform, to the institutional strengths and weaknesses of the existing PFM system, and to the organisational capability of the lead agencies (e.g. finance ministry) in PFM reform? Are international models of PFM reform transplanted on a "one-size fits all" basis or is PFM reform developed incrementally to fit with existing administrative capacity?[32]
  - Are PFM reforms consistent with on-going public administration reforms?
  - Is donor support based on building existing PFM systems rather than creating new ones?
  - Is there evidence that donor supported reforms have overwhelmed existing institutional capacity?
  - What is the role of technical assistance in PFM reform design?
  - Are PFM reform and management processes supported by or include active consultation and communication with a wide range of stakehold-

31 These questions are a summary of a much longer list of questions taken from Lawson/de Renzio.

32 Assessing political support is not straightforward but evidence could be gathered through interviews (TA, donor, government officials, and civil society) and through the ability of the Ministry of Finance (and the Minister of Finance) to lead and implement PFM reforms across government with strong support from Cabinet and Parliament.

ers involved in the reforms, as well as active measures to broaden support for reform?

- **How efficient and cost effective is PFM reform?**
  - Efficiency should look at the ratio between costs and output or outcomes. It will be important to estimate what PFM reform costs? How much has been spent by Government initiatives and by donors e.g. on personnel and equipment, to achieve particular PFM objectives?
  - Is donor support for PFM reform coordinated around a single PFM reform plan or strategy or is support fragmented across several initiatives?
  - Have donor efforts been slow at getting started or taken longer than expected, requiring on-going TA support?
  - Is donor support reliant on specifically designed PFM reform management units (project implementation units)?
- **How effective is PFM reform?**
  - Is there any additional evidence of PFM reform that is not captured in the PEFA framework e.g. reforms extending beyond central government institutions?
  - Have PFM reforms (including donor support to reforms) moved beyond de jure reform aspects, such as approving laws and regulations, to de facto aspects, such as changes in actual budget practices, and have these elements of PFM systems improved?
  - Have PFM reforms extended beyond the centre (e.g. Central Finance Agencies) to include, for example, sector Ministries, local government and service delivery units and what explains this spread? Have reforms been effective in improving PFM performance beyond central finance agencies?
  - In aid dependent countries, to what extent has the use of general budget support, PFM-related conditionality, and efforts to reduce aid fragmentation contributed to strengthening PFM performance? Have these efforts impacted across all aspects of PFM, or on specific areas such as de jure and concentrated PFM processes?
  - Are country systems for financial reporting and accountability utilised by donors?
  - To what extent is aid expenditure included in different stages of the budget process[33]?

8 Tasks

The consultants will conduct country case studies in Burkina Faso, Ghana and Malawi.

Task 1: Inception Phase

- Organise consultation workshop (in Tunis) as part of the inception phase involving key users and stakeholders of the evaluation.

33 For instance see CABRI – dimensions of aid on budget including procurement

Prepare an Inception Report that would:

- Further develop the evaluation questions, evaluation framework, analytical tools and overall work plan for the country case studies that builds on the original approach papers and the literature review to ensure complementarities and the best possible synthesis report[34].
- Incorporate an approach to test the findings and hypotheses emerging from the quantitative study.

Task 2: Desk Review

- Review existing PEFA/HIPC assessments and performance data (for the three case study countries) – what does the evidence tell us about PFM reform progress over the evaluation period? What specific reforms have been followed and is it possible to track them over time?
- Gather information on donor support to PFM reform over the evaluation period (including project documents where these are available). While 2001 is the date of the first HIPC assessment, it might also make sense to extend that period backwards to capture earlier donor PFM support, and initial reforms that took place in the mid to late 1990s.
- Identify the level and character of government initiatives, and (changes in) the level of political will to undertake PFM reforms during the evaluation period, classifying it according to the following categories:
  - Stage of the budget cycle (e.g. preparation, approval, execution, audit)
  - Budgeting time horizon (e.g. annual budget, MTEF)
  - Involved stakeholders (e.g. Parliament, CSOs, DPs)
  - Type of input (e.g. legislative, human capital, infrastructure)
  - Cost (direct and indirect) and time
- Identify donor support (inputs in the evaluation framework) to PFM reform during the evaluation period in each country case study and classify it according to the three dimensions of quality PFM (described above) and the following:
  - its phase in the budget cycle e.g. preparation, approval, execution, audit
  - type e.g. technical assistance, training, capacity building, software and computer installation, budget support, dialogue on PFM reform;
  - process of delivery e.g. project management unit, or through Government systems;
  - donor providing the support e.g. World Bank, IMF, AFDB, and bilaterals and whether it is joined up or implemented through separate project agreements;
  - cost and time;
- Using project documents, identify the outputs that support interventions are intended to deliver e.g. people, skills and organizational capacity; changes in laws, rules and procedures; improved information systems and business processes; and changes in incentives and controls (see evaluation framework);

34 Lawson/De Renzio Approach and Methodology for the Evaluation of Donor Support to Public Financial Management (PFM) in Development Countries Part A July 2009 and Part B September 2009.

- Compile a timeline of support showing the sequencing of donor supported reform activities (plus investments). Can results in PEFA assessments be linked to specific reforms that have been supported by donors?

Task 3: Undertake country visits
The purpose of the country visits is to assess the relevance, efficiency, effectiveness and sustainability aspects of the theory of change framework and how donor support has been designed and implemented.

The evaluation team would be expected to carry out structured and semi structured interviews with Ministry of Finance officials, other officials in government, sector ministries, local government, politicians, civil society and a range of donors both those involved in PFM reform and those that are not. The consultants could consider sending a limited number of questions in advance of the country visit to both donors and government officials. If a joint donor/government budget support or PFM group exists detailed discussion should be held with these groups to review experience over time.

Task 4: Report drafting
The consultants will be expected to produce stand alone reports for each country case study. Reports should be no longer than 30 pages with additional information included as annexes as necessary. Reports should be succinct as it is important to produce written information which is accessible to a wide audience and to readers whose first language may not be English (or conversely French). As far as possible, the initial findings of the evaluation should be discussed with the participating government, with donor partners and other stakeholders in country for comment and feedback before the evaluation team departs. Draft reports would be presented to the Management Group and Evaluation Reference group for comments and feedback before the final report is produced.

9 Budget

The total cost (fees and reimbursables) for the evaluation must not exceed SEK 3,500,000.

10 Deliverables[35] and timetable

The consultant will undertake the following tasks within the timeline set out below:

Deliverable	Submit by
Inception phase consultation workshop in Tunis	March 2011
Prepare an Inception Report setting out the approach to the case studies. Undertake in country consultations during the inception stage	31st March 2011

35 All deliverables will be submitted electronically in English and French.

Deliverable	Submit by
Undertake a desk based review of PEFA reports and other available evidence about PFM reforms in the case study countries. The objective is to develop a preliminary overview of and hypotheses about how the reforms have been undertaken, partner government initiatives and the level and character of the external support.	30th April 2011
Visit case study countries and undertake a range of interviews, workshops, and a de-briefing workshops at the end of the field visit (following a common evaluation approach)	May–June 2011
Briefing report with preliminary findings from country visits	30th June 2011
Country case study reports submitted (following a common format)	31st August 2011
Final Synthesis Submitted	30th September 2011

11 Consultant qualifications and skills

The work will require a small team of consultants who have experience in PFM reform, with part of that experience being in the evaluation of development policy, programs or project operations. Support may be required to gather information on donor support in both case studies including project documents, PEFA reports and HIPC data and to provide support with the desk study. Two consultants will be required for each case study and it will be important that the team leader is fluent in both English and French (in reading and writing) and involved in all three case studies. Consultants would be expected to be familiar with reform approaches, partner government initiatives and interventions of donor agencies in African countries particularly in the area of PFM. Familiarity with PEFA assessment systems will be important.

Compulsory requirements for personnel are specified in section 4.2.1 for team leader and 4.2.2 for other personnel. Evaluation criteria for qualification and competence are specified in 7.2.1 for the team leader and 7.2.2 for other team members.

Final reports should be submitted in both English and French. All reports submitted should be professionally edited.

12 Management and Administration

The consultant will report to the evaluation task manager for methodological guidance, preparation and drafting of the report. Draft reports will be submitted to the Management Committee made up of Sida, DANIDA and AFDB evaluation departments. Drafts may be circulated to PFM professional staff in these institutions including country specialists for comments. Final drafts will also be circulated to a wider group of stakeholders mainly including bilateral and multilateral donors and PFM experts who may submit further comments. In country support would be provided by donor country offices.

Annex 2: Bibliography and respondents

ACE and IPF (2006). *Public Expenditure and Financial Accountability (PEFA) Framework Assessment Malawi. Brussels*, EU.

Afrobarometer. (2003 and 2009). *"Results of the Malawi Survey."* from http://www.jdsurvey.net/afro/AnalizeQuestion.jsp.

Anderson, G. (2010). *IFMIS Review and Implementation Strategies*. Dar es Salaam, IMF East Afritac.

Andrews, M. (2010). *How Far Have Public Financial Management Reforms Come in Africa? Faculty Research Working Paper Series*, RWP10-018. Harvard, Harvard Kennedy School.

APRM (2004). *Malawi and the African Peer Review Mechanism: A review of national readiness and recommendations for participation*. Johannesburg, APRM.

Barnett, C., M. Chisvo, et al. (2006). *Evaluation of DFID Country PRogrammes: Malawi 2000 to 2005*. London, DFiD.

Booth, D., D. Cammack, et al. (2005). *Drivers of Change and Development in Malawi*. London, Overseas Development Institute.

Botolo, B. (2009). *Debt Relief in Malawi. Debt relief initiatives, development assistance and service delivery in Africa. African Development Bank*. Oxford, Oxford University Press.

CABS Partners (2009). *Aide Memoire, Common Approach to Budget Support*, 2009. Lilongwe, CABS.

CABS Partners (2009, 2010, 2011). *Common Approach to Budget Support (CABS) Aide Memoires*. Lilongwe, CABS.

Claussen ,J., P. Amis, et al. (2006). *Joint Evaluation of General Budget Support, Malawi Country Report*. Birmingham, School of Public Policy, Birmingham University.

Cooney, G., A. Wenderoth, et al. (2010). *Cida Malawi Country Programme Evaluation,* 2000–2008. Gatineau, Quebec, CIDA.

De Renzio, P., M. Andrews, et al. (2010). *Evaluation of Donor Support to PFM Reforms in Developing Countries: Analytical Study of quantitative cross-country evidence*. London., Overseas Development Institute.

Durevall, D. and M. Erlandsson (2005). *Public Finance Management Reform in Malawi. Sida Country Economic Report 2005:1.* Stockholm, SIDA.

East Afritac (2006/7 to 2009/10). *Annual Reports.* Dar Es Salaam, IMF East Afritac.

Fozzard, A. and C. Simwaka (2002). *How, when and why does poverty get Budget Priority: Poverty Reduction Strategy and Public Expenditure in Malawi.* London, ODI.

Government of Malawi (2010). *Public Financial and Economic Management Situation Analysis Report.* Lilongwe, Ministry of Finance, Malawi.

Government of Malawi (2011). *Local Authorities IFMIS Implementation: Document presented to the Development Partners and Government Group on Decentralisation.* Lilongwe, LGFC.

IMF (2001). *Tracking poverty-reducing spending in HIPCs: country assessment and action plan Malawi.* Washington, DC, International Monetary Fund.

IMF (2002, 2004 and 2009), *IMF Article IV*

IMF and World Bank (2000). *Decision Point Document for the Enhanced Heavily Indebted Poor Countries Initiative.* Washington, DC, IMF.

Kampanje, R. (Date unknown). *"IFMIS Implementation in Malawi."* from http://www.docstoc.com/docs/53835402/IFMIS-IMPLEMENTATION-IN-MALAWI.

Khanje, T. (2011). *Malawi off track – IMF.* The Times Group of Malawi. Blantyre.

Lawson, A. (2011). *Joint Evaluation of PFM Reforms in Burkina Faso, Ghana and Malawi: Inception Report.* Oxford, Fiscus Limited, Mokoro Limited.

Lawson, A. and P. De Renzio (2009). *Approach & Methodology for the Evaluation of Donor Support to PFM Reform in Developing Countries: Part A and B.* Copenhagen, DANIDA.

Ministry of Finance (2007 to 2011). *Minutes of the Meeting of the Technical Committee on Public Finance and Economic Management.* M. M. o. Finance. Unpublished.

Mutharika, B. W. (2005). *Towards a corrupt-free society. Speech on Anti-Corruption Day, 5 February 2005.* Lilongwe.

O&M Associates (2010). *Procurement Compliance Assessment undertaken for the Office of the Director of Public Procurement Malawi.* Lilongwe, Office of the Director of Public Procurement.

ODPP (2007). *Procurement Capacity Assessment*. Lilongwe, Office of the Director of Public Procurement.

Oduro, K., R. Quist, et al. (2008). *Public Finance Management Assessment for Malawi based on PEFA*. Lilongwe, European Union Delegation.

OECD (2009). *Results of the Paris Declaration Monitoring Survey Paris,* OECD.

Pohl Consulting and Associates (2011). *Draft Final Public Financial Management Assessment for Malawi based on the PEFA framework*. Lilongwe, Malawi Delegation of the European Union.

Poyry Management Consulting (2011). *Mid-term Review of the Norwegian Support Programme to the National Audit Office in Malawi*. Oslo, Norway.

Pretorius, C. and N. Pretorius (2008). *Review ofPublic FinancialManagement Reform Literature*. London, DFID.

Rakner, L., L. Mukubwu, et al. (2004). *The budget as theatre – the formal and informal institutional makings of the budget process in Malawi*. Bergen, CMI.

Rwamibazi, H. (2004). *Government of Malawi IFMIS Implementation Peer Review Report*. Lilongwe, Government of Malawi.

Tambulasi, R. (2010). *No key opens every door: the failure of NPM-based performance contracting in Malawi. Reforming the Malawi Public Sector: Retrospectives and Prospectives*. R. Tambulasi. Dakar, Council for the Development of Social Science Research in Africa.

Thebault-Weiser, E. and P. Chilumba (2010). *Malawi Threshold Programme: En-Term Evaluation*. Washington, Millenium Challenge Corporation.

Tran, M. (2011). *Britain suspends aid to Malawi*. The Guardian. London, Guardian News and Media Limited.

UNDP (2010). *From Paris to Malawi, Making devleopment assistance more effective*. Lilongwe, UNDP Malawi.

Valentine, T. (2003). *Towards the Development of a Medium Term Pay Policy for the Malawi Civil Service*. Lilongwe, The Republic of Malawi, Office of the President and Cabinet.

World Bank (2003). *Malawi Country Financial Accountability Assessment*. Report No. 26765-MA. Washington, World Bank.

World Bank (2003). *Malawi: Country Procurement Assessment Report*. Washington, World Bank.

World Bank (2008). *Malawi Third Social Action Fund (MASAF 3) APL II (LDF Mechanism) Programme Information Document*. Washington, World Bank.

World Bank Independent Evaluation Group (2006). *Project Performance Assessment Report, Fiscal Restructuring and Deregulation Programme.* Washington, DC, World Bank.

World Bank Operations Evaluation Department (2005). *An Independent Review of World Bank Support for Capacity Building in Africa, The Malawi Case.* Washington, DC, World Bank.

List of respondents

Name	Designation	Organisation
Dr. Dalitso Kabambe	Budget Director	Ministry of Finance
Richard Pelekamoyo	Deputy Budget Director	Ministry of Finance
Peter Simbani	Director	Ministry of Finance
Twaib Ali	Deputy Director	Ministry of Finance
Betty Ngoma	Deputy Director	Ministry of Finance
Vitima Mkandawire	PFEM	Ministry of Finance
Eliam Kadewele	PFEM	Ministry of Finance
Dorothy Banda	Accountant-General	Accountant General's Dept.
Precious Mtotha		Accountant General's Dept.
Mona Mhango		Accountant General's Dept.
Mr. Mganga		Accountant General's Dept
H. Kabvina		Accountant General's Dept
Reckford Kampanje	Auditor General	National Audit Office
James Kayanula		National Audit Office
Isaac Chilima	Deputy Director	Office of Director of Public Procurement
Peter Makanga		Office of Director of Public Procurement
John J. Bisika	Principal Secretary	Ministry of Education
Y. Hassan	Director of Finance & Admin	Ministry of Health
O. Chikankheni		
R. Mwadiwa	Principal Secretary	Ministry of Transport & Public Works
Wezi E. Mjojo	Executive Secretary	National Local Government Finance Committee
Silli Mbewe	Director of Assembly Financial Management Services	National Local Government Finance Committee
Hon. Henry Mussa, MP	Chair of Public Accounts Committee	National Assembly

Name	Designation	Organisation
A.W.D Chanza	Director of Administrative Services	Blantyre City Council
Mr. M. Kasamba	Director of Financial Services	Blantyre City Council
Mr. Msyali	Deputy Director of Finance	Blantyre City Council
Fergus Majawa	Internal Auditors	Blantyre City Council
Dave Kuziwa	Internal Auditors	Blantyre City Council
John Nkasa	Internal Auditors	Blantyre City Council
Joseph Kapakasa	Procurement Officers	Blantyre City Council
Steve Nkhonjera	Procurement Officers	Blantyre City Council
Tito Mkweteza	Procurement Officers	Blantyre City Council
Charles Makanga	District Commissioner	Blantyre District Assembly
Owen Malemia	District Health Officer	Blantyre District Assembly
Joseph Ntiza	Assistant Director of Finance	Blantyre District Assembly
William Kunthembwe	Assistant Accountant	Blantyre District Assembly
Florian Lang		GIZ
Appolenia Mbowe	Senior economist	World Bank
Trust Chimaliro	Financial Management Specialist	World Bank
Venge Nkosi		UNDP
Chris Chisoni	National Secretary	Catholic Commission for Justice and Peace
Richard S Chiputula	Director of Programmes	Malawi Economic Justice Network
Martha T. Kwataine	Executive Director	Malawi Health Equity Network
Robert Katuya		USAID
Lamulo Nsanja		KfW
Fenwick Kamanga		AfDB
Kelvin Banda		EU
Kevin Smith	Supervisory Program Officer	USAID
Kristine Herrmann		USAID
Steven Banda		IMF
Marte Briseld		Norwegian Embassy
Temwa Gondwe		World Bank

Annex 3: Evaluation Questions and detailed Judgement Criteria

Level of Analysis	Evaluation Question	Judgement criteria/ Possible indicators
Inputs & Context: the design of PFM reform	**EQ.1** What has been the nature and scale of PFM reform inputs provided by Government and Donors?	i Government funds for PFM reforms committed and actually disbursed by year over the evaluation period ii Donor funds for PFM reforms committed and actually disbursed by year over the evaluation period iii Nature of support provided to PFM reform efforts (equipment, training, TA, diagnostic work.) iv Focal areas for reforms by function (based on PFM "clusters" as in Andrews 2010) v Focal areas for reforms by organisational location/ level of government (Ministry of Finance, Sector ministries, Local Governments, Parliament, CSOs, etc.)
	EQ.2 What type of structures has been used for the design and management of these reform inputs? Have these structures served to provide a coordinated and harmonised delivery framework?	i Structure of design team and related consultation process: Balance of inputs by Donors/ Govt/Consultants; Extent of input/ consultation with end users of PFM system (Sector ministries, LGs and service institutions). ii Management & co-ordination structure for PFM reforms (Ad hoc Project Units vs. Normal management structures; Govt-controlled vs. Shared Donor-Govt management; Use of consultants for managerial or purely advisory roles) iii Arrangements for monitoring & evaluation. iv Level of harmonisation and alignment of different donor contributions

Level of Analysis	Evaluation Question	Judgement criteria/ Possible indicators
Inputs & Context: the design of PFM reform	**EQ. 3** What types of complementary actions have Donors taken to support PFM reforms and what has been their significance? Have they had any influence on the external constraints to reform?	i Use of country systems: extent to which external aid is 'on plan', 'on budget' and 'on treasury'? ii Ranking of donor efforts to support national systems as expressed in Paris Declaration monitoring reports and PEFA indicators D2 and D3. iii Scale and evolution over the evaluation period of aid flows provided as GBS, SBS or debt relief and relative contribution to reduction of treasury management costs and to discretionary resources available to Government, (including effect on financing constraints for PFM reform outputs). iv Nature and evolution over time of dialogue on PFM within GBS/PRSC, SBS structures or similar donor-govt fora, including use of PFM reform conditions in GBS/ SBS disbursement conditions. v Influence of dialogue on the "political" and "policy space" constraints restricting choice of PFM reform outputs. (Consistency of actual changes with PFM reform triggers and/or points of emphasis in GBS/ PRSC dialogue) vi *Consideration of counter-factual:* – *Outputs: would PFM reforms have evolved differently in absence of GBS and related policy dialogue structures?* – *Outcomes: Would intermediate outcomes have been different if use of country systems had been lower?*
	EQ.4 To what extent has there been domestic public pressure or regional institutional pressure in support of PFM reform and what has been the influence on the external constraints to reform?	i Nature of engagement with PFM reform issues within civil society, academia and the media. ii Extent of participation of CSOs in policy dialogue on PFM reform. iii Presence/ absence of specific research and advocacy by CSOs on PFM reform issues. iv Relevance of PFM issues to political outcomes: – Discussion of PFM issues within election campaigns – Discussion of service delivery issues related to PFM in election campaigns – Voter concerns during elections (from Afro Barometer and other relevant publications) v Existence of regional or international bodies (e.g. WAEMU, EITI) promoting specific norms on PFM issues, and their relative influence on domestic political discourse. vi Evolution in the quality of public/ CSO engagement with PFM issues over time and its influence on PFM reform outputs. vii *Consideration of counter-factual: would PFM reform outputs have evolved differently in absence of domestic public pressure or pressure from regional/ international institutions?*

Level of Analysis	Evaluation Question	Judgement criteria/ Possible indicators
Inputs & Context: the design of PFM reform	**EQ.5** How *relevant* was the PFM reform programme to the needs and the institutional context? Was donor support consistent with national priorities? To what extent were adaptations made in response to the context and the changing national priorities?	i Scale and focus of support in relation to identified PFM weaknesses at start and during implementation of reforms (including weaknesses in HR endowments, quality of institutions & rules, quality of systems & business processes, and quality of organisations). ii Consistency of donor-funded support with Government PFM reform efforts, with on-going public administration reforms and overall Govt policies. iii Extent to which scope and focus of support were adapted to the context, especially to the level of ownership and the capacity for reform implementation. iv Consistency & coherence with wider Donor policies in country v Consistency with the Paris Declaration objectives as regards ownership, harmonisation and alignment. vi Flexibility in design of support and existence of adequate feed-back/ learning mechanisms in order to adapt the design and implementation of support to changing needs.
Outputs: the delivery of PFM reforms	**EQ.6** What have been the outputs of the PFM reform process and to what extent has direct donor support contributed to these outputs?	i Documentation of outputs : – by PFM function (according to PFM clusters in Andrews 2010) and – by type of output (People & Skills; Laws & Rules; Systems & Business processes; Organisational changes) ii Matching of outputs to PFM reform inputs, differentiating if possible Government & Donor inputs. iii Analysis of chronology of events to determine causal links between donor support to reform and observed changes at output level. iv *Consideration of counterfactual: would these outputs have been generated in absence of donor support to PFM reform?*
	EQ.7 How *efficiently* were these outputs generated? Was the pacing and sequencing of reforms appropriate and cost-effective? Was the cost per output acceptable?	i Consistency of outputs produced with planned programme (quantity and timing) ii Extent of coordination between outputs iii Quality of pacing and sequencing of output production: – internally coherent/ efficient? – Consistent with capacity endowments? – Appropriate to degree of ownership/ nature of political & admin support for reform? iv Relative cost of outputs in relation to budgeted costs. v Influence of external support to PFM reform upon pacing and sequencing. vi *Counterfactual: would pacing & sequencing of outputs have been different in absence of external PFM support?*

Level of Analysis	Evaluation Question	Judgement criteria/ Possible indicators
Outputs: the delivery of PFM reforms	**EQ.8** What have been the binding external constraints on the delivery of PFM reform: political, financing or policy factors? How has this varied across the different PFM reform components?	i Degree of ownership of reforms at the administrative and political levels (narrow vs. broad; depth of commitment to reform and motivations for this commitment). ii Quality of interaction between administrative and political cadres. iii Extent and nature of political accountability (within ruling party, vis-a-vis Legislature, vis-a-vis Electorate & Civil Society) and extent to which this is patronage or performance-based. iv Economic context and its influence on financing of PFM reform: per capita GDP and % growth in evaluation period, significance of domestic revenue, significance of aid, level of total and discretionary public spending; absence/ presence of macro crises. v Has timeliness of funding been an issue? vi Nature of "conventional wisdom" on PFM reforms: does prevailing thinking exclude certain reform options? vii Has policy discussion on PFM reform been open in terms of range of participants and range of ideas? viii Overall, what have been the binding constraints on the PFM production possibility frontier? ix How has this varied between different reform components?

EF Level	Evaluation Questions	Judgement criteria/ Possible indicators
Outcomes & overall assessment of PFM reform and of donor support to PFM reform	**EQ.9** What have been the intermediate outcomes of PFM reforms, in terms of changes in the quality of PFM systems?	i Changes in performance of PFM system over period as measured by HIPC AAP indicators and PEFA indicators. ii Nature of PFM system changes identified: – By PFM function (according to PFM cluster) – By nature of change (Upstream, De jure, Concentrated vs. Downstream, De facto, Deconcentrated).

EF Level	Evaluation Questions	Judgement criteria/ Possible indicators
Outcomes & overall assessment of PFM reform and of donor support to PFM reform	**EQ.10** To what extent are the outcomes generated relevant to improvements in the quality of service delivery, particularly for women and vulnerable groups?	i Changes in quality of PFM system directly relevant to service delivery, especially for women & vulnerable groups: – Classification of the budget (PI-5): does this permit protection/ prioritisation of specific functions or programmes? – Information in Budget documentation (PI-6): does this include performance data or targets for priority programmes? – Does the quality of in-year reports and final accounts (PI-24 & 25) and the access of the public (PI-10) permit analysis and discussion of spending & performance for priority programmes? – Is the predictability of funds for commitment of expenditure (PI-16) improving? – Is the quality of information on resources received by service delivery units (PI-23) improving? ii Extent to which improvements may be attributed to the PFM reform programme, and particularly to external support? iii *Consider counterfactual: would these changes have happened in the absence of the reform programme/ the externally supported component of the reform programme?*
	EQ.11 Have reform efforts been *effective*? If not, why not? If yes, to what extent PFM reform outputs been a causal factor in the changes identified in intermediate outcomes?	i Causes of changes, specifically contribution of identified PFM reform outputs. ii Consistency of actual changes with objectives and outcome targets of PFM reform programme. iii Extent to which external constraints (political, financial, policy) have undermined effectiveness of PFM reform. iv *Consider counterfactual: what change could have been expected at Intermediate Outcome level in absence of PFM reform as a whole, and in absence of external support to PFM reform?*
	EQ.12 To what extent do the gains identified at the Intermediate Outcome levels appear *sustainable*? Is the process of PFM reform sustainable?	i Recent trends in Outcomes: do these suggest past gains will be sustained? ii Is there a commitment (at political and administrative levels) to continue PFM reforms? iii Are there organisational structures in place (on supply & demand sides) to sustain PFM reforms? iv Is there the financial and technical capacity within Government to sustain PFM reform in the absence of external support? v If not, is there a framework in place for continuing external support while building local capacity?

Annex 4: Context of Reforms

This annex provides additional tables and a chart relevant to Chapter 2.2: Context of the Reform. The three tables included are a comparison of PFM reform performance in Malawi between 2001 and 2010 with performance in other selected countries (Annex 4 Table 1); selected socio-economic indicators for Malawi (Annex 4 Table 1); and total ODA flows as reported to the OECD DAC Creditor Reporting System (CRS) as a percentage of total expenditure and net lending. Annex 4 Figure 1 provides a graph showing the Transparency Index scores by year.

Annex 4 Table 1: PFM performance of selected countries

Country	2001–2010 Variation	
Zambia	+	+8
Burkina Faso	+	+4
Ethiopia	+	+4
Cameroon	+	+1
Mali	+	+1
Ghana	=	+8
Mozambique	=	+2
Niger	=	+1
Guinea	=	0
Tanzania	=	0
Madagascar	=	–1
Malawi	=	–1
Senegal	=	–1
Chad	=	–2
São Tomé	=	–2
Rwanda	–	–2
Uganda	–	–2
Gambia	–	–4
Benin	–	–5

Source: (De Renzio, Andrews et al. 2010)

Annex 4 Table 2: Malawi: Selected Indicators

Indicator		Malawi
GDP per Capita PPP, 2005 international $ [a]		721.3
Population, million [a]		15.3
% Population Living on < $1.25 ppp/Day [a]		73.9
Life Expectancy at Birth [b]		54.6
Literacy Rate [a]		73
Child malnutrition (weight for age, % of children under 5) [a]		15.5
Gini Coefficient [b]		39
Annual Population Growth Rate [a]		2.77
Average Annual ODA Disbursements 2002–2009, constant 2009 $billion [c]		1.13
Average Annual ODA Disbursements per capita [a, c]		81.15
Total GBS as a % of total aid disbursement 2002–2009 [c]		7.2
Distribution of ODA % Allocation 2002–2009 [c]	Social Infrastructure & Services	30.1
	Economic Infrastructure & Services	3.7
	Production Sectors	6.0
	Multisector/Cross-Cutting	3.0
	Commodity Aid/General Prog. Ass.	10.5
	Action Relating to Debt	43.7
	Humanitarian Aid	1.4
Political Openness [d] (indication of the general state of freedom in a country)	Political Rights [1]	3
	Civil Liberties [2]	4
Corruption Perceptions Index Score [e, 3]		3.4

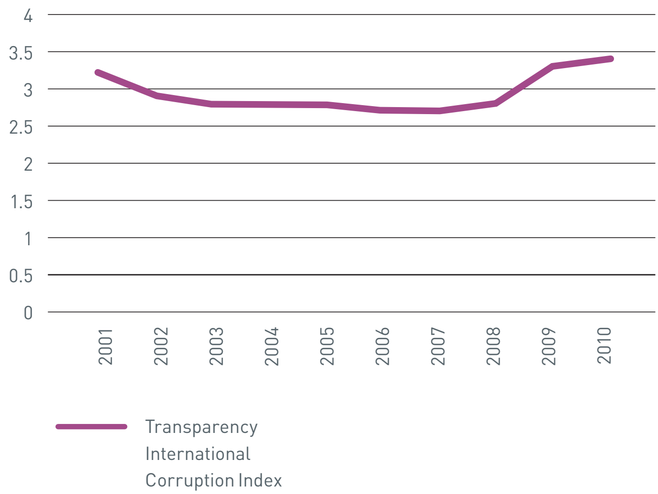
Sources: [a] World Bank Development Indicators 2011;
[b] Human Development Report 2010;
[c] OECD DAC Database, accessed 27/4/11;
[d] Freedom In the World 2010, Freedom House;
[e] Corruption Perceptions Index 2010, Transparency International.
[1] The ratings process is based on a checklist of 10 political rights questions. Scores are awarded to each of these questions from which a rating of 1 to 7, with 1 representing the highest and 7 the lowest level of freedom.
[2] The ratings process is based on a checklist of 15 civil rights questions. Scores are awarded to each of these questions from which a rating of 1 to 7, with 1 representing the highest and 7 the lowest level of freedom, corresponds to a range of these total scores.
[3] The CPI measures the degree to which public sector corruption is perceived to exist within a country on a scale of 0 (highly corrupt) to 10 (very clean).

Annex 4 Table 3: ODA flows as percentage of total expenditure and net lending

	(Current prices)	2001	2002	2003	2004	2005	2006	2007	2008
Total ODA flows all CRS reporting donors	USD million	409	378	518	506	573	698	744	924
Total ODA flows all CRS reporting donors	MK million	31526	36680	56476	59662	77976	97752	104903	130239
Total Expenditure and net lending	MK million	40586	52112	67576	91222	106267	136057	180459	217310
ODA as % of Total Expenditure	–	78%	70%	84%	65%	73%	72%	58%	60%

Source: World Bank Development Indicators 2011, OECD DAC Aid Statistics

Annex 2 Figure 1: Malawi Transparency International Corruption Perceptions Index Score 2001 to 2010



Annex 5: Reform needs, targets and outputs by PFM function

This annex tracks the reforms from a discussion of the PFM context at the start of the evaluation period (Table 1), through the main reforms proposed during the evaluation period by PFM sub-sector (Annex 5 Table 2) to the outputs produced by the reforms by PFM sub-sector (Annex 5 Table 3.)

Annex 5 Table 1: State of PFM in the early 2000s

We use two comprehensive assessment documents to establish the baseline on which PFM reforms proceeded over the period under review: the 2001 HIPC assessment and the 2003 Country Financial Accountability Assessment (CFAA). In the 2001 assessment Malawi achieved seven out of fifteen HIPC benchmarks set by the IMF and the World Bank. The 2003 World Bank-lead assessment raised similar concerns than the HIPC assessment, and found systems wanting in some areas that were passed by the 2001 assessment.
While the Malawi budget classification system was sufficiently detailed to track expenditure, the overall classification of central government was not in keeping with GFS, too narrow and excluded some fiscal activities from the budgets and fiscal data submitted to parliament (IMF 2001). Donor funding was inadequately captured in the recurrent and development budgets.
Revenue forecasts were unrealistic, as were the costing of policies and budget. Despite the establishment of an MTEF, the links between policies and budget were weak (World Bank 2003). Although detailed, the accuracy of the forward estimates was weak, and therefore the level of detail was irrelevant as the forward estimates did not provide the basis of any subsequent year's estimates (IMF 2001). The distinctions between the development and recurrent budgets were unclear, with capital spending on the latter and recurrent spending on the former. This undermined analysis. Transparency and accountability in budget process affected by poor capacity in parliament and public to engage on budget issues and secretive processes of parliamentary review of government spending, even if the public accounts committee (PAC) succeeded to some degree to make these records public (World Bank 2003).
The public accounts were incomplete and unreliable, with not all transactions consistently recorded. Different charts of accounts were in operation across government (Rwamibazi 2004). Not all revenue received by government was recorded. The financial statements were out of date and did not provide current information for fiscal management purposes (World Bank 2003): the earlier HIPC assessment reported that the benchmark of timely monthly submission of accounts by spending agencies were met at that time after a considerable effort by the then Ministry of Finance and Economic Planning (IMF 2001). Fiscal and Bank reconciliation procedures had significant deficiencies (IMF, 2001; World Bank, 2003).

Government had not committed adequate resources to IFMIS completion and roll-out and the project management structure was weak. The automated payroll was not yet stable and had no interface to IFMIS and lacked robust internal controls. Accounting systems in the ministries and departments were mainly manual and therefore prone to error. Supervision was often inadequate and procedures were not followed, resulting, for example, in the existence of a backlog of reconciliation of bank accounts with the government's accounting records (World Bank, 2003). The HIPC assessment earlier had found that government did not always report publicly on spending within the 45 day period for quarterly reports (IMF, 2001). The Accountant General did not meet the deadline set for end of year accounts, due to delays in receiving the accounts from primary spending agencies and consolidated them (IMF, 2001).
Weak legal framework for internal audit (based on Treasury Instructions) with out-dated Guidelines for the function, which for example did not take account of the electronic environment. Within ministries the internal audit function was not independent and could not set its own work programme. Central support for the internal audit function was weak. Internal auditors were still involved in pre-audit of payment vouchers and there was a lack of qualified internal audit personnel (IMF 2001 and World Bank 2003).
Audit reports were often late, due to late receipt of financial statements (HIPC 2001 and World Bank 2003). The National Audit Office was faced with significant staffing problems. It was not sufficiently independent, both on account of its connection to the Ministry of Finance (it submitted its report to the MoF, not directly to Parliament, and received its budget from the Ministry), but also because the Auditor General and senior staff sat on the boards of 17 statutory bodies, with a supervisory mandate. The NAO made limited use of computer facilities: staff was poorly prepared to undertake audits in an increasingly electronic environment. The committees of parliament were not effective in providing oversight. Budget and finance committee mandate unclear and the PAC not effective in censuring members of the executive (World Bank 2003).
Procurement practices presented significant fiduciary risk. There was the risk of lack of capacity and/or knowledge of the Internal Procurement Guidelines (IPG) or Code to correctly implement it. Due to the shortfalls in capacity and skills at both internal and external government audit functions, monitoring of procurement practices, as provided for in the IPG and Code, did not take place. The monitoring unit at the General Contracting-Out Unit (GCU) was not functioning due to lack of capacity. There was also a lack of legal sanctions, follow through, and disciplinary action for non-compliance. There was also a potential risk to donors whose funds were channelled through the government procurement procedures where procurement may not have gone to tender or have been correctly treated in terms of the IPG (World Bank 2003).
Local government capacity weak: the basic policy and legislative framework was in place, through the Constitution, the Local Government Act and a clear Decentralization Policy with a phased implementation plan. However, capacity at the local level was weak, with a several lack of qualified accountants and administrative backlogs inherited from previous system. Financial and management controls were weaker at local government levels; e.g. District Assemblies did not have internal audit functions. Parastatals and District Assemblies needed to be made aware that the Procurement Code applied to them and should be used instead of their own procurement guidelines (World Bank 2003)

Source: (IMF 2001; World Bank 2003; Durevall and Erlandsson 2005; World Bank Operations Evaluation Department 2005; ACE and IPF 2006; Barnett, Chisvo et al. 2006; World Bank Independent Evaluation Group 2006; Cooney, Wenderoth et al. 2010).

Annex 5 Table 2: Targeted reforms by PFM cluster

PFM Area	Reform targets
Strategic Budgeting	Improved macro-fiscal forecasting capacity and coordination Improved domestic revenue forecasting, modelling and capacity to undertake the modelling. Prepare implementation plans for the MGDS in line with budget calendar
Budget Preparation	**Budget Process**: Develop and implement an automated budgeting module that can link to IFMIS; strengthened coordination of the budget process, improving the budget calendar; Develop budgeting manual for central government; Rationalise budget planning and approval processes linking national government and councils; Harmonise Public Sector Investment Plan and budget procedures **Budget Classification:** Budget classification reform implementing GFS2001 and output, activity and location coding; developing standard administrative coding for the identification of projects and cost centres. **Budget Documentation**: Disseminate Economic and Fiscal Policy Statements to Members of Parliament; Output-based presentation of the budget, backed by budget preparation software; Improve analysis in budget documentation of expenditure trends; ensure counterpart funding reflected in Budget Part 2
Resource management	**Revenue Administration and tax collection**: Integrated tax administration; upgrade customs systems; reduce compliance cost of tax system; introducing e-banking arrangements for large tax payers and establishing a large tax payers unit; sector-based tax policies; monitoring of revenue collection institutions **Cash management, debt management and guarantees**: development of a debt management strategy and domestic debt database and information management system; incorporate debt repayment through IFMIS; further improvement in cash management including Implement automated system to provide more timely information to the Reserve Bank, allowing them to better manage cash flow and strengthen the Credit Ceiling Allocation System as a budget control mechanism. **Procurement**: new legislation and development of regulations decentralising procurement, institutional reform including the establishment of an Office of the Director of Public Procurement, Independent Procurement Committees and procurement units in all entities, implementation of new system and capacity building; recentralisation of aspects of procurement, including medical supplies, vehicles and general government stores. **Payroll controls**: Regular reconciliation of wage bill with personnel database; payroll audit, sanitation of the Human Resource Management Information System(HRMIS) and follow-up; review of processes, procedures and policies that affect payroll management and control; link the HRMIS to the IFMIS. **Aid management**: Development of a Development Assistance Strategy, donor database, Debt and Aid Policy, Standard project naming and coding comparing PSIP, Debt&Aid & Budget Division databases

PFM Area	Reform targets
Internal Control, Audit and Monitoring	**Non-Salary controls**: Review and revision of all internal control procedures; development of consistent financial procedures at national and local level; design and implement a comprehensive financial accountability compliance and enforcement strategy linked to the government wide performance management system; revised Treasury instructions; Local Authorities Model Financial Regulations; centralising utility payments and develop IFMIS for regular utility payments; passage and assent of provisions regarding enforcement and discipline. **Internal Audit**: Establishment of an Internal Audit Unit (first in the Office of the President and Cabinet (OPC), but later in the Ministry of Finance (MoF); restructuring the internal audit service and staffing the new structure; development of legal framework and capacity building; establish system for timely internal audit reporting; development of internal audit strategic plan; revitalisation of Internal Audit Committees. **Monitoring and oversight of fiscal risk**: Develop budget and expenditure database linked to IFMIS to facilitate analysis of trends in budgets and implementation; harmonise framework for data capturing and databases for analysis and dissemination and national and local level to strengthen monitoring and evaluation; regular comparisons and analyses made of budget allocations against actual financial cash expenditures for planned and actual inputs, activities and outputs;
Accounting and Reporting	**Accounting standards and systems**: Generally Accepted Accounting Practice included in legal framework; capacity building in financial records management throughout GOM; updating and reconciling accounting records. **IFMIS**: Design, piloting, roll-out and capacity building for an Integrated Financial Management Information System (IFMIS) covering all institutions at national and local level as the main mechanism for integrated accounting, cash management, payment controls and financial reporting with further modules added; development of secure, government-wide area network and live linkages; inclusion of Development Account Part I in IFMIS; revised treasury instructions **Bank reconciliations:** Enforcing regular bank reconciliations **Reporting**: Development of functional reporting relationship between the Accountant General and the Heads of Accounts in each ministry; strengthen and produce timely financial reporting; summary financial reports to show Part I and Part II progress compared to budget; reviewing and revising reporting requirements of local government; establish quarterly monitoring reports of budget implementation; summary financial reports to show the actual costs of implemented outputs and activities, to be done after the output-based budget is incorporated into the Chart of Accounts.

PFM Area	Reform targets
External account-ability	**Scope and nature of external audit**: Reform of legal framework to establish the powers and duties of an independent Auditor General, the role of the Public Audit Commission, National Audit Office and Public Accounts Committee; institutional restructuring of the NAO; review and modernisation of audit approach; establish system for timely external audit reporting; procurement of management systems and tools for auditing automated systems; introduction of Performance Auditing; building capacity of the National Audit Office. Legislative scrutiny and follow-up of external audit reports: Institutional Strengthening of the Parliamentary Public Accounts Committee; Training for MPs, Cabinet and media on political oversight of public finance management; training of local government finance committees.

Annex 5 Table 3: Outputs by PFM function and type of output

PFM Area	Laws and Rules	People and Skills	Systems and Business processes	Organisational changes
Whole of PFM	Public Finance Management Act 2003 with detailed provisions covering public money, the Treasury system, public debt and guarantees, public accounts, and external audit and defining the respective PFM responsibilities of PFM institutions and government offices.		Government-wide network	
Strategic Budgeting	Agreement of a structured, rules-based system of determining allocations to local councils		Introduction of output-based budgeting, with output classifications Reintroduction of the Public Sector Investment Programme Development of automated budgeting module from which information can be uploaded to IFMS Development of a new macro-economic model jointly used by the MoF and the BoM Introduction of a Economic and Fiscal Policy Statement (2004) Introduction of regular PER exercises and their allocation to a specific unit. SWAps established in Health, Education and Agriculture. Introduction of Sector Working Groups in 2008 as the basis for programme, planning, implementation, monitoring and evaluation in the sectors.	

PFM Area	Laws and Rules	People and Skills	Systems and Business processes	Organisational changes
Budget Preparation	Treasury Instructions 2004 on binding budget constraints Revamped Treasury Instructions on cusp of being released at the time of fieldwork. Budget Manual for central government issued.		Systematic progress to GFS-compliant classification, plus classification by objective, output and activity, improvements in the budget calendar and coverage and quality of budget instructions.	
Resource management *Tax, debt and donors*	VAT Act and system Debt and Aid Policy and Debt and Aid Guidelines developed. Budget Circulars issued for donors within budget process	Establishment of a Large Tax Payers Unit; Unit for Audit and Investigation	Establishment of Malawi Revenue Authority in 2000, linkage between taxpayers' records on different systems; separation between assessment, inspection and collection functions; A debt information management system for debt sustainability analyses and the establishment of a Debt management Unit in the Ministry of Finance. Development of donor management system and information system to improve coverage of donors funds in budget	

PFM Area	Laws and Rules	People and Skills	Systems and Business processes	Organisational changes
Cash and Payroll manage-ment			Preparation of cash flow plans and establishment of a cash flow unit in the MOF and a multi-institutional Cash Management Committee. Single Treasury Account system consolidated on a monthly basis (although this has not occurred since June 2010 after the introduction of the new Chart of Accounts into IFMIS. New human resource management information system implemented in all ministries through 12 geographically distributed sites with separation of functions and audit trail; electronic transfers implemented for salary payments; manual link with IFMIS, which authorises payment through RBM	

PFM Area	Laws and Rules	People and Skills	Systems and Business processes	Organisational changes
Procurement	Public Procurement Act 2003 that revamped the procurement system, establishing the ODPP, procurement entities, internal procurement committees and procurement units. Development of national procurement standards and standardised bidding documents.	Establishment of the Office of the Director Public Procurement, Internal Procurement Committees and Procurement Units in all procurement entities. However, skills levels are low and not adequate to responsibilities. Courses have been set up with external funding at the Malawi Institute of Management (masters) and the Malawi Poly-technique (pre-graduate) and individuals have been sent for post graduate training. However, not all trainees remain in the public service. Body of Procurement Professionals established.	New procurement system in line with 2003 PPA authorising decentralised procurement within a central framework of procedures and rules, oversight by the ODPP and with full details of major contracts published in government gazette. Preparation of annual procurement plans. Not all aspects of system fully in place, e.g. reporting of procurement and publication of details not comprehensively done as database not yet in place; procurement plans are not systematically produced – by 2011 eight out of a target of 10 large entities had submitted procurement plans.	

PFM Area	Laws and Rules	People and Skills	Systems and Business processes	Organisational changes
Internal Control, Audit and Monitoring and accounting and reporting *IFMIS, Chart of Accounts and Accounting Standards*		Establishment of a dedicated unit to monitor commercial public enterprises in 2000. Establishment of centralised payment units linked to IFMS that manage all payments for recurrent budget and development budget Part II.	Development and roll-out of a national IFMIS (on Epicor software) and separate local council IFMIS on Serenic Navigator Software, for the recurrent budget and development budget part II (government t funds). Donor funds – part I – are still not included in the IFMS system. At the national level the commitment control and accounts payable modules became active on 1 November 2005, controlling all payments at centralised payment units, including payroll and utility payments, and enabling in-year reporting and monitoring against approved funds. Currently five modules active – General Ledger, Accounts Payables, Accounts Receivable, Commitments and Cash Management – and with 50 of 66 budgetary units on line. At local level the system is not yet fully rolled out, with 22 of the 34 councils covered and 12 remaining. [7]New GFS compliant Chart of Accounts in place for 2011/12 budget, allowing for capturing performance aspects, e.g. objective, outputs and activity. From 2011/12 accounts prepared using cash-based IPSAS.	

PFM Area	Laws and Rules	People and Skills	Systems and Business processes	Organisational changes
Monitoring and Financial Reporting			Monthly consolidated reporting for recurrent budget and development budget part II done via the Budget Monitoring Section of the MOF. Quarterly reporting on some but not all Development Budget Part I spending, but full end of year reporting for this spending too. Quarterly reporting established to Cabinet and the Budget and Finance Committee and reports posted on website (irregularly). Quarterly financial reports compiled for key public enterprises and their annual financial statements published. Timely production of the Annual Financial Statements : the 2004/5 statements were submitted to the NAO 36 months after year-end, the 2009/10 statements 4 months, within the statutory deadline.	

PFM Area	Laws and Rules	People and Skills	Systems and Business processes	Organisational changes
Internal Audit	PFMA amended to strengthen legal framework for internal audit; Treasury Instructions setting out the TOR for Internal Audit Units; Internal Audit Charter; Internal audit manuals and a Strategic Plan for the Internal Audit Function are drafted, but are awaiting formal approval.	Establishment of Internal Audit Unit in MoF with government-wide mandate of development and oversight of internal audit. Establishment of internal audit units in ministries, departments and agencies and audit committees.	Production of regular internal audit reports at MDA level, and a six monthly report at central level to the Secretary to the Treasury, but consolidated reports are no longer produced regularly.	Even though audit units and audit committees established, the function is not on a sound institutional footing. Audit committees meet irregularly, there is a backlog of audit reports and poor capacity and placement of the audit units in institutions affect the quality of reports and follow-up on recommendations.

PFM Area	Laws and Rules	People and Skills	Systems and Business processes	Organisational changes
External accountability	Public Audit Act, setting out the responsibilities and powers of the Auditor General; Regularity Audit Manual (approved 2011)	Training of audit personnel in audit methodology. Additional staff to address backlogs in audits, e.g. in local council audits (funded by GTZ); outsourcing of specific audits. 100 journalists and editors trained in public finance management issues	Modernisation of audit approaches; development of performance audit capacity; Timely submission of AG's report on the consolidated accounts (within nine months for 2009/10). Legislature completes scrutiny of public accounts and AG report within twelve months of receipt. Follow-up on audit recommendations activated through issuance of Treasury Minutes that detail actions to be taken, but these Minutes are not yet issued on a timely and regular basis.	Increased use of IT in daily tasks

Annex 6: Summaries of Case histories

This annex provides summary case histories of the reforms – namely in procurement, FMIS and ex post oversight – that were tracked as case histories in the evaluation.

PROCUREMENT 2000 TO 2010

In May 2000, the Government summarily transferred the functions of the Malawi Tender Board to the already existing Government Contracting Out Unit (GCU) whose original role was to privatize and "contract out" various service activities of Government. From June 2000 until August 1, 2003 public procurement in Malawi was governed by a circular issued by the Office of the President Cabinet (OPC) – the "Interim Procurement Guidelines for goods, works, consultancy services and donor-funded projects". As such, the Guidelines were internal government rules with authority derived from the OPC, but not reaching outside the central ministries and departments. Notably, the Guidelines did not cover local government procurement and, lacking the status of a Law, they had only the limited authority of internal administrative rules. The other side of the problem was that the Interim Guidelines were poorly enforced and monitored. When combined with an acute low level of procurement knowledge in procuring entities, the result was a number of practices not conducive to economy, efficiency and transparency, including excessive use of quotations (World Bank 2003).

To put the system on a sound footing, the GoM enacted the Public Procurement Act in 2003, which provided the procurement system with 'a clean slate' (World Bank 2003, p4). In essence the Act created a decentralised procurement system. It provided for:

- Decentralisation of public procurement decisions and responsibility to procuring entities – ministries and government agencies through the Internal Procurement Committees (IPCs) and their Special Procurement Units (SPUs).
- The establishment of a Procurement Cadre as a new professional stream within the civil service (or a new common service)
- A new set of procurement methods with well-described conditions for use, thereby containing discretionary decision making within appropriate units.
- The Office of the Director of Public Procurement (DoPP) as the policy body responsible for regulation and monitoring of public procurement in

Malawi, in place of the approval functions of GCU and the erstwhile Malawi Tender Board.

- A standing review committee with the office of the DoPP as a complaints mechanism for public procurement.

In 2003 the World Bank undertook a Country Procurement Assessment Report (CPAR, World Bank, 2004) which highlighted the weaknesses in procurement inherited by the new system: namely substantial delays in the procurement process, insufficient capacity, and inadequacies in procurement organization, documents and management (p4). At the time of the review – 6 months after the Act became law – the Office of the Director of Public Procurement (ODPP) was not in place, IPCs still had to be appointed and SPUs established and recruited.

By mid-2011 individual ministries, departments and agencies – including local councils – were operating as procurement entities, with IPCs and SPUs in place. The oversight body, the ODPP was established, had issued regulations, desk instructions and standard bidding documents and had processes in place to process the 'no objections' required for contracts above the threshold. Professional courses for procurement officers had been developed and were being run by the Malawi Institute for Management and the Malawi Polytechnic. Major procuring entities had developed procurement plans. In short, most of the architecture of the new procurement system was in place. The ongoing cost of the ODPP and of procurement personnel was funded by the GoM through the recurrent budget, as well as some development activities like orientation courses for Internal Procurement Committee members through the development budget. Donors contributed by assisting in the recruitment and training of staff, funding the development of the various procurement system documentation, setting up external courses for procurement professionals through local training institutions and funding the training of procurement personnel, as well as funding various assessments

However, for the most part, the procurement system is not functional. The 2011 PEFA assessment scored it at a D+. The 2009 Compliance assessment undertaken by the GoM (O&M Associates 2010) found that:

- While entities had procurement entities, these were often recreated stores units without the necessary procurement skills. The creation of specialised procurement posts was dependent on the Department of Human Resource Development and Management in the OPC. In the absence of new posts, controlling officers complied with the law by turning stores personnel into procuring units. However, these staff did not have the required training or skills and the procurement function was added to their existing workload.
- Not all members of IPCs or procuring units had been orientated on the rules and regulations governing procurement. Where officers had attended ODPP orientation workshops, they did not put into practice what they had learnt. This was confirmed during the fieldwork by the ODPP, which lamented that even if they train personnel, the institutional context within

which the procurement officers operated did not incentivise them following the changed rules.

- There were several problems with the functioning of the IPCs, including that in some cases the controlling officer still had final decision-making power; in some entities only donor funds were considered by the IPC and not procurement under GoM funds, record keeping was poor and IPCs did not follow the law in respect of chairing and secretarial support for the committee.
- Most entities don't fulfil the requirements in respect of producing procurement plans, applying different procurement methods, using the standard bid documents and developing technical specifications. For the most part records are only kept for procurement above the ODPP no objection threshold, and only up to that point, and for procurement using donor funds. Most entities do not submit regular reports to the ODPP.

The ODPP itself faces significant staff constraints, which hampers its capacity to fulfil its responsibilities effectively and efficiently.

Civil Society including such bodies as the Chamber of Commerce point to continuing difficulties in public procurement such as ineffective competition, lack of transparency in the evaluation and selection processes, and instances of fake competition. Tender evaluations are often not transparent and there is no indication of the evaluation criteria to be used provided on bidding documents. NAO's findings on procurement have also identified a number of weaknesses (Oduro, Quist et al. 2008).

IFMIS 2000 TO 2010

The GoM's first effort to develop specifications for, procure and roll-out an IFMIS started in 1996, financed by the World Bank. By 2004 at least USD 8 million (in constant 2008 prices) had been spent on technical advice, design specifications, project management, software development, licensing and equipment. A 2004 review (Rwamibazi 2004) however found that while outputs were in place (hardware, software, licenses and roll-out to five pilot sites including the Accountant General's Department) in combination the outputs did not equal a functioning system providing internal control and reliable accounting information for financial reporting. Besides poor functioning of the software, several hardware and connectivity issues were highlighted, as well as weak sensitisation and institutional change management efforts, poor provision for project management and inadequate training, training facilities and training plans. The project had changed suppliers mid-stream. Whereas the GoM had purchased 800 licenses – of which 750 were purchased in 2002 and 2003 during the contract with the second set of developers – no ministries beyond the 5 pilot sites had been set up in the system by 2004 and only 10 licenses were in use. The system also only handled payments for other recurrent expenditures, and not for project expenditure or remuneration. A positive finding in the review was the good quality of the initial specifications that were drawn up, despite the slow pace of their development due to initial lack of understanding of government's requirements by the specification supplier.

In effect by 2004, despite significant outlays of cash and staff time over the period and donor support, the GoM did not have a combination of outputs in quantity and scope that provided an effective integrated financial management information system.

After the change of government in 2004 the incoming president put control over government spending at the centre of an economic governance reform programme. This meant getting a functioning IFMIS in place which would end controlling officers' discretion to spend beyond or not according to budgeted appropriations and which would give the centre continuous access to reliable information on spending. The current Auditor General was appointed as Accountant General, with a mandate to do whatever it takes to get the system in place. By May 2005 the decision was that the 21 issues identified in the peer review to rescue the Coda based system could not be resolved and that the GoM would replicate an Epicor based system following a study tour to Tanzania, where the system was already in place. Under the Epicor system it was also decided to recentralise payments using the IFMIS. Five linked bank accounts were opened in the RBM, and over 150 operating bank accounts in commercial banks closed. By 1 November 2005 the IFMIS commitment control and accounts payable modules (on Epicor software) went live at five pilot sites at the national level and by July 2006 all national ministries headquarters were on line via the GWAN. Remote sites still do periodic data uploads. Developing further modules (the General Ledger and cash management modules), Malawi-adapted financial reporting functionality (using IFMIS information but Excel to prepare reports) and functionality to upload information outputs from the budget system, the HRMIS, the RBM, the MRA systems and the local government IFMIS which were developed separately from March 2008 onwards, has taken significantly longer than expected and is in some cases still not complete, partly because the original software was designed for the Tanzanian PFM system and expensive to adapt.

By the fieldwork in 2011 some of this functionality had only just completed piloting and some functionality was still outstanding, particularly expenditure under the Development Budget Part I (Donor Funds) and links to other systems in government. An asset management module and accounts receivable module was also still in development. In the meantime however, a local government IFMIS (using Serenic Navigator Software) had been developed comprising the general ledger, accounts payable, bank administration, stores management, and revenue management modules. By July 2011 it had been rolled out to 22 of 34 local councils.

Overall, IFMIS is "essentially operating as a sound central payments system but has yet to fully integrate all transaction types and aspects of the fiscal cycle, and has yet to become the primary source of government financial information. Despite marked improvements in expenditure control, banking arrangements and cash management enabled by IFMIS, benefits from improved financial reporting have yet to be fully realised" (Anderson 2010, p 9).

The AGD is looking towards using the upcoming upgrade of the Epicor software to put the IFMIS project on a sounder footing, among other negotiating larger scope for developing in-house capacity to maintain and develop the system, for moving to improved connectivity through the web-based interface and revisiting specifications.

Sources: Interviews AGD, NAO, LGFC, PFEM Unit; Rwamibazi 2004, Durevall 2005, Kampanje (date unknown), World Bank Evaluations Department 2005, World Bank Independent Evaluation Group 2006, Mnthambala, 2007, Anderson, 2010, Phol Consulting 2011.

Annex 7: HIPC and PEFA scores for Malawi

This annex provides the HIPC and PEFA scores for Malawi, as well as analysis done against the scores, in table form. Annex 7 Table 1 provides the HIPC and PEFA scores against the intermediary outcomes of the evaluation framework. Annex 7 Table 2 shows the changes in PEFA scores between evaluations. Annex 7 Table 3 shows the changes in sub-cluster scores between evaluations and systematically links this to the PFM reforms undertaken in the sub-cluster.

Annex 7 Table 1: Analysis of progress per intermediary outcome and HIPC/PEFA indicator

	Indicators	HIPC 2001*	HIPC 2004**	PEFA 2006***	PEFA 2008****	PEFA 2011 (draft) *****
Transparency and Comprehensiveness	Coverage of the budget/ Surveillance of Risk *HIPC: 1; PI-9 and PEFA PI-8(iii)*	C	C	9iC 9iiD 8iiiD	C A B	B B B
	Transparency in I-G relations *PEFA PI-8(i) & (ii)*			8iB 8iiC	A B	A C
	Extra-budgetary resources *HIPC:2; PEFA: PI-7(i)*	A	A	B	NS	B
	Budget documentation *PEFA: PI-6*			B	B	B
	Public access to information *PEFA: PI-10*			B	C	C

	Indicators	HIPC 2001*	HIPC 2004**	PEFA 2006***	PEFA 2008****	PEFA 2011 (draft) *****
Transparency and Comprehensiveness (2)	Inclusion of donor funds *HIPC:4; PEFA PI-7(ii)*	B	B	B	A	NS
	Classification *HIPC:5; PEFA:PI-5*	A	B	B	B	B
	Transparency of taxpayer obligations *PEFA PI-13*			13i C 13ii C 13iii C	C B B	C B B
	Efficiency of taxpayer registration *PEFA PI-14*			14i C 14ii C 14iii C	C B C	C C D
Linking budgeting, planning and policy	Participatory budget process *PEFA: PI-11*			11i C 11ii B 11iii B	C B C	C A C
	Medium term forecasting *HIPC: 7; PEFA: PI-12(i)*	B	B	C	A	C
	Costed sector strategies *PEFA PI-12(ii)*			B	A	A
	Debt sustainability *PEFA PI-12(iii)*			D	C	C
	Linking investment and medium term recurrent costs *PEFA PI-12(iv)*			D	D	D
	Use of tracking surveys *HIPC 10; PEFA PI-23*	A	B	D	D	D
Linking budgeting, planning and policy (2)	Predictability of fund availability *PEFA PI-16*			B C B	B B B	B B B

	Indicators	HIPC 2001*	HIPC 2004**	PEFA 2006***	PEFA 2008****	PEFA 2011 (draft) *****
Control, Oversight and Accountability	Efficiency of tax and customs collection *PEFA PI-15*			D D C	C A D	NS A C
	Arrears *HIPC: 8; PEFA: PI-4*	A	B	D B	NS D	NS D
Control, Oversight and Accountability (2)	Treasury management, debt and guaranties *PEFA PI-17*			C C C	A A B	A A B
Control, Oversight and Accountability (3)	Quality of fiscal information *HIPC 11; PEFA PI-22(i) and (ii)*	B	B	B B	A B	D D
	Procurement *PI-19*			D D D	NS C C	C D C
Control, Oversight and Accountability (4)	Internal control *HIPC 9; PI-18; PI-20; PI-21*	B	B	B B C C B B B	A B A C B C C	A B A B B B C

	Indicators	HIPC 2001*	HIPC 2004**	PEFA 2006***	PEFA 2008****	PEFA 2011 (draft) *****
Control, Oversight and Accountability (5)				C B D	C B C	C C D
	Budget execution reports *PEFA PI-24*			C B C	C A B	C A B
	Financial statements *PEFA PI-25*			D C C	C A C	C A C
Control, Oversight and Accountability (6)	Timeliness of audited financial information *HIPC 15; PEFA PI-26*	C	C	C C D	C D C	C B D
	Discussion of the budget law in Parliament *PEFA PI-27*			NS NS NS NS	B B B B	B C D C
Control, Oversight and Accountability (7)	Analysis of SAI report by Parliament *PEFA PI-28*			D C C	D A C	C B D
Budget credibility / final outcomes	Reliability of expenditure forecasting *HIPC:3; PEFA: PI-1; PI-2*	C	C	A D	A D	B C+
	Reliability of revenue forecasting *PI-3*			A	A	D

Source: *and**HIPC (2004), ***and**** PEFA 2008, ***** PEFA 2011 (draft)

Annex 7 Table 2: Changes in PEFA scores 2006 to 2008 compared to 2008 to 2010 by PFM cluster

		Scores that improved	Scores that remained the same	Scores that deteriorated	Not scored at either data-point	Scores that improved as % of scores to improve	Scores that deteriorated as % of scores to deteriorate
Strategic Budgeting	2006–2008	3	1	0	0	75%	0%
	2008–2011	0	3	1	0	0%	33%
Budget preparation	2006–2008	5	5	3	1	36%	27%
	2008–2011	3	9	2	0	23%	14%
Resource management	2006–2008	16	10	2	4	43%	9%
	2008–2011	3	21	3	5	14%	12%
Internal control, audit and monitoring	2006–2008	2	4	2	1	25%	33%
	2008–2011	2	3	3	1	29%	38%
Accounting and reporting	2006–2008	5	7	4	0	31%	33%
	2008–2011	1	11	3	1	9%	23%
External Audit and Oversight	2006–2008	2	3	1	0	33%	25%
	2008–2011	2	1	3	0	40%	75%
Overall	2006–2008	27	27	8	7	45%	17%
	2008–2011	7	37	20	5	14%	34%

Annex 7 Table 3: Tracking PFM inputs/outputs and changes in PEFA Scores 2005 to 2011

This table is arranged by average score 2011 and by improvement in average score 2006 to 2011.

Sub-cluster	Average score2011	Average chance 2006 to 2008	Average change 2008 to 2010	Average change 2006 to 2011	Discussion: what relationships between changes in performance and PFM reform inputs can be drawn. Would the changes have occurred in the absence of reforms?
Monitor-ing	3.00	1.67	0.00	1.67	The improvement in monitoring is on account of improved information availability on subnational government and public enterprises. Both of these are related to PFM reforms in the period (the establishment of the public enterprises monitoring unit and the council level IFMIS), one of which (public enterprises) was well supported by donors, both directly and indirectly. If both reforms had not been undertaken, Malawi would not have seen this improved performance. The other part of the sub-cluster comprises the monitoring of arrears. Readers should note that the stock of arrears could not be assessed in the 2011 assessment, as no systematic mechanisms were in place to monitor all arrears, including of funds that are administered outside of the IFMIS system. The score for the dimension was a D. The earlier pressure by donors through conditionality to track arrears was relaxed in the second half of the decade when IFMIS became operational and the magnitude of the problem declined.
Inflows: debt	3.67	1.67	0.00	1.67	The significant improvement in debt management between 2006 and 2008 is on account of the establishment of a debt management unit and debt management information system, both of which were supported by donors. The impetus for donor focus on debt management was Malawi reaching the HIPC completion point. Improving debt management has been a consistent conditionality on budget support operations. There is not strong evidence either way that Malawi would have or would not have undertaken these reforms in the absence of external support, besides debt management being an important aspect of improved economic governance.
Donors	2.50	0.60	0.50	1.10	Improved capacity to manage donor inflows was supported by donors through capacity building and the provision of technical assistance. The team did not have an opportunity to engage in depth on the degree to which the introduction of various mechanisms to manage donor flows and information on donor flows and their form was the result of GoM or donor inputs.

Sub-cluster	Average score2011	Average chance 2006 to 2008	Average change 2008 to 2010	Average change 2006 to 2011	Discussion: what relationships between changes in performance and PFM reform inputs can be drawn. Would the changes have occurred in the absence of reforms?
Outflows (cash)	3.25	0.89	0.11	1.00	The relevant indicators here measure cash management, in-year voted adjustments, debt recording and monitoring (again), predictability of general budget support, the commitment ceiling system and commitment controls, as well as classification. Reforms to manage cash in-year, provide regular, transparent and reliable commitment ceilings and control commitments in line with budget appropriations and available cash were important in view of the reform agenda of Press Mutharika. A key reform was the roll out of an IFMIS at national and local level, tightening commitment controls, the establishment of a cash management committee and unit and procedures to collate information from IFMIS and other sources, and better debt information management institutions (discussed above).The IFMIS reforms did proceed without much donor input (except for some hardware purchases and East Afritac technical advice). The establishment of a cash management institutions also received technical advice from East Afritac and World Bank assistance. In both these areas however, reforms would have occurred without donor inputs, but these inputs in all likelihood influenced the form of reforms.
Annual Reporting	2.67	1.00	0.00	1.00	The indicators here assess the completeness and timeliness of financial statements and the accounting standards used. Both of these were subject to reforms, the full impact of which will only be seen in a next PEFA, when the new CoA has been integrated into the budget and IFMIS, and the ability of the GoM to consolidate complete financial statements improved through better linkage of various information streams with IFMIS reporting. None of the improvements would have occurred without reforms driven by the AGD and NAO. As regards the AGD it is likely that the reforms would have taken place in the absence of donor support but perhaps would have taken longer or may have technically less sound: the most critical (successful) support over the period was by East Afritac. In the case of the NAO pressure by civil society and donors (the latter coupled with conditionality) was important in clearing the backlog of audited financial statements. In addition, donor financial support was critical in the pace of reforms. The drive from the GoM at an institutional level – through the AG – should however be noted as a necessary complementary input to donor financial support.

Sub-cluster	Average score2011	Average chance 2006 to 2008	Average change 2008 to 2010	Average change 2006 to 2011	Discussion: what relationships between changes in performance and PFM reform inputs can be drawn. Would the changes have occurred in the absence of reforms?
HR/Payroll	3.25	0.75	0.00	0.75	Improvements to payroll management and conducting of payroll audits are a long-standing donor concern, particularly of the CABS donors. The World Bank has provided support for the implementation of a new payroll management system (by 2008) and payroll audits (latest in 2008). The IFMIS system link to the payroll information system is still manual, but through enabling this link personnel are no longer paid by cheque but through electronic bank transfers. It in unlikely that the improvements would have been achieved without the reforms. The team does not have enough evidence either way to assess whether reforms would have proceeded without donor support. Again, it is clear that the support did accelerate the reforms.
In year monitoring	3.00	0.67	0.00	0.67	The roll-out of IFMIS, even if not all transactions are included, is the key reform input /output that underpins the improvement in the in-year monitoring PEFA scores (availability of reports, scope and quality of information). The IFMIS reports were driven by the GoM and predominantly financed by it. However, it is worth noting that the production of quarterly budget implementation reports was a CABS review measure and included in budget support performance assessment frameworks. It is therefore arguable that while the content of the reports are based in IFMIS (and on data from the donor and debt information management systems), donor complementary inputs have played some role in the improved score of the one sub-dimension. Without IFMIS roll-out quarterly monitoring would not have been possible. The average score here is however still a B, on account of queries about the quality of information and the late submission still of annual reports in the years reviewed.
Inflows: taxes	2.38	0.67	-0.07	0.60	Revenue administration improvements were some of the fastest to be rolled out after 2004, resulting in improved domestic revenue performance. The improvements were supported by the MCC, DFID and East Afritac with technical assistance being a key input. It is unlikely that the improvements would have taken place without the reform inputs. However, significant issues remain with regards to imbedding the system reforms. The decline in the 2008 average score is on account of weak compliance in the tax system (partly on account of the IT system not being adequate and the need for increased MRA activity), lack of plans in tax audits and the established fraud investigation unit . On summary assessment using the PEFA reports it appears that the inputs and outputs in respect of revenue administration may not be at a sufficient level yet.

Sub-cluster	Average score2011	Average chance 2006 to 2008	Average change 2008 to 2010	Average change 2006 to 2011	Discussion: what relationships between changes in performance and PFM reform inputs can be drawn. Would the changes have occurred in the absence of reforms?
Strategic Budget-ing	2.25	1.00	-0.50	0.50	The improvement in the 2008 over 2006 score was driven by the reintroduction of the PSIP into the budget system and the development of three year functional forward ceilings. The 2011 however found that in the previous two years to the assessment, this link was not consistent and functional, and that forward approved ceilings are not consistently updated and provided to MDAs to inform the new fiscal year's ceilings. Again, while the reforms (driven by GoM with some IMF inputs) resulted in specific outputs, these were not yet sufficient to provide the necessary functionality. A key factor cited by the MoF on why the MTEF is not functional is the lack of credible information from donors on forward support – it is therefore not possible to implement effective and consistent medium term planning. The improvement was also driven by improvements in debt sustainability analysis, the history of which was discussed above under inflows: debt. Better integration between the recurrent and development budget (score D in all three assessments) have been part of donor reform agenda since 2000s. However, the GoM has not moved on this in any way. The MTEF is seen as the instrument through which integration will be realised.
Procure-ment	1.50	1.00	-0.50	0.50	The 2011 PEFA assessment requires an extra dimension, namely access by the public to complete, reliable and timely procurement information. This dimension is included in the calculation of the average score, and accounts for part of the decline. However, even if this score is left out, the average score would be 1.6, still lower than in 2008. Just taking into account the other three dimensions (inclusion of competitive bidding in the legal framework, competitiveness in practice and presence and functioning of a complaints mechanism, the lower score in 2011 reflect the lack of funding for the system after 2008, when the World Bank FIMTAP programme came to an end, with mainly UNDP funds supporting strategic system development in the system, and the training of supply chain specialists. While the 1.5 average in 2011 represents a 0.5 points improvement over 2006, it is still a low score, despite significant investment in the system by donors. As argued in Section 3 in the main text, it is on account of the key outputs of people and skills and changed organisational incentives lacking. We argue above that procurement reforms were likely to have gone ahead without donor input, but that the form might have been different.

Sub-cluster	Average score2011	Average chance 2006 to 2008	Average change 2008 to 2010	Average change 2006 to 2011	Discussion: what relationships between changes in performance and PFM reform inputs can be drawn. Would the changes have occurred in the absence of reforms?
Legislative Budget Preparation[1]	2.00	1.20	-0.80	0.40	Legislative budget preparation saw a big improvement from 2005 to 2008 (note that the 2006 assessment did not score this dimension as it was waiting for information from the GoM). The 2011 assessment however lowered the scores again. Reasons included that whereas the role of the Budget Committee was well-established, it was not clear that this was respected and the late submission of the budget for the years reviewed. There has been some reform inputs in this area, notably from the MCC and Cida. The scores in 2011 reversed 3/4 of the gain in 2008 (over 2005): the team could discern two reasons for this. 1) There is a query as to whether the model of the MCC – which funded recurrent inputs into the committee system such as staff and supported committee meetings – were sustainable. It would appear that the improvement in 2008 can be related to these inputs (which occurred between 2006 and 2008), but that lack of GoM support for the reforms and absence of similar levels of donor funding reversed the gains. The MCC evaluation however, did note that the GoM budget took up the recurrent inputs. 2) However, the change in the political dispensation would have contributed significantly to the deterioration: up to 2009 the majority in parliament was from a different party to that of the president and the legislature had an incentive and political space to exert its independence. This changed however after 2009, potentially influencing the functioning of the legislature.
External Audit	2.00	0.00	0.33	0.33	Despite donor pressure for improvement in external audit, donor financial and technical assistance input (World Bank, DfID, GIZ, Sida and significant Norad support) and some government inputs (the 2010 Institutional Review, increases in the budget of the NAO and the appointment of a reform-minded Auditor General) the improvement measured by the 2011 PEFA was relatively small. This is partly because the timeframe of the assessment did not yet take into account the clearing of the backlog of audited financial statements submitted to the legislature. The reform outputs would not have been achieved in all likelihood in the absence of donor, civil society and parliamentary pressure (prior to 2009) and the financial inputs from donors were critical in producing the outputs necessary for the improvement registered. However, on average the scores still equalled a C, with poor capacity, only recently introduced international standards, lack of funding and incomplete coverage cited. This indicates that whereas the small improvement registered would not have occurred without the reforms, the outputs are not yet sufficient to accelerate progress.

Sub-cluster	Average score2011	Average chance 2006 to 2008	Average change 2008 to 2010	Average change 2006 to 2011	Discussion: what relationships between changes in performance and PFM reform inputs can be drawn. Would the changes have occurred in the absence of reforms?
Legislative Audit Analysis	2.00	0.67	-0.33	0.33	Legislative audit analysis declined in the second period on account of poor follow-up of audits. P28ii also declined from a A to a B with the 2011 team taking the impact of the backlog on the quality of hearings into account. See discussion under legislative budget preparation of potential reasons for the decline with regards to donor support to the legislature and the change in the relationship between the legislature and the executive after the 2009 elections.
Special Reporting	2.29	0.25	-0.09	0.16	Special reporting includes reporting on donor flows, sub-national government, public enterprises and autonomous entities, arrears. The small change between 2008 and 2011 is on account of improvements in the presentation of consolidated accounts (on account of IFMIS roll out and related reporting mechanisms) was counterbalanced with a deterioration on systems to report arrears. The monitoring of public enterprises and entities was also scored lower, not on account of information on these not being collected, but doubt as to the quality of the information, given incomplete coverage of audit. The latter is related to under-resourcing, with the NAO not fully resourced to cover its mandate. The improvements across the dimension is largely on account of improved availability, completeness and timeliness of data due to IFMIS roll out. It is however worth noting that the 2011 score is 2.29.
Budget Preparation	2.67	0.00	0.00	0.00	In budget preparation the establishment of a rules-based system for transfers to sub-national government and improved reliability of these transfers (GoM driven and funded reform) was balanced by a deterioration of the timeliness of submitting the budget to the legislature and in public access to information. The latter is related to the late appointment of a new AG delaying the preparation of accounts. In the second period the improvement in the quality of guidance – now also including ceilings for the Development part II budget – was outweighed by deterioration of the timeliness of information on sub-national allocations, which was late in the year assessed. The 2011 PEFA report notes that in 2011 the timing was already improved. The improved guidance is on account of GoM budget process reforms.

Sub-cluster	Average score2011	Average chance 2006 to 2008	Average change 2008 to 2010	Average change 2006 to 2011	Discussion: what relationships between changes in performance and PFM reform inputs can be drawn. Would the changes have occurred in the absence of reforms?
Internal audit	1.67	0.33	-0.67	-0.33	The deterioration of internal audit scores in the second period is on account of non-submission of consolidated internal audit reports, indicating poor functioning of the CIAU within the MoF, which has been without a head for some time. This indicates low supervision of the system overall. It is also on account of poor executive response to audit comments. Overall the PEFA report finds that the function is under-resourced and not fully institutionalised. At local government level for example, internal auditors still fulfil pre-audit functions. The PEFA scores reflect findings in the report that while the Internal Audit reform outputs leading to the small positive change in 2008, can be related to donor inputs, the decline in functionality can be related to the lack of government ownership and support for the reform in practice and the absence of significant donor funding.
Internal control	2.67	-0.67	0.33	-0.33 (1.3 improvement over 2005)	The deterioration from 2006 to 2008 is on account of the 2008 PEFA assessment team taking better account of the degree to which understanding of the rules linked to the Public Finance Act has permeated ministries, and the degree to which there are still transactions outside of IFMIS and the occurrence of non-compliance in transactions that are within IFMIS. It is worth noting the relatively high score for internal control in 2011, however. The slight increase is on account of the assessment that understanding of new commitment rules are improved. The 2006 PEFA already factored in the improvements on account of IFMIS. It is instructive to compare it to the 2005 assessment (done prior to IFMIS roll-out). This scored the dimension at an average score of 1.3 (or a D+). The improvement from 2005 to 2011 is therefore 1.37, which would have placed it third from the top of this list, together with two other major reforms areas, debt management and monitoring. The same arguments for IFMIS apply than given above.
Accounts reconciliation	1.00	0.50	-2.50	-2.00	Accounts reconciliation was scored at a D for both dimensions in 2011, on account of the reconciliation not being done at the time of the assessment. Accounts reconciliation had been made possible with the introduction of a STA system, coupled to centralised payments. This is linked to the IFMIS roll-out, but also on account of technical advice provided by the East Afritac. With the introduction of a new COA into IFMIS, the balances in IFMIS is no longer reconcilable with the accounts, causing this function not to be performed regularly. At the time of the PEFA assessment the AGD was in the process of addressing the problem.
Overall	**2.51**	**0.65**	**-0.15**	**0.49**	

[1] This sub-cluster uses the 2005 PEFA scores as a base.

Joint Evaluations

1996:1 **The international response to conflict and genocide: lessons from the Rwanda experience: Synthesis Report**

John Eriksson, Howard Adelman, John Borton, Krishna Kumar, Hanne Christensen, Astri Suhrke, David Tardif-Douglin, Stein Villumstad, Lennart Wohlgemuth

Steering Committee of the Joint Evaluation of Emergency Assistance to Rwanda,1996.

1997:1 **Searching for Impact and Methods: NGO Evaluation Synthesis Study.**

Stein-Erik Kruse, Timo Kyllönen, Satu Ojanperä, Roger C. Riddell, Jean-Louis Vielajus

Min of Foreign Affairs Finland, OECD-DAC, Sida, 1997.

1997:2 **Measuring and Managing Results: Lessons for Development Cooperation: Performance Management**

Derek Poate

UNDP/OESP Sida, 1997.

2003:1 **Local Solutions to Global Challenges: Towards Effective Partnership in Basic Education. Final Report. Joint Evaluation of External Support to Basic Education in Developing Countries.**

Ted Freeman, Sheila Dohoo Faure

Netherlands Ministry of Foreign Affairs, CIDA, DFID, Department for Foreign Affairs Ireland, EU, BMZ, JICA, Ministry of Basic Education and Literacy Burkina Faso, Danida, Norad, Sida, UNESCO, UNICEF, World Bank. 2003.

2003:2 **Toward Country-led Development : a Multi-Partner Evaluation of the Comprehensive Development Framework : Synthesis report**

Carol Lancaster, Alison Scott, Laura Kullenberg, Paul Collier, Charles Soludo, Mirafe Marcos, John Eriksson, Alison Scott; Ibrahim Elbadawi;John Randa,

World Bank, OED, CIDA, Danida, Norad, ODI, JICA, Sida, 2003.

2005:1 **Support to Internally Displaced Persons: Learning from Evaluation. Synthesis Report of a Joint Evaluation Programme.**

John Borton, Margie Buchanan Smith, Ralf Otto

Sida, 2005.

2005:2 **Support to Internally Displaced Persons: Learning from Evaluation. Synthesis Report of a Joint Evaluation Programme: Summary Version**

John Borton, Margie Buchanan Smith, Ralf Otto

Sida, 2005.

2005:3 **Humanitarian and Reconstruction Assistance to Afghanistan 2001–2005: From Denmark, Ireland, the Netherlands, Sweden and the United Kingdom; A Joint Evaluation. Main report**

Danida, Sida, Chr. Michelsen Institute, Copenhagen, DFID, Development Cooperation Ireland, BMZ, 2005.

2005:4 **Humanitarian and Reconstruction Assistance to Afghanistan 2001–2005: From Denmark, Ireland, the Netherlands, Sweden and the United Kingdom; A Joint Evaluation. Summary**

Danida, Sida, Chr. Michelsen Institute, Copenhagen, DFID, Development Cooperation Ireland, BMZ, 2005.

2005:5 **An Independent External Evaluation of the International Fund or Agricultural Development**

Derek Poate, team leader, Charles Parker, Margaret Slettevold …

IFAD, Sida, CIDA, 2005.

2006:1 **Joint Evaluation of the International response to the Indian Ocean tsunami: Synthesis Report**

John Telford, John Cosgrave, contribution Rachel Houghton

Tsunami Evaluation Coalition (TEC) Action aid, AusAID, BMZ CIDA, Cordaid, Danida, Dara, Irish Aid, DFID, FAO, IFRD, Federal Min for Economic Cooperation and Development Germany, JICA, Min des Affaires Étrangères France, Min des Affaires Étrangères Luxembourg, Norad, NZAID, DEZA, Sida, UN, UNDP, UNFPA, Unicef, Usaid, WFP, WHO, World Vision, 2006.

2006:2 **Impact of the tsunami response on local and national capacities**

Elisabeth Scheper, Arjuna Parakrama, Smruti Patel, contribution Tony Vaux

Tsunami Evaluation Coalition (TEC) Actionaid, AusAID, BMZ, CIDA, Cordaid, Danida, Dara, Irish Aid, DFID, FAO, IFRD, Federal Min for Economic Cooperation and Development Germany, JICA, Min des Affaires Étrangères France, Min des Affaires Étrangères Luxembourg, Norad, NZAID, DEZA, Sida, UN, UNDP, UNFPA, Unicef, Usaid, WFP, WHO, World Vision, 2006.

2006:3 Coordination of International Humanitarian Assistance in Tsunami-affected countries

Jon Bennett, William Bertrand, Clare Harkin, Stanley Samarasinghe, Hemantha Wickramatillake

Tsunami Evaluation Coalition (TEC) Actionaid, AusAID, BMZ, CIDA, Cordaid, Danida, Dara, Irish Aid, DFID, FAO, IFRD, Federal Min for Economic Cooperation and Development Germany, JICA, Min des Affaires Étrangères France, Min des Affaires Étrangères Luxembourg, Norad, NZAID, DEZA, Sida, UN, UNDP, UNFPA, Unicef, Usaid, WFP, WHO, World Vision, 2006.

2006:4 Funding the Tsunami Response: A synthesis of findings

Michael Flint, Hugh Goyder

Tsunami Evaluation Coalition (TEC) Actionaid, AusAID, BMZm CIDA, Cordaid, Danida, Dara, Irish Aid, DFID, FAO, IFRD, Federal Min for Economic Cooperation and Development Germany, JICA, Min des Affaires Étrangères France, Min des Affaires Étrangères Luxembourg, Norad, NZAID, DEZA, Sida, UN, UNDP, UNFPA, Unicef, Usaid, WFP, WHO, World Vision, 2006.

2006:5 Links between relief, rehabilitation and development in the Tsunami response: A synthesis of initial findings

Ian Christoplos

Tsunami Evaluation Coalition (TEC) Actionaid, AusAID, BMZm CIDA, Cordaid, Danida, Dara, Irish Aid, DFID, FAO, IFRD, Federal Min for Economic Cooperation and Development Germany, JICA, Min des Affaires Étrangères France, Min des Affaires Étrangères Luxembourg, Norad, NZAID, DEZA, Sida, UN, UNDP, UNFPA, Unicef, Usaid, WFP, WHO, World Vision, 2006.

2006:6 The role of needs assessment in the Tsunami response – Executive summary

Claude de Ville de Goyet, Lezlie C Morinière

Tsunami Evaluation Coalition (TEC) Actionaid, AusAID, BMZm CIDA, Cordaid, Danida, Dara, Irish Aid, DFID, FAO, IFRD, Federal Min for Economic Cooperation and Development Germany, JICA, Min des Affaires Étrangères France, Min des Affaires Étrangères

Luxembourg, Norad, NZAID, DEZA, Sida, UN, UNDP, UNFPA, Unicef, Usaid, WFP, WHO, World Vision, 2006.

2006:7 **Evaluation of Coordination and Complementarity of European Assistance to Local Development: with Reference to the 3C Principles of the Maastricht Treaty**

Robert N. LeBlanc and Paul Beaulieu

Sida, Ministry for Foreign Affairs, Austria, Ministry for Foreign Affairs, Department for International Development Cooperation. Belgium, Min. des Affairs étrangères/Direction General de la Cooperation International, France, Department of Foreign Affairs Development Co-operation Division, Ireland and Ministry of Foreign Affairs/Directorate-General for International Cooperation, the Netherlands, 2006.

2007:1 **Evaluation of General Budget Support – Note on Approach and Methods. Joint Evaluation of General Budget Support 1994–2004**

AFD, DFID, MOFA, NZAID, USAID, AusAID, BMZ, JBIC, NORAD, Danida, SECO, CIDA, JICA, Min of Foreign Affairs Spain, Portuguese Development Cooperation, Sida, 2007.

2007:2 **Evaluating Co-ordination, Complementarity and Coherence in EU development policy: a synthesis**

Evaluation Services of the European Union, Sida, Ministry for Foreign Affairs, Austria,

Ministry for Foreign Affairs, Department for International Development Cooperation. Belgium, Min. des Affairs étrangères/Direction General de la Cooperation International, France, Department of Foreign Affairs Development Co-operation Division, Ireland and Ministry of Foreign Affairs/Directorate-General for International Cooperation, Netherlands, 2007.

2007:3 **Evaluating Democracy Support: Methods and Experiences.**

Sida, Department for Evaluation and Internal Audit and International Institute for Democracy and Electoral Assistance (IDEA), 2007.

2007:4 **Peer Review Evaluation Function at the World Food**

Programme (WFP). Peer Panel Members: Jock Baker, Stefan Dahlgren, Susanne Frueh, Ted Kliest, Zenda Ofir.Advisors to the Panel: Ian Christoplos, Peta Sandison Sida, BMZ, UNEG, WFP, 2007.

2008:1 **Managing Aid Exit and Transformation: Lessons from Botswana, Eritrea, India, Malawi and South Africa: Synthesis Report**

Anneke Slob, Alf Morten Jerve

Sida, Netherland's Ministry of Foreign Affairs, Danida and Norad, 2008.

2008:1:1 **Managing Aid Exit and Transformation: Summary of a Joint Donor Evaluation**

Jesper Heldgaar

Sida, Netherland's Ministry of Foreign Affairs, Danida and Norad, 2008.

2008:1:2 **Managing Aid Exit and Transformation: India Country Case Study**

Albert de Groot, CK Ramachandran, Anneke Slob, Anja Willemsen, Alf Morten Jerve

Sida, Netherland's Ministry of Foreign Affairs, Danida and Norad, 2008.

2008:1:3 **Managing Aid Exit and Transformation: South Africa Country Case Study**

Elling N Tjønneland, Pundy Pillay, Anneke Slob, Anje Willemsen, Alf Morten Jerve

Sida, Netherland's Ministry of Foreign Affairs, Danida and Norad, 2008.

2008:1:4 **Managing Aid Exit and Transformation: Eritrea Country Case Study**

Teferi Michael, Rudy Ooijen, Anneke Slob, Alf Morten Jerve

Sida, Netherland's Ministry of Foreign Affairs, Danida and Norad, 2008.

2008:1:5 **Managing Aid Exit and Transformation: Malawi Country Case Study**

Esther van der Meer, Arne Tostensen, Anneke Slob, Alf Morten Jerve

Sida, Netherland's Ministry of Foreign Affairs, Danida and Norad, 2008.

2008:1:6 **Managing Aid Exit and Transformation: Botswana Country Case Study**

Sida, Netherland's Ministry of Foreign Affairs, Danida and Norad, 2008.

Charity Kerapeletswe, Jan Isaksen, Anneke Slob, Alf Morten Jerve

2008:2 **Evaluation of the Implementation of the Paris Declaration: Phase One Synthesis Report**

Bernard Wood, Dorte Kabell, Nansozi Muwanda, Francisco Sagasti

International Reference Group comprising members of the DAC Network on Development Evaluation, 2008.

2008:3 **Joint Evaluation of Citizen's Voice and Accountability: Synthesis Report**

Alina Rocha Menocal, Bhavna Sharma

Commissioned by Directorate-General for Development Cooperation (Belgium) – DGCD, Danish International Development Assistance – Danida, Federal Ministry for Economic Cooperation and Developmen (Germany) – BMZ, Norwegian Agency for Development Cooperation – Norad, Swedish International Development Cooperation Agency – Sida, Swiss Agency for Development and Cooperation – SDC, Department for International Development – DFID, 2008.

2009:1 **Anti-Corruption Approaches: A Literature Review**

Arne Disch, Endre Vigeland, Geir Sundet

Commissioned by Asian Development Bank – ADB, Danish International Development Assistance – Danida, Department for International Development – DFID, Norwegian Agency for Development Cooperation – Norad, Swedish Agency for Development Evaluation – SADEV, Swedish International Development Cooperation Agency – Sida, 2009.

2009:2 **Public Financial Management Reform Literature Review**

Carole Pretorius, Nico Pretorius (Evaluation Report EV698)

Commissioned by Department for International Development – DFID, Dutch Ministry of Foreign Affairs, Swedish International Development Cooperation Agency – Sida, Canadian International Development Agency – CIDA, African Development Bank – AfDB, 2009.

2009:3 **A ripple in development? Long term perspectives on the response to the Indian Ocean Tsunami: A joint follow-up evaluation of the links between relief, rehabilitation and development (LRRD)**

Emery Brusset (team leader), Mihir Bhatt, Karen Bjornestad, John Cosgrave, Anne Davies, Adrian Ferf, Yashwant Deshmukh, Joohi Haleem, Silvia Hidalgo, Yulia Immajati, Ramani Jayasundere, Annina Mattsson, Naushan Muhaimin, Adam Pain, Riccardo Polastro, Treena Wu.

Commissioned by LRRD2 Joint Steering Committee, Sida, Norad, Danida, the Netherlands Ministry for Foreign Affairs, CIDA, BAPPENAS, Indonesia; BRR, Indonesia;

Ministry for Plan Implementation, Sri Lanka, Ministry for National Building, Sri Lanka; ISDR, Bangkok; IFRC, Bangkok; CARE International;OCHA; UNICEF, 2009.

2009:3:1 **A ripple in development? Document review: Annotated bibliography prepared for the joint follow-up evaluation of the links between relief, rehabilitation and development (LRRD) in responses to the Indian Ocean tsunami**

John Cosgrave, with the assistance of: Emery Brusset, Mihir Bhatt, Yashwant Deshmukh, Lucia Fernandez, Yulia Immajati, Ramani Jayasundere, Annina Mattsson, Naushan Muhaimin, Riccardo Polastro

Commissioned by LRRD2 Joint Steering Committee, Sida; Norad; Danida; the Netherlands Ministry for Foreign Affairs; CIDA; BAPPENAS, Indonesia; BRR, Indonesia; Ministry for Plan Implementation, Sri Lanka; Ministry for National Building, Sri Lanka; ISDR, Bangkok; IFRC, Bangkok; CARE International; OCHA; UNICEF, 2009.

2009:3:2 **A ripple in development? Long term perspectives on the response to the Indian Ocean Tsunami: A joint follow-up evaluation of the links between relief, rehabilitation and development (LRRD) – Summary Report**

Emery Brusset (team leader), Mihir Bhatt, Karen Bjornestad, John Cosgrave, Anne Davies, Adrian Ferf, Yashwant Deshmukh, Joohi Haleem, Silvia Hidalgo, Yulia Immajati, Ramani Jayasundere, Annina Mattsson, Naushan Muhaimin, Adam Pain, Riccardo Polastro, Treena Wu.

Commissioned by LRRD2 Joint Steering Committee, Sida; Norad; Danida; the Netherlands Ministry for Foreign Affairs; CIDA; BAPPENAS, Indonesia; BRR, Indonesia; Ministry for Plan Implementation, Sri Lanka; Ministry for National Building, Sri Lanka; ISDR, Bangkok; IFRC, Bangkok; CARE International; OCHA; UNICEF, 2009.

2010:1 **Evaluation of the Joint Assistance Strategy for Zambia (JASZ) 2007–2010.**

Anne Thomson, Dennis Chiwele, Oliver Saasa, Sam Gibson

Commissioned by Ministry of Foreign Affairs of Denmark – Danida, Swedish International Development Cooperation Agency – Sida, Irish Aid, 2010.

2011:1 **Supporting Child Rights – Synthesis of Lessons Learned in Four Countries: Final Report**

Arne Tostesen, Hugo Stokke, Sven Trygged, Kate Halvorsen

Commisioned by Swedish International Development Agency – Sida and Norwegian Agency for Development Cooperation – Norad, 2011.

2011:2 **Aiding the Peace. A Multi-Donor Evaluation of Support to Conflict Prevention and Peacebuilding in Southern Sudan 2005–2010. Final Report**

Jon Bennett, Emery Brusset, Chris Barnett, Sara Pantuliano, Wendy Fenton, Anthony Vaux

Commissioned by the Evaluation Departments of Norwegian Agency for Development Cooperation – NORAD, United Kingdom Department for International Development – DFID, Asian Development Bank – ADB, Swedish Agency for Development Evaluation –Sadev, Swedish International Development Cooperation Agency – Sida and the Ministry of Foreign Affairs of Denmark – Danida, 2011.

2012:1 **Joint Evaluation of Support to Anti-Corruption Efforts Synthesis 2002–2009**

Derek Poate, Charlotte Vaillant

Commissioned by the Evaluation Departments of Norwegian Agency for Development Cooperation – NORAD, United Kingdom Department for International Development – DFID, Asian Development Bank – ADB, Swedish Agency for Development Evaluation – Sadev, Swedish International Development Cooperation Agency – Sida and the Ministry of Foreign Affairs of Denmark – Danida, 2012.

2012:2 **Joint Evaluation of Support to Anti-Corruption Efforts Bangladesh Country Report**

Derek Poate, Charlotte Vaillant , Imran Ahmed, Deborah Mansfield, Mozammel Hoque, Zarina Rahman Khan

Commissioned by the Evaluation Departments of Norwegian Agency for Development Cooperation – NORAD, United Kingdom Department for International Development – DFID, Asian Development Bank – ADB, Swedish Agency for Development Evaluation – Sadev, Swedish International Development

Cooperation Agency – Sida and the Ministry of Foreign Affairs of Denmark – Danida, 2012.

2012:3 **Joint Evaluation of Support to Anti-Corruption Efforts Nicaragua Country Report**

Derek Poate, Paul Harnett, Imran Ahmed, Mignone Vega, Jose Luis Velasquez

Commissioned by the Evaluation Departments of Norwegian Agency for Development Cooperation – NORAD, United Kingdom Department for International Development – DFID, Asian Development Bank – ADB, Swedish Agency for Development Evaluation – Sadev, Swedish International Development Cooperation Agency – Sida and the Ministry of Foreign Affairs of Denmark – Danida, 2012.

2012:4 **Joint Evaluation of Support to Anti-Corruption Efforts Tanzania Country Report**

Charlotte Vaillant, Imran Ahmed, Deborah Mansfield, Anne Bartholomew, Isaac Kiwango

Commissioned by the Evaluation Departments of Norwegian Agency for Development Cooperation – NORAD, United Kingdom Department for International Development – DFID, Asian Development Bank – ADB, Swedish Agency for Development Evaluation – Sadev, Swedish International Development Cooperation Agency – Sida and the Ministry of Foreign Affairs of Denmark – Danida, 2012.

2012:5 **Joint Evaluation of Support to Anti-Corruption Efforts Vietnam Country Report**

Derek Poate, Edmund Attridge, Tim McGrath, Dang Ngoc Dung, Nguyen Thi Minh Hai

Commissioned by the Evaluation Departments of Norwegian Agency for Development Cooperation – NORAD, United Kingdom Department for International Development – DFID, Asian Development Bank – ADB, Swedish Agency for Development Evaluation – Sadev, Swedish International Development Cooperation Agency – Sida and the Ministry of Foreign Affairs of Denmark – Danida, 2012.

2012:6 **Joint Evaluation of Support to Anti-Corruption Efforts Zambia Country Report**

Charlotte Vaillant, Imran Ahmed, Paul Harnett, Deborah Mansfield, Gilbert Mudenda, Stephen Tembo

Commissioned by the Evaluation Departments of Norwegian Agency for Development Cooperation – NORAD, United Kingdom Department for International Development – DFID, Asian Development Bank – ADB, Swedish Agency for Development Evaluation – Sadev, Swedish International Development Cooperation Agency – Sida and the Ministry of Foreign Affairs of Denmark – Danida, 2012.

2012:7 Evaluation of Public Financial Management Reform in Burkina Faso, Ghana and Malawi 2001–2010 Final Synthesis Report

Andrew Lawson

Commissioned by the African Development Bank – AfDB, the Swedish International Development Cooperation Agency – Sida, and the Danish International Development Assistance – Danida, 2012.

2012:8 Evaluation of Public Financial Management Reform 2001–2010 Ghana Country Report

Mary Betley, Andrew Bird, Adom Ghartey

Commissioned by the African Development Bank – AfDB, the Swedish International Development Cooperation Agency – Sida, and the Danish International Development Assistance – Danida, 2012.

2012:9 Evaluation of Public Financial Management Reform in Malawi 2001–2010 Final Country Case Study Report

Alta Fölscher, Alex Mkandawire, Ruth Faragher

Commissioned by the African Development Bank – AfDB, the Swedish International Development Cooperation Agency – Sida, and the Danish International Development Assistance – Danida, 2012.

2012:10 Evaluation of Public Financial Management Reform in Burkina Faso 2001–2010 Final Country Case Study Report

Andrew Lawson, Mailan Chiche, Idrissa Ouedraogo

Commissioned by the African Development Bank – AfDB, the Swedish International Development Cooperation Agency – Sida, and the Danish International Development Assistance – Danida, 2012.

Evaluation of Public Financial Management Reform in Malawi 2001–2010

Final Country Case Study Report

Where and why do Public Financial Management (PFM) reforms succeed? Where and how does donor support to PFM reform contribute most effectively to results? To answer these questions, an evaluation of PFM reforms has been carried out, primarily based on country studies of Burkina Faso, Ghana and Malawi. An international quantitative study and a literature review were also undertaken. This report presents the findings of the study in Malawi.

The findings from the three country studies are summarised in a separate synthesis report, concluding that results tend to be good when there is a strong commitment at both political and technical levels, when reform designs and implementation models are well tailored to the context and when strong, government-led coordination arrangements are in place to monitor and guide reforms.

Donor funding for PFM reform has been effective in those countries where the context and mechanisms were right for success, and where external funding was focused on the Government's own reform programme. The willingness of some Governments to fund PFM reforms directly shows that external funding may not be the deciding factor, however. Donor pressure to develop comprehensive PFM reform plans has been a positive influence in countries receiving Budget Support, but attempts to overtly influence either the pace or the content of PFM reforms were found to be ineffective and often counter-productive. Key lessons for donor agencies are thus to focus on where the right preconditions exist, to align to government programmes and, under all circumstances, to ensure that aid works in favour of the PFM system and not against it.

The evaluation has been commissioned jointly by the African Development Bank (AfDB), the Swedish International Development Cooperation Agency (Sida) and the Danish International Development Assistance (DANIDA).

SWEDISH INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

Address: SE-105 25 Stockholm, Sweden.
Visiting address: Valhallavägen 199.
Phone: +46 (0)8-698 50 00. Fax: +46 (0)8-20 88 64.
www.sida.se sida@sida.se